European Policies Research Centre

School of Government and Public Policy

University of Strathclyde

Financial instruments and the governance of EU Cohesion policy: roles, responsibilities and accountability

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Ph.D. European public policy / 2019

This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

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Abstract

From the 2007-13 programming period, financial instruments (FI) introduced a distinct new strand to CP governance. They created new structures and delegated implementation responsibilities to new actors. This thesis explores the implications of the new modes of governance for the relationships between actors and the relationship between delegation modes and public accountability in the delivery of FI. It contributes to principal-agent, multi-level governance and public accountability theory. First, it identifies a typical governance structure for FI implementation. This fills a gap in the study of CP governance as the focus is on the relations within the levels of governance ('intra-level' governance); second, it argues that managing authorities have strong tools to ensure accountability in policy implementation; third, it claims that rationale and the historic-economic context influence the public accountability for FI implementation. The thesis contributes to policy studies by feeding into the debates on the future of FI and by identifying improvements in FI evaluation. The thesis uses a mixed-methods research design, in which a quantitative component (a survey) is embedded in a qualitative component (case studies). It focuses on the outcomes of 2007-13 to draw implications for the following programming periods.

The thesis identifies three delegation modes in the European Union (EU), based on the lagal status of fund managers: a public mode (as in Germany); a private mode (as in the United Kingdom); and a mixed delegation mode (as in Italy). The survey data show that evaluation should expand the set of key indicators to assess FI performance and improve existing ones. The survey and case studies in Berlin, Tuscany and North East England uncover the distribution of roles, responsibilities and accountability mechanisms. First, multiple principal–agent interactions characterize delegation in financial instrument implementation. Across all the case studies, most of the formal responsibilities were delegated by managing authorities to fund managers, via intermediate–level actors, while the actual autonomy of fund managers in exercising such responsibilities varied in each case study. Second, managing authorities use a distinctive mix of control mechanisms and performance frameworks to ensure public accountability for FI implementation. This mix depends on the rationale for FI use and the policy objectives. Last, some of the variation is also explained by delegation modes.

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List of acronyms and abbreviations

CF	Cohesion Fund
CP	Cohesion policy
EAFRD	Agricultural Fund for Rural Development
ECA	European Court of Auditors
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
FI	Financial Instrument
HF	Holding Fund
ILA	'Intermediate level' actor
MC&F	Management Costs and Fees
MLG	Multi-level governance
M-M	Mixed-methods
NGO	Non-governmental organization
NUTS	Nomenclature of Units for Territorial Statistics
OP	Operational programme
p–a	principal–agent
R&D	Research and Development
R&D&I	Research and Development and Innovation
RDA	Regional development agency
SME	Small and medium-sized enterprise
SPD	Single Programming Document
TO	Thematic objective

VC Venture Capital

Units and other abbreviations

€m Million euros

£m Million pounds (GPB)

€k Thousand euros

£k Thousand pounds

% Percentage

n. Number

art. Article

p. Page

§ Section

Case study abbreviations

BE Berlin

TU Tuscany

NEE North East England

Country abbreviations

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HU	Hungary
IT	Italy
LT	Lithuania
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

Acknowledgements

This thesis has been the single most challenging enterprise in my entire life so far. At the end of this journey, I would like to express my sincere gratitude to the various people who had an input all along this path. Professionally, I would first like to thank my supervisors Professors Fiona Wishlade and John Bachtler for their help throughout this project. I am especially grateful to Fiona for the various FI-geeky chats we had from the time when the thesis was only a plan and while it unfolded. They helped me find my way through this challenging topic and an angle I found interesting. I am thankful to John, particularly, for the help with clarifying the research framework and for the sharp and to the point comments in the final stage of writing up. I am certain this thesis would have been incomplete without his input. Second, I would like to thank the respondents to the survey and the managing authorities, civil service officials and fund managers interviewed in Berlin, Tuscany and North-East England. Their contribution to this project is invaluable. Thanks for the cooperation and for providing all the precious material from which the thesis draws its findings. Third, I would like to thank the members of staff of the European Policies Research Centre and the School of Government and Public Policy, who in various moments and in various capacities helped throughout this journey. I am especially grateful to Laura, Martin, Rona and Heinz, not only professionally but from a human point of view. Last, I am grateful for the generous opportunity offered by the European Court of Auditors in 2015 to visit its archives and have various meetings with auditors and members of that institution. Especially, I would like to thank G. Moggia, M. Weber and G. Cipriani for this. Their input has shaped the thesis for the better.

On a personal note, I am thankful to my friends and my family members, who, again in various ways, helped throughout the journey. I would like to thank Adam, Alina, Phil, Sylwia, Tim and Viktoriya for releasing the stress and making the time in Scotland as enjoyable and insane as it could be, Marta and Miguel for the smart and silly talking, and Mairi and Tim for their endless generosity. My special thanks go to Maria and Sylwia for their true friendship and as insatiable providers of motivation and motivators. I am grateful for all the insightful and funny chats, coffees and pastries (special thanks to Tadeusz Tad Gołębiewski!). Last, thanks go to the solid base of friends from home, who never doubted that I would complete this thesis.

To conclude, an ode to my family. This project would have not been possible without the support of my mum (Mara) and dad (Tin), who always believed in my choices. Thanks to my brother and sisters and the enlarged family … I cannot mention each of you individually, you are too many! Finally, my deepest thanks go to my current family, Roberto. For all the sacrifice you made to be with me, support me and for constantly and repeatedly believing in this work, thanks. And now, off to some new adventures for the two of us.

1 Introduction

Financial instruments (FI – loans, guarantees and equity funds) are a recent form of intervention in Cohesion policy (CP). Their use grew over successive programming periods: from €0.57 billion committed from European Regional Development Fund (ERDF) and European Social Fund (ESF) resources to FI in 1994–99, the latest 2014–20 figures show commitments of €14.5 billion (European Commission and European Investment Bank, 2015, European Commission, 2017a). This trend made repayable support into a secondary yet growing way of delivering the European Union (EU) budget (Wishlade and Michie, 2017). From a policy perspective, the European Commission considers FI to be attractive policy tools, and it encourages their use whenever appropriate, as alternatives or complementary to grants (Wishlade and Michie, 2017). Both directly and shared managed funds now use FI widely (Gloazzo, 2018).

FI bring in new modes of delegated governance, by introducing new structures and involving new actors that now have a formally recognized role in the legislation. Consequently, they present a challenge for the existing theorizing about CP governance and accountability and have important policy implications. In the last 20 years, the Cohesion budget has been under pressure. It shrank as a proportion of the EU budget and, since programme period 2007–13, the approach towards its distribution was more thematic and less focused on structural change (Baun and Marek, 2014). At the same time, a wider shift towards more market-based instruments can be seen, especially in industrial policies (Wishlade et al., 2016a, Brown and Lee, 2017). The recent economic crisis, together with constraints on public budgets and the intrinsic ability of FI to leverage financial resources, pushed financial instruments towards a more central role during the 2014–20 programme period, both in terms of the policy areas (e.g. SME support) covered and the resources allocated (Núñez Ferrer and Infelise, 2015).

Financial instruments also have their specific rationale and characteristics. *'Each of these tools has its own operating procedures, its own skill requirements, its own delivery mechanism, indeed its own "political economy"'* (Salamon, 2001:1653) and may also be a vehicle for affecting actors' behaviour and promoting certain values (Lascoumes and Le Gales, 2007). The emphasis of the European Commission is on the innovative nature of FI as more sustainable, efficient and qualitatively better tools for EU spend (European

Commission, 2014a). They are, at least partially, aimed at affecting recipients' behaviour, by favouring a more entrepreneurial, less grant-based culture (Wishlade and Michie, 2017).

The traditional approach to the governance of CP is multi-level governance (MLG). The concept of multi-level governance described the changes in EU regional development policy (i.e. CP), after the introduction of the principles of subsidiarity and partnership in 1998 (Marks, 1993). MLG scholars reported complex networks of layered relations, whereby sub-national actors and non-governmental organizations (NGOs) had a stronger role in the programming and implementation of structural funds (Marks, 1993, 1996, Hooghe, 1996b, 1996a, Rhodes et al., 1996, Hooghe and Marks, 2001). Consequently, these scholars cannot identify an ultimate centre of authority (Hooghe, 1996b), because several jurisdictions and levels of power coexist (Hooghe and Marks, 2003, Bache and Flinders, 2004).

MLG was able to explain the changes in CP in its early days and its application to other policy areas, from telecommunications (Thatcher, 2001) to environmental policy (Knill and Tosun, 2008), shows that it was possible to generalize its findings. However, the novelty and complexity of FI governance arrangements cannot be explored through current MLG theorisation. In fact, it is difficult to reconcile the open-ended nature of multi-level governance with the need to identify precise centres of authority in the study of policy implementation. First, MLG *'does not explain which actors, at which levels, will be causally important, and when'* (Blom-Hansen, 2005:628). In effect, an examination of the duties performed by institutional actors throughout the stages of the policy-cycle is still an aim in the MLG research agenda (Stephenson, 2013). Second, MLG refers primarily to the vertical relations between bodies of government. This leaves decision-making processes in which government bodies interact with private actors more or less unexplored (Faludi, 2012). Third, when assessing compliance in policy implementation, scholars (Hughes et al., 2004, Bachtler and Ferry, 2013, Mendez and Bachtler, 2017) often use theoretical frameworks other than MLG, because *'the concept is less useful for exploring top-down control, performance and accountability'* (Bachtler and Ferry, 2013:1260).

These three critiques are relevant for this research. First, MLG scholars consider national and sub-national institutions as unitary actors, tracing their motivations and power relations as institutions. This thesis instead argues that new modes of

governance require to focus on relations within these levels of governance ('intra-level' governance), i.e. on the implementation duties performed by individual actors inside these institutions. Second, MLG focuses mostly on the vertical relations between governmental bodies, while this thesis argues that other non-governmental actors may play a major role in policy-making and their role should be appraised. Third, approaches that put the object of delegation centre-stage may be better suited than MLG is for studying delegation in FI implementation. Therefore, the principal–agent (p–a) approach appeared to be more useful for determining the extent of changes in CP governance. On these grounds, this thesis suggests combining the concepts of the principal–agent and accountability literatures in a distinct analytical framework.

Financial instruments delivery is often delegated to fund managers– financial intermediaries such as private banks, mutual guarantee institutions, financial companies, national or regional public banks, regional development agencies, state–owned credit institutes, departments within national ministries or business associations. The managing authorities can also be directly involved in FI management or delegate functions to the European Investment Bank. The heterogeneity of actors with diverse policy agendas raises important questions about compliance and accountability. The literatures assume that private fund managers will seek the most profitable investments, whereas public actors may aim to achieve various economic development and societal objectives (Wishlade and Michie, 2017).

In a context where new modes of delegated governance emphasize the role of public, private and mixed actors in policy implementation, it is important to research whether and how governance and accountability arrangements ensure policy compliance. The delegation and p–a literature puts compliance centre-stage. The risk of non-compliance in delegation is an inherent part of the *'principal's problem'* (Ross, 1973). That is why McCubbins et al. (1989) developed a theory to assess the impact that structure and process have on compliance in policy implementation. Compliance is also a key concern in CP studies, where attention is on the complexity of the mechanisms used (Hughes et al., 2004, Mendez and Bachtler, 2011, Davies and Polverari, 2011, Bachtler et al., 2014, Mendez and Bachtler, 2017). In the public accountability literature, compliance is also a common interest, especially in relation to the involvement of private organizations (Mulgan, 2003).

Analysing the particular characteristics of delegated governance in FI implementation requires several tools found in the p–a literature. First, this literature reduces the complexity of inter-institutional relations to its simplest form: a relationship between a boss or power-holder and an employee who will execute the boss's directives (Bendor et al., 2001, Bendor and Meirowitz, 2004). Second, the literature seeks to determine the optimal trade-off between power and expertise, or between control by the principal and the discretionary authority of the agent (Epstein and O'Halloran, 1994). Principal–agent scholars have been particularly interested in understanding under what conditions bosses delegate more authority to agents, and in what ways principals delegate and oversee the agents' policy execution (McCubbins et al., 1989). The public accountability literature provides a fine-grained approach to the study of p–a relations: it focuses on how the 'object of delegation' is specified and the accountability mechanisms used at various stages (Mulgan, 2003). All these elements are relevant for this study.

This thesis aims to fill a gap in the knowledge of the new modes of delegated governance in CP. It provides a theoretical contribution to the literature on delegation in EU studies and includes an empirical investigation of public accountability for CP. This study will contribute to the literature on CP governance more widely, by using a different approach to MLG and examining the recent trends in delegated governance. While MLG and other scholars studied the relationship between the Commission and the managing authorities extensively, the further levels of delegated governance have been explored much less. The distinctiveness of the new modes of delegated governance lies in the delegation of tasks to fund managers. Meso-level[1] relations are those between the managing authorities (and any department or agency within the civil service to which the managing authority's power is delegated) and the selected financial institutions[2] that take on the role of fund managers. On this basis, the intermediate (meso)-level relations in FI implementation are the level of analysisof the research.

[1] The level of analysis is identified as intermediate (meso), because it is separated from the delegated relationship between the EU (Commission) and the national (member state) or sub-national (regional) managing authority, which is located at the very top of the ladder, and that between fund managers and final recipients, at the very bottom of the implementation chain. The meso-level is the central level of analysis of this thesis, also because it is at this level that the broad regulatory framework set out by the Commission is fine-tuned.

[2] Referred to also as 'financial intermediaries' in the regulations (see 2.3.4).

The, as yet limited, literature base and the restricted availability and poor quality of data on FI implementation influenced the methodological orientation of this study. It determined the exploratory and innovative nature of the study and its temporal focus. This thesis' temporal focus is on the 2007–13 programming period. The study analyses the outcomes of 2007-13 and draws implications for the following programming periods (2014–20 and 2021–27). The primary aim is to explore the new forms of delegated governance in CP, examining how the institutional design of FI implementation distributes responsibilities and shapes p–a relations. This first aim corresponds to the following primary question: '*What implications do the new modes of governance in CP have for the relationships between actors?*' The secondary aim is to explore the relationship between delegated governance in CP and public accountability. The study examines the practical dimensions of the 'content' and 'focus' of accountability, which involves researching the use of control mechanisms and analysing the performance management frameworks. This corresponds to the question: '*What is the relationship between delegated governance in CP and public accountability?*'

To achieve the primary and secondary aims, the study sets two intermediate goals, namely:

- to explore the variation in the governance of financial instruments implementation, by asking '*How is the implementation of financial instruments in Cohesion policy organized?*'
- to assess the public accountability for financial instruments implementation, by inquiring '*How is public accountability for financial instruments implementation in CP ensured?*'

A preliminary analysis of existing data and literature preceded the examination of the governance of and accountability for FI implementation. The analysis helped identify three delegation modes across the EU. First, there is a public delegation mode, epitomized by Germany, where most of the fund managers are public entities. Second, there is a private delegation mode, typified by the UK, where there is widespread delegation to private fund managers. Last, there is a mixed delegation mode, exemplified by Italy. In the mixed mode, managing authorities entrust fund management duties to a mix of public, private or mixed bodies. Mixed bodies are those having public–private ownership. The relevant literature on the varieties of capitalism validates this categorization (Hall and Soskice, 2001). This literature similarly

distinguishes between regulated market economies (e.g. Germany), liberal market economies (e.g. the United Kingdom) and a Mediterranean hybrid (e.g. Italy).

This thesis used a mixed-methods research design, whereby a quantitative component supplemented the primary qualitative component. It based the evidence presented on various secondary sources: data from summary reports (European Commission, 2014b, European Commission, 2015, European Commission, 2016, European Commission, 2017b), annual and final implementation reports, evaluations, operational programmes and other policy documents. Primary data sources are the online survey and the face-to-face interviews with experts. The thesis combined quantitative and qualitative data during the analysis. It implemented the research plan in three stages. In the first stage, the study focused on the institutional design of FI implementation in CP. In the second stage, it assessed the public accountability for FI implementation. In the third stage, it analysed the interaction between governance in and accountability for FI implementation.

The main argument of this thesis is that FI introduced a distinct new strand to CP governance from the 2007–13 programme onwards. FI required new governance mechanisms, which were distinct from those for grant-based support. This strand differs in the way it involves implementing actors, distributes responsibilities and ensures compliance. To test this assumption, the thesis examines the implementation of FI in three European countries, to assess whether and how certain characteristics of the governance structure (rationale, actors, structures, products) shaped the distribution of responsibilities and the relations between actors and affected the public accountability for FI implementation.

The structure of the rest of the thesis is as follows. Chapter 2 introduces the key area of investigation: financial instruments in CP. It first positions the study of FI in the wider academic debate on the various financial products offered (venture capital, loans and guarantee schemes). Second, it identifies the key characteristics of CP. Third it outlines how EU institutions define FI in CP, and considers rationale, use, main governance features, rules and implementation trends.

Chapter 3 presents the theoretical framework from which the study derives its key concepts and assumptions. It first introduces the new modes of delegated governance in CP and then reviews the delegation, p–a literature and the public accountability

literature. After each of these sections, the thesis discusses how the assumptions and concepts derived from the literature are applied in the thesis. To conclude, the chapter presents the aims and main research questions for the thesis and the assumptions on which it is based. Chapter 4 presents the methodological orientation, methods and techniques used in the research. The first part of the chapter presents the principal methodological orientation for the study of delegation and accountability and the mixed-methods and comparative case study approach adopted in the thesis. The second part sets out the operational aims and analytical criteria applied in the study and outlines the implementation of the research plan.

Chapters 5 to 8 comprise the empirical research. Chapter 5 presents the analysis of preliminary and survey data on FI implementation and governance. It provides original insights on the location of resources that return to FI, the process of setting management costs and fees, the private funding providers, variation in practices for appointing fund managers and defining the criteria used for selecting investments. The survey gave an overview of the various approaches applied in the selected countries, which were subsequently examined through case–study research. Chapter 6 outlines the rationale for case study selection and introduces the case studies. It presents the rationale, historical context and policy background underpinning FI implementation under each case study's operational programme (OP). The chapter presents the main features of each case study for each of the governance factors identified as crucial for FI implementation: actors, structures and instruments. This chapter contributes directly to the primary aim and main research question of this thesis and to the first intermediate aim. It presents each case study separately, and concludes with a comparative overview of the practices adopted in each case.

Chapters 7 and 8 present the results of the cross-case comparative analysis (Miles and Huberman, 1994). They contribute to addressing the primary and secondary aims of the thesis, by focusing on the governance of (Chapter 7) and the public accountability (Chapter 8) for FI implementation. The first of these two chapters is fundamental to the understanding of the distribution of responsibilities in FI implementation and the configuration of p–a relations. The second shows the variation in control mechanisms and in the implementation performance framework set out by the Commission. Chapters 6, 7 and 8 together address the secondary research aim of this thesis, namely to understand the interplay between policy governance and accountability in CP.

Chapter 9 brings together the key findings based on the assumptions derived from the delegation/p–a and public accountability literatures (9.2–9.3). The research identifies a typical and optimal governance structure common to all delegation modes. Multiple layers of p–a relations characterize this structure. Contract design before and monitoring and control after the act of delegation ensure strategic compliance. After the discussion of the interplay between governance and accountability (9.4), the chapter highlights the thesis's contribution to the academic (9.5) and policy (9.6) debates. It argues in particular that FI are embedded in specific historic and economic contexts. These determine the rationale for their use and the key governance choices. The thesis argues that policy-makers should take into account the specificity of FI, when assessing the effectiveness of FI as policy instruments. On this basis, it argues that FI are not simply substitutes for grants. The study also points to the need for better data and more comparative research on FI.

2 Financial instruments, Cohesion policy, and FI in Cohesion policy

This chapter has three main objectives: first, it introduces financial instruments; second, it introduces Cohesion policy; third it examines FI within CP. Section 2.1 provides a general definition of FI and reviews the literature on equity, loans and guarantee schemes. Section 2.2 summarizes the key features of CP relevant for the development of the thesis. Section 2.3 examines FI within CP, the rationale that emerged for their use, their evolution, and the main governance features and themes emerging in relation to FI implementation. Section 2.4 presents the essential elements of the regulatory framework that applied to FI in the 2007–13 programming period, while section 2.5 summarizes the state of implementation across EU countries. The material is mainly organized through the key categories that the thesis uses to analyse FI governance, namely actors, structure and financial products.

2.1 Equity, loans and guarantees

Over the past 50 years, government authorities in Europe have pursued economic development objectives by helping firms and others. While the initial aim was to support investment and employment by firms, since the 1980s the focus has shifted to supporting new firm formation and small and medium-sized enterprises (SMEs) and the development of start-ups, microenterprises and SMEs (Bachtler et al., 2016). The involvement of non-state actors and the adoption of a range of different options for policy delivery meant a shift from direct government action to governance of others (Salamon, 2001). Several policy instruments, ranging from regulatory tools, taxation and 'direct' support to loans, guarantees and grants were used to deliver public policies. Because *'each of these tools has its own operating procedures, its own skill requirements, its own delivery mechanism, indeed its own "political economy"'* (Salamon, 2001:1653), attention should be paid to how these instruments work.

Most European Union countries have regional aid schemes. The geographical coverage and the level of aid is governed by EU state aid rules (Davies et al., 2012). Most schemes offer grants, but they may also include other forms of aid such as subsidized loans, some form of tax relief, depreciation allowances, guarantees on loans and reduced contributions to social security (Bachtler et al., 2016). Repayable support, in the form of FI, have increased in importance compared to grants, because of budget pressures on governments and growing interest in market-like tools (Dąbrowski, 2015).

The European Commission encouraged the use of FI as an alternative or complement to grants, because of their attractiveness as policy tools (Wishlade and Michie, 2017). The Commission considers FI to be more sustainable than grants, because they reuse EU public resources. The resources initially paid into FI are invested in final recipients, who need to pay them back. This reuse of resources allows for several rounds of investment. The Commission considers FI a more efficient way to use EU resources, because they attract private capital and expertise, and a qualitatively better way to fund projects, since they only target viable investments. Financial instruments may also encourage a shift from a grant-dependency culture to an entrepreneurial mindset (Wishlade et al., 2017), thus affecting actors' behaviour (Lascoumes and Le Gales, 2007). The European Commission has increased the profile of FI by supporting EU-wide initiatives such as JEREMIE and JESSICA,[3] with the purpose of gaining greater European added value and enhancing the administrative capacity of the managing authorities (Pellegrin et al., 2009). However, it should be noted that national and sub-national governments have used FI for a long time, as part of domestic economic development policy (Van Ginkel et al., 2013). The policy focus of most FI is on the provision of capital to SMEs, but FI can also promote wider societal objectives, such as including disadvantaged groups in society (Wishlade et al., 2016a).

2.1.1 Definition

Financial instruments (FI) are *'European Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the EU. 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'* (European Parliament and Council, 2012, art. 2 (p)). The term groups together various forms of support, with the common feature of their being repayable. Financial instruments comprise two types of funding – equity and debt – and three broad types of financial products – equity, loans and guarantees (Table 2-1). Equity, loans and guarantees can be combined in one fund (a mixed FI) or

[3] JEREMIE (Joint European Resources for Micro to Medium Enterprises) is a joint initiative set up in 2007 by the European Commission, the European Investment Bank Group and other financial institutions to deploy part of the EU Structural Funds allocated to the regional and national managing authorities through new risk finance initiatives for SMEs. JESSICA (Joint European Support for Sustainable Investment in City Areas) is a policy initiative of the European Commission developed jointly with the EIB and in collaboration with the Council of Europe Development Bank to fund investments through urban development funds.

with grants. Grants, as opposed to FI, are one-off payments to final recipients which do not need to be repaid.

Table 2-1 | Financial instruments - categories

	EQUITY	DEBT	
Type	Formal: venture capital, seed, early stage, etc. Informal: business angel investments	Loans, Microcredit	Guarantees
Definition	Provision of capital to unlisted companies in return for shares	Lending of capital to be repaid	Provision of collateral for a loan

Source: own elaboration.

Equity refers to the share capital of an enterprise, and equity investments involve the acquisition of a share of ownership in an enterprise or start-up business. Typically, the share gives an entitlement to the profits of the enterprise. Different stages in the business formation and growth of a company and in the type of activity funded require different investments. This explains the range of equity financial products offered, for instance for seed capital in the early stage of business creation. Loans and guarantees are debt products. In a loan, a company borrowing money from a lender must repay this amount within an agreed timeframe. The lending institution provides the loan at a cost – the interest on the debt. A guarantee is a commitment by a third party (the guarantor) to pay the debt of the borrower, if the borrower cannot repay it. The guarantor is liable to cover some or all of the shortfall in or default on the underlying debt, under the terms and conditions stipulated in an agreement between the parties involved.

2.1.2 'Funding gaps', government intervention and geographies of finance

Two main themes emerge in the product specific literature on equity and debt products, with further sub-themes under each. The first theme is 'funding gaps': that is, market failure in the provision of equity or debt finance for businesses seeking the capital or credit necessary to launch, develop or expand their activities. Most of the literature is about equity gaps, in particular in formal and informal sources of venture capital, while scholars pay much less attention to gaps in debt products. The second major theme is the suitability of and scope for governments to address such 'funding gaps'. A third topic cuts across these two themes: the geographic dimension of finance. Geographies of finance influence both the supply of and the demand for funding, the delivery of public policies and therefore the scope for government intervention (Mason and Harrison, 2002, Mason, 2007).

The first major theme ('funding gaps') comprises several sub-themes. Most scholars argue that markets do not provide the type and amount of funding required by businesses. Others focus on the demand for rather than the supply of finance and consider how regional variations affect the demand for finance and the constraints to accessing it. Some scholars focus on the gaps affecting equity markets and examine the sources of finance that businesses have access to, depending on the maturity of the firm. Debt products are the first choice for firms in the early stages of development, while in the later stages firms gradually substitute internal capital (La Rocca et al., 2011). The geography of the locality may influence the type of finance that firms look for. In Swedish metropolitan areas, firms look for professional investors, while in smaller municipalities banks are the most important source of funding (Berggren and Silver, 2010). Some entrepreneurs were found to seek investors with strong links to the specific industry – relevant capital – and with high levels of competence and networks – competent capital (SæTre, 2003). Other research has suggested that funding gaps may affect categories of SMEs badly at two distinct points: first, when they present their business plans to obtain credit; and, second, when they await the outcome of their applications. However, overall, these funding gaps are a problem for only a relative minority of SMEs (Deakins et al., 2008).

Several studies examined the role of business angels as providers of informal capital at different stages of firm development (Harrison et al., 2010, Mason and Harrison, 1995, Mason and Harrison, 1997, Riding, 2008). Scholars compared investments from business angels with other types of capital in the Canadian market and concluded that the investments from and the gains of business angels were substantially greater than for those of other types of informal investors (Riding, 2008). Some scholars focused on the spatial dimension of business angel investments, e.g. the regional concentration of institutional venture capital investment (Mason and Harrison, 2002), while others examined the role of spatial proximity in the provision of equity funding, considering in particular the role of space, social interactions and power in influencing access to financial networks for small firms (Pollard, 2003). Some scholars examined the bias of venture capital investors towards non-local investments and offered evidence on the influence of spatial proximity over the performance of such investments (Cumming and Dai, 2010). Other scholars downplayed the influence of spatial proximity for venture capital (Fritsch and Schilder, 2006) and business angel (Harrison et al., 2010) investments. Harrison et al. (2010) concluded that, even though most business angel

investments are local, investors do make a significant minority of investments at long distance. Also, investments at the later stage of firm development are not more likely to be long distance than seed, start-up and early stage investments, as is often assumed in the literature.

Credit constraints received much less attention than equity gaps in the literature, although 'funding gaps' affect debt markets too. Most of the research on loans and loan guarantees focused on the reasons for such sub-optimal provision of finance. Some scholars argued that moral hazard is a major driver of credit constraints, which leads to the adverse selection of the borrower (Stiglitz and Weiss, 1981), while other scholars attributed shortcomings in the availability of debt finance to sub-optimal bank–firm relationships (Berger and Udell, 1998). Among the solutions to debt gaps, some scholars examined the role of non-mainstream financial providers, such as mutual guarantee institutions, as private guarantee providers (Carmignani and D'Ignazio, 2011, Mistrulli et al., 2011) and of community development finance institutions as providers of loan finance to firms at the commercial margins (Appleyard, 2013).

Within the debate on funding gaps, some scholars deemed the demand for finance to be more problematic than the supply side. Some scholars have argued that finance is actually widely available for business, and that therefore governments should improve the conditions through which businesses access existing sources of finance (Saublens and Walburn, 2009). Some research has focused on various categories of firms and their awareness of sources of funding. For instance, while small firms were largely unaware of the opportunity to access quasi-commercial (i.e. non-bank) finance, community-based enterprises had wide access to such sources of funding (Lean and Tucker, 2001). Some scholars have focused on financial resources in regional economic systems and the consequences for the supply of funding. Semi-local and national institutions may reduce the use of debt by firms, because of monitoring costs or credit rationing, while local institutions may increase the use of debt through quantity or price. Also, firms prefer internal finance especially where local or national institutions are distant (Mahagaonkar and Chaudhuri, 2009).

The second major theme of this product-specific literature is the need for and appropriateness of public sector intervention to mitigate the imbalances of the market. Some scholars focused on the rationale for public intervention itself, and some on its effectiveness. They looked at the logic of government intervention, its application

through public schemes and the factors for its success (Lerner, 2002, Lerner, 2009). In general, government intervention in boosting the venture capital industry is appropriate if governments boost the range of output and employment measures, and not just the availability of capital (Lerner, 2010). States can play various roles in addressing funding gaps. Much of the debate has focused on equity markets, arguing that government intervention is especially relevant in the early stages of business development, where potentially positive spillovers into the wider economy are likely, but investments often bear uncertainty and risk (Murray, 2007, Martin et al., 2002). States can be both supporters of, and investors in, privately managed risk capital activities (Murray and Lingelbach, 2009).

Early stage firms require government intervention especially during financial crises, because personal assets and bank lending shrink and the prospects of accessing finance worsen (Harrison, 2013). Other options include governments creating an environment favourable to entrepreneurship, in which entrepreneurs have ready access to capital, technology, and support (Wyse, 2007), and governments removing the structural barriers that hinder the development and diffusion of venture capital (Lawton, 2002). Some scholars argued for an 'entrepreneurial state' with a stronger involvement of governments in business creation and innovation, sharing the profits as well as the risks of their investments (Mazzucato, 2015). Other scholars applied caution. The appropriateness of government intervention in certain markets is difficult to ascertain, because of the limited evidence on the impact of public policy intervention in boosting informal venture capital markets (Mason, 2009). Lastly, some scholars disputed the existence of funding gaps and, having reviewed the forms of support, concluded sceptically that no intervention at all would have been preferable either to subsidized measures or to tax-related interventions (Cressy, 2002).

The scholars who favoured intervention of the state that is not limited to addressing funding constraints tended to examine the framework conditions for the success of such measures. For instance, if local configurations of networks and socio-institutional arrangements matter for policy support to local entrepreneurship (Wray, 2011), then examining the socio-economic context for entrepreneurship is key (Trettin and Welter, 2011). Specific socio-spatial barriers to entrepreneurial activity may require specific policy solutions for entrepreneurs in disadvantaged areas (Williams and Williams, 2011). Among the framework conditions, financial eco-systems play a central role for

the success of government interventions and their absence may mean the failure of governments' efforts to boost a venture capital industry (Mason, 2007).

On the effectiveness of public support, several empirical studies tested the impact and performance of existing government-backed loan and guarantee schemes, especially in the UK (Harrison and Mason, 1986, Shutt et al., 2001, Cowling and Siepel, 2012). Government schemes that addressed debt gaps have usually had positive effects for firm development (Cowling and Siepel, 2012). Government support to small firms may be more suitable at later stages of firm development rather than at the start-up stage, and help through the provision of advice and information to entrepreneurs enhances human capital (Shutt et al., 2001). For high-growth firms, tailored programmes for marketing needs, internationalization grants and peer reviews are better suited than general support for innovation and financial aid (Mason and Brown, 2011). Some scholars have argued that using venture capital programmes to target financial and regional policy objectives may not be appropriate, because of the structural weakness entrenched in the European economic system. Therefore, governments should prefer alternative measures to venture capital investments, such as tax incentives (Sunley et al., 2005). Research outside the UK has shown that guarantee schemes may be effective policy tools, because of their relatively small cost to the public finances and their high capacity to mobilize private capital. However, several framework conditions are essential for their success, ranging from other financial institutions sharing the risk with the credit institutions and the SME itself, to fees not being excessive, so as not to discourage small firms from asking for the guarantee or making the guarantee financially unsustainable (Zecchini and Ventura, 2006).

In sum, most of the literature has debated the constraints to accessing finance in equity and debt markets, while another main strand discussed the appropriateness of public support to address such failures. A cross-cutting theme is the spatial dimension of finance, which has implications for both the existence of 'funding gaps' and the success of public schemes.

2.2 Cohesion policy

CP is the main investment policy of the European Union. Its current remit is to boost economic development in poorer EU member states, while retaining the competitiveness of the more advanced economies, with the ultimate goal of making the economies of all regions converge. The EU commitments to economic and social

cohesion have evolved over time. Economic and social cohesion has been 'institutionalised' through the creation of a relevant directorate and 'constitutionalised' through the inclusion in the Treaties, while remaining one of the most financially significant EU policies. Moreover, Cohesion policy has addressed a range of crucial policy objectives (e.g. economic development) and political goals (e.g. Eastern enlargement) for the EU (Piattoni and Polverari, 2016).

2.2.1 Key features of Cohesion policy

CP was almost absent in the Treaty establishing the European Economic Community (Treaty of Rome). Although the aim of 'reducing the differences existing between the various regions and the backwardness of the less favoured regions' was included in the preamble, the treaty made only indirect references to 'regional development' throughout the text (Manzella and Mendez, 2009). A Directorate General dedicated to regional policy (DG Regio) was created in 1968, and pressures for institutionalizing a Community regional policy started at the beginning of the 1970s. In 1979, the European Regional Development Fund was created, but European regional policy did not have a significant role until the 1987 Single European Act. This emphasized the aim of reducing disparities between regions in a new title of 'Economic and Social Cohesion' and gave the policy the financial means to pursue this aim.[4] The Maastricht Treaty revision of 1993 gave prominence to this, alongside the European monetary union and the internal market. More recently, the Lisbon Treaty, added a territorial dimension to economic and social cohesion (Title XVIII, articles 174–178) (OJEU, 2016).

Until the landmark 1988 reform to which the Single European Act provided the legal basis, Community regional policy had a small budget[5] and intergovernmental negotiations among member states determined the funding allocation (Manzella and Mendez, 2009). This changed over the first half of the 1980s, with the emergence of a more cooperative relationship between member states and the European Commission. The enlargement with new member states (Spain and Portugal) and further economic integration (single market) required the reformation of CP. The 1988 reform provided the regulatory and economic means and the steering powers to the Commission to pursue economic and social cohesion. Thus, it gave birth to CP (Leonardi, 2005). The

[4] The structural funds: European Regional Development Fund, European Agricultural Guidance and Guarantee Fund-Guidance Section and the European Social Fund.
[5] 1.3 billion European Units of Account over 1975–78 equal 5% of the Community budget.

reform doubled[6] the annual resources available to structural funds over the period 1989–93, introduced the four principles of concentration, programming, partnership and additionality and strengthened the role of the Commission (Baun and Marek, 2014). Concentration required restricting support to a series of priority objectives; programming introduced support through multi-annual programmes; partnership required involving regional and local authorities[7] in programme design and implementation; and additionality required ensuring that EU expenditure would not substitute for, but would add to, national expenditure (Manzella and Mendez, 2009).

With the 1988 reform, the policy became more grounded in Community objectives, priorities and experimentation (Manzella and Mendez, 2009). An additional reform took place in 1993 and was more limited in scope. Its major outcomes were the further doubling of the budget for the 1994–99 programme period and the creation of the Cohesion Fund to support the poorer member states. Eastern enlargement and difficult economic conditions were the reasons for the 1999 reform, which assigned €213 billion to CP (Baun and Marek, 2014). The reform devolved the implementation functions to the member states, notably through the designation of a managing authority for each programme. In addition, financial management and control were strengthened through the n+2 rule, which required the funding committed to be paid out within two years, otherwise it would be lost to the programme.

The 2006 reform was the most significant since 1988 and aimed to transform CP into a tool to achieve wider EU economic objectives. It adopted a stronger strategic approach to programming and a result-oriented approach on evaluation and introduced an audit authority (Manzella and Mendez, 2009). In the 2007–13 programme, the Cohesion budget reached a record high of €308 billion (European Commission, 2007a). While increasing in absolute terms from 2000-06, it decreased as a percentage of EU gross domestic product. In the 2014–20 programme, the Cohesion budget heading was agreed at €325 billion (Baun and Marek, 2014), which represented a decrease of about 8% of Cohesion spending[8] from 2007–13 (Mendez et al., 2013). A new aspect introduced by the 2014–20 regulations was the use of structural funds to support 11

[6] From about 7 billion in 1987 to about 14.5 billion in 1993 in European Currency Units (ECU).
[7] Later also economic and social partners.
[8] The 2013 European Council agreement comprised important changes in EU spending, included a new methodology to allocate Cohesion funding.

thematic objectives,[9] aligned with the Europe 2020 strategy. As shown in Table 2-2, the budget for CP has become substantial. Nonetheless, successive EU enlargements have put this budget under pressure. Since the various blocks of states and the European Commission agreed not to alter the overall amounts devoted to Cohesion, more sustainable ways to use the budget became important tools (European Commission, 2012).

Table 2-2 | Structural funds budget allocations

Programming periods	Allocations (billion)
1994–99	141.5[1]
2000–06	€213
2007–13	€308
2014–20	€325

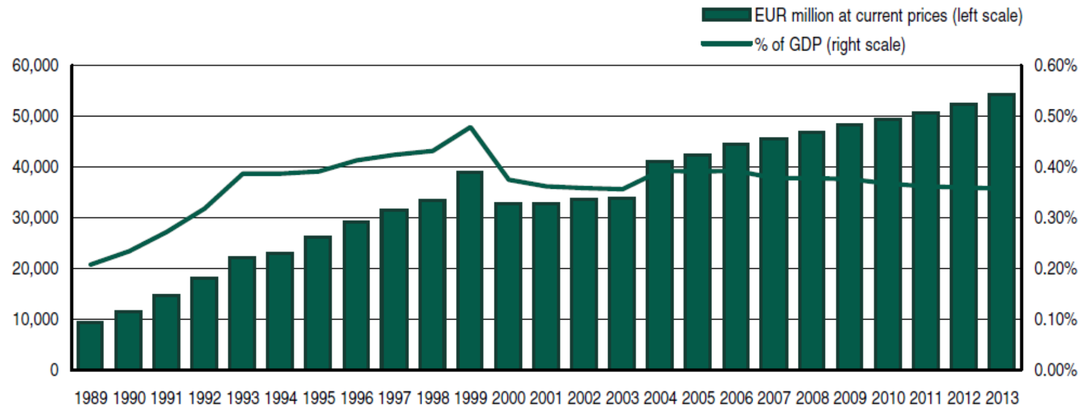
Source: own elaboration, based on Baun and Marek (2014).

Note: [1] European Currency Units (ECU).

Figure 2-1 shows that the budget for Cohesion increased in absolute terms and also relative to EU gross domestic product until 1999, when the budget reached its peak. Thereafter, albeit increasing in absolute terms, the Cohesion budget mostly decreased as a percentage of GDP.

[9] TO1 Strengthening research, technological development and innovation; TO2 Enhancing access to, and use and quality of, ICT; TO3 Enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the European Maritime and Fisheries Fund); TO4 Supporting the shift towards a low-carbon economy in all sectors; TO5 Promoting climate change adaptation, risk prevention and management; TO6 Preserving and protecting the environment and promoting resource efficiency; TO7 Promoting sustainable transport and removing bottlenecks in key network infrastructures; TO8 promoting sustainable and quality employment and supporting labour mobility; TO9 Promoting social inclusion, combating poverty and any discrimination; TO10 Investing in education, training and vocational training for skills and lifelong learning; TO11 enhancing institutional capacity of public authorities and stakeholders and efficient public administration.

Figure 2-1 | Cohesion policy spending 1989 to 2013



Source: Fourth Cohesion report (European Commission, 2007b).

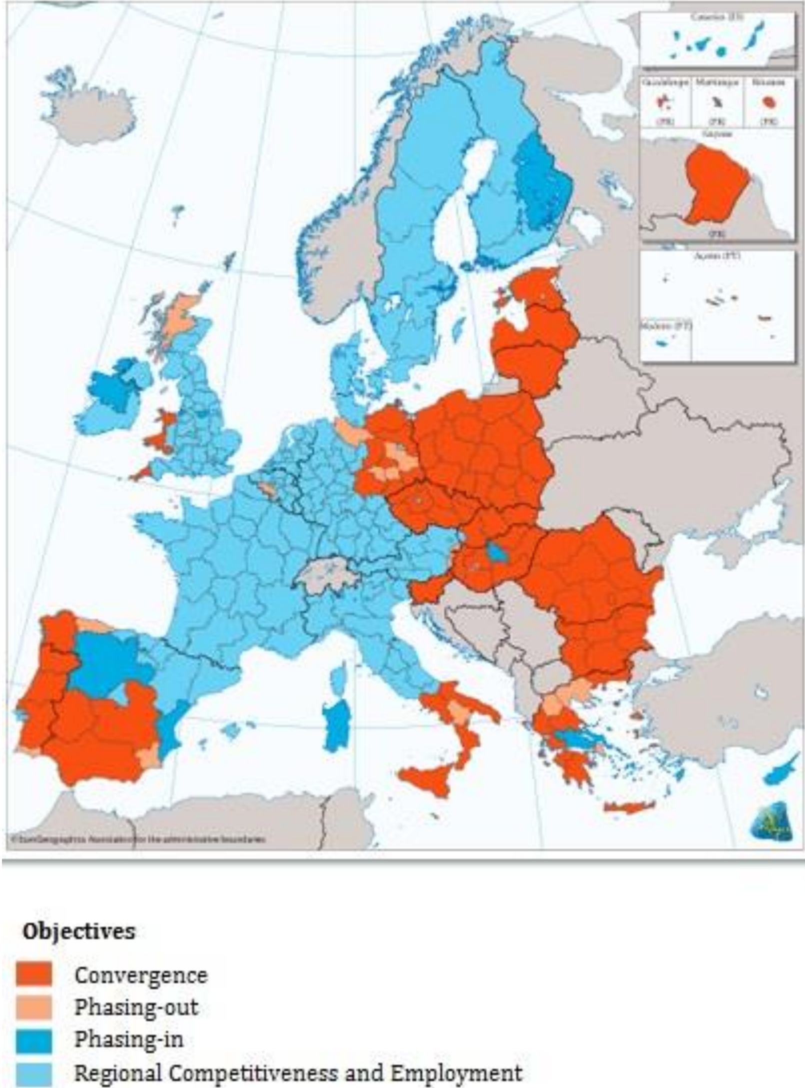
CP operates through investment funds. The most important are the European Regional Development Fund, the European Social Fund (ESF) and the Cohesion Fund (CF).[10] Within the EU budget, CP is programmed over seven years, through so-called programming periods. Seven-year programming started with 2000–06, with subsequent programming periods (2007–13, 2014–20, 2021–27) following. CP is carried out through shared management, in close cooperation with member states and sub-national authorities, who negotiate so-called Operational Programmes (OPs) with the European Commission. OPs set out how and where the funds are used in a given area. OPs may cover member states as a whole, 'NUTS-2 regions' (nomenclature of units for territorial statistics) and groups of regions, through cross-border, transnational and interregional co-operation OPs. National, regional and multi-regional operational programmes are the result.

The concentration principle introduced in 1988 was operationalized through the introduction of objectives for support. There were six in 1989–93, three of which explicitly regional (1, 2, 5b), while the others were community-wide objectives. The objectives rose to seven (four regional objectives) in 1994–99 to cover the sparsely populated areas, following enlargement to include Finland and Sweden, and were reduced to three in 2000–06. In 2007–13, they remained three and were renamed

[10] In 1994–99 and 2000–06 these included the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG). In 2007–13 the European Agricultural Fund for Rural Development (EAFRD) replaced the EAGGF and the European Fisheries Fund (EFF) replaced the FIFG. In 2014–20 the structural funds have been regrouped under the acronym of ESIF (European Structural and Investment Funds), which now include the EAFRD, the European Maritime and Fisheries Fund and the ERDF, ESF and CF.

‘convergence’, ‘phasing-in/out’ and ‘regional competitiveness and employment’. All the regions in the EU not eligible for convergence and phasing-out support became eligible for the regional competitiveness and employment objective in 2007–13, as show in Figure 2-2 (Baun and Marek, 2014).

Figure 2-2 | Eligibility map 2007–13



Source: Inforegio maps https://ec.europa.eu/regional_policy/en/information/maps. Last accessed 29/04/2019.

2.2.2 Implementation arrangements

The process of implementing CP drew on the institutional context and administrative structure of member states and regions. The process varied widely across member states (Molle, 2007) and over time. Three categorizations helped identify patterns in CP implementation.

First, a commonly used typology distinguished between centralized and decentralized states, depending on the role played by regional authorities within the administrative structures. Among EU countries, the most common were centralized unitary states, followed by decentralized unitary states. These were characterized by self-governing authorities at regional level with a varied range of responsibilities. Countries in which regions enjoyed a high degree of autonomy could be defined as regionalized states (Spain, United Kingdom and, to some extent, Italy). The highest degree of decentralization was identified in federal states (Germany, Austria) (Gorzelak et al., 2017).

Second, Bachtler et al. (2008) identified three models in CP management: a centralized, a decentralized and a shared one. In the centralized model, the central government and its agencies have full responsibility over CP management; in the decentralized model, the responsibility rests in the regional government or intermediate institutions; finally, in the shared model, the responsibility is distributed between central government and self-governing authorities at regional level. Implementation arrangements in CP are dynamic, and the number of programmes implemented by a given member state may differ between programme periods. Therefore the position of EU countries in these categories has evolved over time. A refinement of Bachtler's 2008 typology used centralized, regionalized and mixed systems for categorization purposes (SWECO, 2010).

Third, the existing administrative structures may be used for implementing CP in various ways. Ferry et al. (2007) distinguished between three basic types of arrangement. In the first type, decisions on the implementation of CP were taken by the same institutions that dealt with national policies. In the 2007–13 period, this was the prevalent mode (SWECO, 2010). The second model has two subtypes: a 'subsumed' mode, in which EU funds were subordinated to national programmes (Germany, Austria, Denmark and Spain) and a 'dominant' mode, in which the role of EU funds determined the focus of the national programmes (all new member states, except the Czech Republic, Greece and Luxembourg). The third mode, called differentiated, was characterized by new institutions being set up for the purpose of delivering CP (Belgium, the Netherlands, Sweden, the Czech Republic). In between these arrangements, the so-called 'aligned' systems incorporated well-developed mechanisms for coordinating activities between the domestic and the EU systems. In 2007–13, this system was in place in the United Kingdom, Ireland, France, Italy, Finland

and Portugal. The following table outlines these implementation patterns, based on the literature reviewed.

Table 2-3 | Cohesion policy implementation patterns across the EU

Member state	State type	Role of regional authorities	System of implementation
Austria	Federal	Regionalized (x)	EU 'subsumed' (x)
Belgium	Federal	Regionalized	Differentiated
Bulgaria	Centralized	Centralized	EU 'dominant'
Cyprus	Centralized	Centralized	EU 'dominant'
Czech Republic	Decentralized	Mixed (x)	Differentiated (x)
Germany	Federal	Regionalized	EU 'subsumed'
Denmark	Centralized	Centralized	EU 'subsumed'
Estonia	Centralized	Centralized	EU 'dominant'
Greece	Decentralized	Centralized (x)	EU 'dominant'
Spain	Regionalized	Mixed	EU 'subsumed'
Finland	Decentralized	Mixed (x)	Aligned (x)
France	Decentralized	Mixed	Aligned
Croatia	Centralized	-	-
Hungary	Centralized	Centralized	EU 'dominant'
Ireland	Centralized	Mixed	Aligned
Italy	Regionalized	Regionalized	Aligned
Lithuania	Centralized	Centralized	EU 'dominant'
Luxembourg	Centralized	Centralized	EU 'dominant'
Latvia	Centralized	Centralized	EU 'dominant'
Malta	Centralized	Centralized	EU 'dominant'
Netherlands	Decentralized	Regionalized	Differentiated
Poland	Decentralized	Mixed	EU 'dominant'
Portugal	Centralized	Mixed	Aligned
Romania	Centralized	Centralized (x)	EU 'dominant' (x)
Sweden	Decentralized	Centralized (x)	Differentiated (x)
Slovenia	Centralized	Centralized	EU 'dominant'
Slovakia	Decentralized	Centralized	EU 'dominant'
United Kingdom	Regionalized	Regionalized	Aligned

Source: Adapted from Gorzelak et al. (2017), based on (Bachtler et al., 2007, Ferry et al., 2007, SWECO, 2010).

Note: (x) significant changes in the 2014–20 programming period.

2.2.3 Implementing actors and responsibilities

Cohesion spending comprises regional and national operational programmes.[11] National OPs are managed by national ministries, departments within ministries or duly mandated agencies, whereas regional OPs are managed by specific departments within the regional administration (Stephenson, 2016). Following the latest regulatory framework (European Parliament and Council, 2013),[12] an operational programme

[11] Multi-regional programmes are an option too, but they represent a small number of all OPs.
[12] The organizational requirements evolved over time.

must designate a managing authority, a certifying authority and an audit authority. These institutions, commonly in the public sector, are granted specific functions of management, certification of expenditure and control. Broadly speaking, managing authorities are responsible for the accuracy and legality of payment transactions, including: verification and corrective measures; information and publicity activities; and liaising between the implementing authorities and other stakeholders (e.g. socio-economic partnership) and with the European Commission. They are also responsible for programme monitoring and evaluation. Certifying authorities are in charge of drawing up and submitting payment applications to the Commission. They compile the accounts and certify their completeness, accuracy and truthfulness. Both authorities are responsible for ensuring that the expenditure complies with applicable EU and national rules. Audit authorities are in charge of auditing the management and control systems of the OPs and sampling the projects during the programme lifetime (Stephenson, 2016).

Beyond the formal responsibilities, in practice a variety of implementation tasks are carried out by intermediate bodies. Intermediate bodies are: *'any public or private body which acts under the responsibility of a managing or certifying authority, or which carries out duties on behalf of such an authority, in relation to beneficiaries implementing operations'* (European Parliament and Council, 2013). These tasks include selecting, contracting, monitoring and evaluating the projects and drafting the monitoring reports (Molle, 2007, Stephenson, 2016). Finally, there are monitoring committees, which include actors involved in programme implementation and programme partners. They review the implementation performance of the programme, identifying any potential issue that may negatively affect the OP performance, make observations and monitor the actions taken to address the issues. The two most important actors in the meso-level relations of FI implementation are the managing authority and the intermediate bodies. Their formal and informal responsibilities will be thoroughly analysed in the empirical chapters.

2.3 Financial instruments in Cohesion policy

Financial instruments became prominent in CP in 2007–13. They became even more important in 2014–20, as a consequence of the doubling of the volume of European structural and investment funding (ESIF) delivered via repayable assistance.[13] Their use as an implementation model for other significant non-Cohesion initiatives, such as the European Fund for Strategic Investments (Gloazzo, 2018) and the plans for the Cohesion budget in 2021–27[14] suggest that the role of FI will grow further. This thesis draws out implications for the 2014–20 and 2021–27 programming periods; however, its focus is on the 2007–13 programming period. There are several reasons for this. First, FI started to become significant in 2007–13 and for the first time they were treated as separate instruments in the regulations. Second, the rules for spending CF (n+) created delays in the availability of data on implementation. Implementation data on 2007–13 only started to become available at the beginning of the research project and are now consolidated because the programming period is closed. Third, focusing on 2007-13 allowed to analyse a full programming period.

2.3.1 Defining financial instruments in Cohesion policy

Approaching the study of FI in CP requires precise definitions. Following on from the definition provided in 2.1.1, repayment of capital is the distinctive feature of FI (Wishlade and Michie, 2017). For example, a firm pays back the capital borrowed in the form of a loan to the fund[15] in tranches, and at completion of the investment. The fund uses the repaid resources to support investments in other firms. Equity and guarantee products work differently: with equity, the investment involves the purchase of a share of the undertaking. An equity investor will ultimately seek to exit the investment by selling its share, perhaps back to the firm itself or through a trade sale, or even an initial public offering. With guarantees, the money needed to partially or fully cover an underlying loan is set aside in the event of a default. Here, the money does not leave the fund unless and until there is a default. If and when the borrower honours the underlying loans, the fund may release the guaranteed amounts for further investments.

[13] Investment plan for Europe, November 2014 Accessible at: http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm. Last accessed 22/03/2019.
[14] https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en. Last accessed 29/04/2019.
[15] The fund/financial instrument corresponds to the lender.

The term 'financial instrument' may generate confusion among researchers. This is mainly because it also refers to various streams of funding or financing instruments implementing the EU budget.[16] Until recently, official legislative and policy documents referred to financial instruments as financial engineering instruments (European Council, 2006, European Commission, 2016) and there is evidence of the continued use of the earlier term in domestic contexts with previous FI experience (e.g. Italy). In the wide academic literature, in contrast, the term is hardly ever used. The keywords most commonly used in academic work are 'venture capital' and 'loan and guarantee schemes' (as shown in 2.1.2). These identify the financial products offered under each fund. Only when studies explicitly refer to financial instruments as tools to implement the EU budget, most often Cohesion funding, does the academic literature use the word financial instrument (Kalvet et al., 2012, Dąbrowski, 2014, Dąbrowski, 2015, Nadler and Nadler, 2018). This ambiguity in the terminology is a challenge in itself for researchers in this area. With the increased use of repayable assistance in the EU budget, however, the last decade has seen improved clarity in the terminology's use, with the term 'financial instruments' now unambiguously referring to repayable funds.

An important clarification of the terminology relates to the definition of beneficiary and final recipient. In 2007–13, the FI were considered beneficiaries of funding (Committee of the Coordination of Funds, 2012). This created two problems. First, the resources paid from an OP into an FI were counted as spent, which had the unintended consequence of allowing member states to 'park' even quite substantial amounts of OP resources into FI and more easily meet OP expenditure targets. Second, managing authorities had limited information on the actual investments (European Court of Auditors, 2012). In 2014–20, the regulations provided a new definition of FI: the beneficiary is now the body that implements the FI or the holding fund (European Parliament and Council, 2013). Box 2-1 summarizes the operational definition of FI adopted by the European Commission and applied in this thesis.

[16] This was still the case in the 2012 Financial Regulation for instance: EUROPEAN PARLIAMENT AND COUNCIL 2012. Regulation (EU, EURATOM) n. 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) n. 605/2002. Official Journal of the European Union.

Box 2-1 | What is a financial instrument?

FI were not defined precisely in the 2007–13 regulations. The Common Provisions Regulation stated that an OP contribution qualified as an FI if it targeted enterprises or urban development and renewable energy projects, referred to in Article 44, and took the form of repayable investments. In practice, based on the definition adopted in 2007–13, every funding agreement signed between a managing authority and a holding fund or directly with a specific fund is considered a separate FI. This also applies to each contract signed between a holding fund and a specific fund (see also 2.5.2). Importantly, the number of FI is distinct from the number of financial products, since a given FI may comprise several different financial products (in 'mixed' financial instruments). In 2014–20, the reporting obligations introduced an additional level of reporting – the level of product – to cover FI that provided more than one financial product, especially in cases where products were combined, such as loan and interest rate subsidies, or provided a combination of loans and equity. The information on product level covers the amounts committed and invested in final recipients, the number of contracts signed and investments and information on the number and type of final recipients.

Source: own elaboration, based and adapted from Wishlade et al. (2016a) and European Commission (2017a).

2.3.2 Rationale for FI use in Cohesion policy

The classic rationale for using FI to deliver EU funding is to increase the sustainability and efficiency of public spending. FI should contribute to the sound financial management of the EU budget and, through the involvement of private funding and expertise, establish a 'virtuous mechanism' of cross-fertilization between the public and private sectors (European Commission, 2014b). The policy-related (2.3.5) literature on FI often contrasts grants and financial instruments as alternative mechanisms for the EU budget (Nicolaides, 2016, Brown and Lee, 2017, Wishlade et al., 2017), whereas, in the wider academic (2.1.2) literature, these two mechanisms are rarely directly compared. If they are, the discussion is usually part of a bigger debate on the tools (e.g. grants, taxes) that governments have available to carry out public policy in general (Salamon, 2001) and regional development policies in particular (Sunley et al., 2005, Saublens and Walburn, 2009, Bachtler et al., 2016). In broad terms, FI are only suitable for revenue-generating investments with the prospects of capital return, or cost-saving investments (e.g. energy efficiency). The 2014–20 regulations now explicitly envisage

FI as supporting financially viable investments that find it difficult to obtain sufficient funding from market sources (European Parliament and Council, 2013).

The European Commission put forward a new argument on the benefits of repayable assistance in EU policies, and in CP in particular (European Commission, 2012, European Commission, 2014a). This comprised three main reasons. First, the European Commission considered FI more sustainable than grants for EU public finance, because the funds re-use the resources initially paid into FI for subsequent stages of their life-cycles. Provided that FI are efficiently managed, one contribution to the fund allows for several rounds of investment. Second, the European Commission considered FI an efficient way to use public resources, because of the attraction of private capital and expertise. The scale of the objectives achieved can be much greater than is the case for grants, as private resources top up public ones. Since funding, especially equity funding, often benefits from private market principles and practices, FI were also meant to trigger policy learning within the public sector. Lastly there was the argument that FI attract projects of higher quality, since they only finance investments in viable businesses. Encouraging a shift from a grant-dependency culture to an entrepreneurial one should enhance the quality of project proposals too, in the long run (European Commission, 2014a).

The reasons underpinning the use of FI by managing authorities differ. Policy studies have devoted much attention to examining these motivations. One implicit reason for using ERDF co-funded financial instruments is to address regional development problems. There is some evidence in support of public guarantee schemes addressing such issues, while the evidence is less clear for equity funds, as this type of funding is only appropriate for a very small proportion of firms and its success hinges upon a financial eco-system being in place. The fund size is also a primary concern for funds targeting regional economies, because 'regional' FI need to be of an appropriate scale to be effective (Cowling, 2012, Ward, 2012).

The other two main reasons pertain to FI more generally. These are: addressing gaps in providing finance, and providing for the sustainable use of resources. More practical issues include the pressure on managing authorities to absorb the funds. The 'constraints in accessing private finance' were one primary reason for intervening in the provision of public FI (Ward, 2012). Similarly the ability to attract additional capital from financial institutions (Van Ginkel et al., 2013) and the 'limited access to finance'

(Wishlade et al., 2016a) were the main reasons why managing authorities set up FI in 2007–13. In 2014–20, more than 80% of managing authorities considered that FI were needed to address a finance gap or an identified market failure (Wishlade et al., 2017). Another primary reason was the 'revolving' nature of FI, which allow for the reuse of resources in subsequent rounds of funding (Van Ginkel et al., 2013). In 2007–13, the 'official' reason that FI were an alternative to grants and more sustainable, effective and better tools, was often found not to be fulfilled in practice (Wishlade et al., 2016a). There was some evidence that FI were used to meet absorption targets, something that was prevented from happening in 2014–20 thanks to staged payments. In 2014–20, improving the cost-effectiveness of public spending and reducing the dependence on grants were among the key reasons for FI use (Wishlade et al., 2017).

2.3.3 Evolution of FI use in Cohesion policy

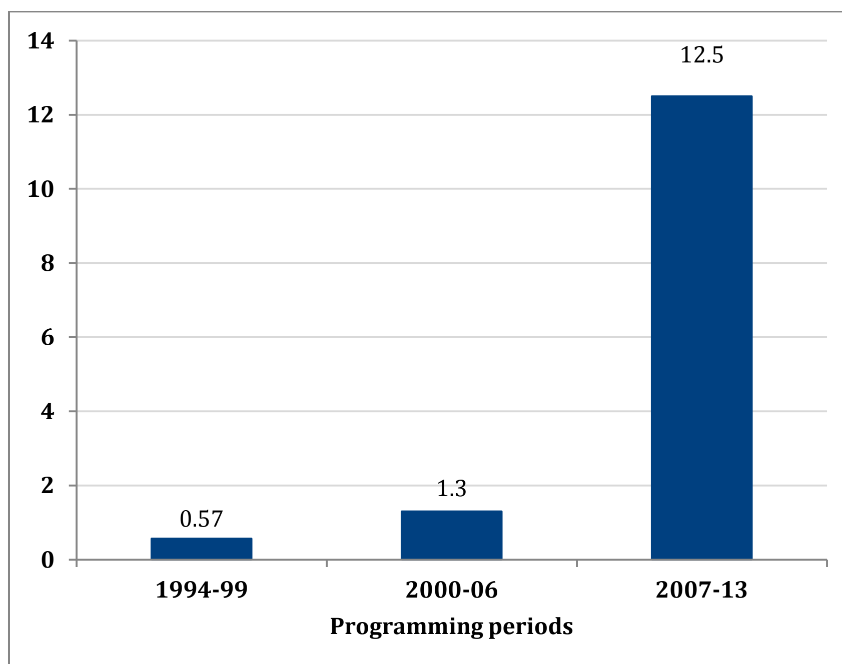
The use of FI in CP started in 1994–99 (European Commission, 1994), although the resources invested through repayable assistance were very limited (Figure 2-3). In 2000–06, the resources reached €1.3 billion, but only in the 2007–13 programming period did allocations made through FI become significant, rising to €12.5 billion (European Commission and European Investment Bank, 2015). In 2007–13, resources distributed to final recipients through FI constituted 5.4% of ERDF and 0.7% of ESF allocations to all member states. This was also the first programming period in which FI were treated as separate policy tools in the regulations, with distinct provisions being made in article 44 of the common provision regulation (European Council, 2006).

In 2014–20, member states planned to commit about €20 billion from the ERDF and CF to FI, which represented an average of 8% of total ERDF and CF allocations, with peaks of between 17 and 20% in some countries (UK, Portugal and Slovenia) and no allocations made in Cyprus, Ireland, Denmark and Luxembourg. FI represented about 1.1% of the total commitment plans among all 28 member states for the European Social Fund and the Youth Employment Initiative, while they were only marginal compared to the overall budget of EAFRD (European Commission, 2017a). Based on up-to-date data from the European Commission, more than €14 billion overall was allocated to FI from ESIF by the end of 2017. In the period 2014–20, this represents 10% of total ERDF resources,[17] according to usage plans.[18] Even though grant support

[17] https://cohesiondata.ec.europa.eu/stories/s/Tracking-progress-in-ESI-Funds-Financial-Instrumen/dtw6-5akv. Last accessed 29/04/2019.

remains dominant, current trends show that FI are set to play an even stronger role in future plans for CP.[19]

Figure 2-3 | Programme contributions from ERDF and ESF programmes to FI (€ billion)



Source: own elaboration, based on European Commission and European Investment Bank (2015).

The increased use of FI was the result of budgetary and more general policy pressures. Successive EU budget negotiations reduced the CP budget as a proportion of the EU GDP (Figure 2-1), while the approach towards its distribution was more thematic and less focused on structural change since 2007-13 (Baun and Marek, 2014). A wider shift towards more market-based instruments could be seen in the policies for enterprise support (Wishlade et al., 2016a, Brown and Lee, 2017). The recent economic crisis, together with the constraints on public budgets and the intrinsic ability of FI to leverage financial resources, pushed FI towards a more central role during 2014–20, both in policy areas covered and resources allocated (Núñez Ferrer and Infelise, 2015). Notwithstanding the shift towards repayable tools to deliver EU funds, it should be noted that FI have been used in domestic policies for a long time. Public financial institutions managing repayable assistance, mostly lending, have a long history of

[18] In the programming period 2014–20, managing authorities plan to deploy €20 billion through FI, both ERDF and CF together. For 2014–20, the ERDF has an overall budget of almost €200 billion. https://www.fi-compass.eu/esif/erdf. Last accessed 29/04/2019.
[19] https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en. Last accessed 29/04/2019.

involvement in national contexts (Schmit et al., 2011, Michie and Wishlade, 2014). FI could be considered new and innovative tools only in the context of CP.

As noted, FI development was particularly vigorous from 2007–13. In 2007–13 financial instruments had a limited thematic focus. Investments could be made:

a. in enterprises, especially SMEs
b. in urban development projects
c. in measures for energy efficiency and renewable energy in buildings.

These thematic priorities could be funded through either ERDF or ESF[20] and the great majority of FI targeted business support (European Commission, 2017b).[21] In 2014–20, financial instruments could fund projects under any thematic objective and any of the ESIF[22] could make allocations through FI. Support to SMEs (TO3) remained the largest area of intervention, with 50% of total funding, followed by 19% to investments in innovation and R&D (TO1) and 16% to the low carbon economy (TO4), mainly for energy efficiency and renewable energy (European Commission, 2017a).

2.3.4 Overview of governance options

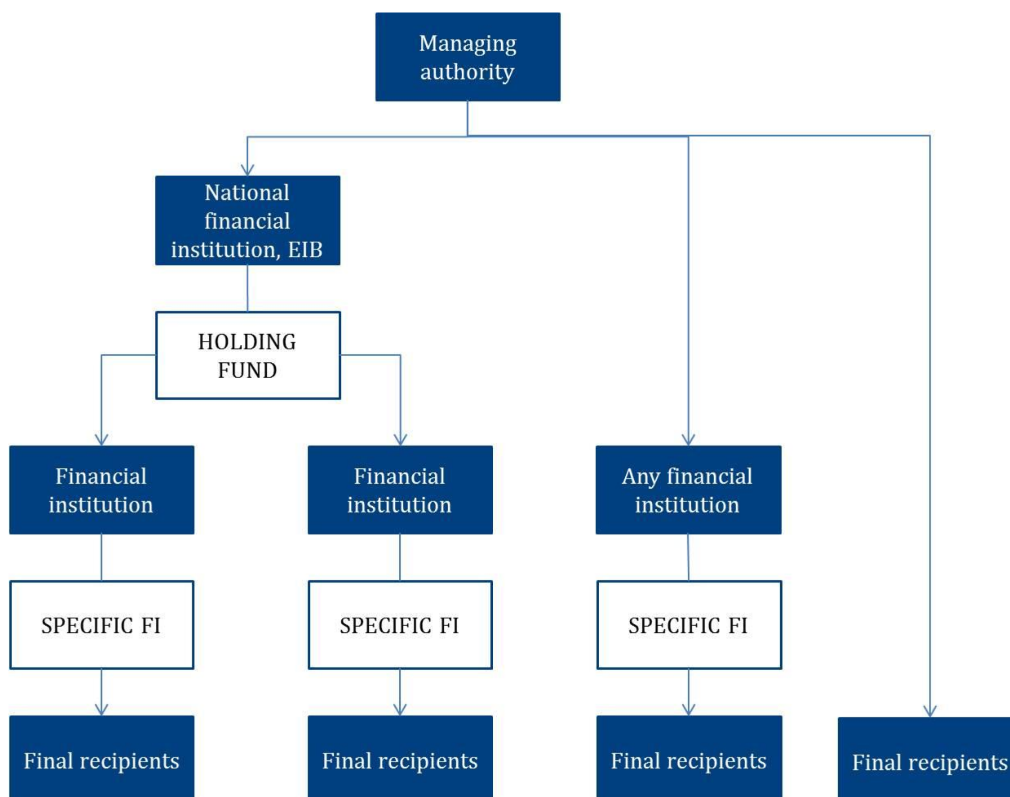
The complexity of approaches chosen to implement FI reflected national and regional support structures and the degree of centralization of structural funds management and implementation. Weak or new support structures (e.g. in France and the Czech Republic) were associated with simpler FI governance structures, while strong national support structures were linked to more complex arrangements for implementing FI (e.g. in Germany, the UK, Poland and Portugal). The degree of centralization of the management of CF influenced governance structures to some extent. In general, the structures used for delivering repayable assistance were either regional entities with a direct connection with the managing authority/holding fund or were the same as for the specific funds (Wishlade et al., 2016a).

Since 2007–13, the regulations have embedded FI in the institutional framework for CP. FI were implemented in shared management, within national or regional OPs. Managing authorities were the ultimate actors in charge of all projects carried out under an OP. These could be delivered through repayable (FI) or non-repayable

[20] A limited number of EAFRD FI were also set up in 2007–13.
[21] 89% of all the 1058 FI set up in 2007–13. See 2.5 for more details.
[22] ESIF now includes the EAFRD, the European Maritime and Fisheries Fund and the ERDF, ESF and CF.

(grants) assistance. Therefore managing authorities are the actors responsible for how FI were implemented and managed. FI introduced a distinct new strand to CP governance from 2007–13. They required new governance mechanisms, which differed from those used for grant-based support. FI operated through distinctive delivery structures (Figure 2-4): holding funds and specific FI. Holding funds[23] are funds set up to invest in several venture capital, guarantee or loan funds. Holding funds have at least one additional FI underneath. Specific FI are self-standing funds. The managing authorities could choose to set up several FI under the same OP and combine the various structures (e.g. set up a holding fund and a specific fund under the same OP).

Figure 2-4 | Structures and actors



Source: own elaboration.

The structures identified in Figure 2-4 required actors to take over their management. In 2007–13, FI could be managed by financial institutions following national or regional law compatible with the Treaties, the European Investment Bank (EIB) or European Investment Fund (EIF) or any other financial institution, provided that they were publicly procured (see (a) on p.36 for more details). In practice, a third option was also

[23] Holding funds are also called fund of funds, notably in the 2014–20 CPR.

adopted in 2007–13, namely for managing authorities to manage a specific fund directly, if it offered loans or guarantees. This was formalized in 2014–20 (Article 38 4(c) of European Parliament and Council, 2013). When any of these institutions took over this role, it acted as fund manager of a FI. Besides the managing authorities and the EIB as institutions with a specific status, fund managers were most often financial intermediaries of various types, ranging from private commercial banks to national (and regional) promotional banks and state-owned credit institutes. In 2014–20, the options remained essentially the same. The thesis argues that the new structures for policy delivery and the heterogeneous, and sometimes new, audience of actors involved represented a distinct new strand of delegated governance in CP.

2.3.5 Trends in FI implementation studies

As noted, academic studies specifically targeting FI in CP (implementation) are rare. However, a growing body of policy research is filling this gap. Interestingly, the few examples of articles published in academic journals focused on urban development funds, promoted under the JESSICA initiative. The focus was on results and factors of success in implementing such funds (Nadler and Nadler, 2018) or on the fitness of urban development funds as policy tools to achieve sustainable urban development goals and change an actor's behaviour at subnational level (Dąbrowski, 2015). Urban development funds, however, were only a pilot in 2007–13 (Dąbrowski, 2014) and FI for SME support prevailed.

Conversely, policy-related studies on FI in CP have flourished in the last decade, since the start of the 2007–13 programming period. Most of these were commissioned evaluations, carried out by independent research centres or consultancies on behalf of European institutions, such as the European Commission – DG Regio in particular – the EIB and the European Parliament. The European Court of Auditors (ECA) also published several reports on FI, in particular performance reports. These studies reflect the distinct approaches of the commissioning institutions, with the Commission aiming to justify the increased use of FI and the Parliament and ECA being cautious about the budgetary implications of their use, within a context characterised by the limited information available on FI performance and governance and the vague regulatory framework in which sub-national authorities had ample scope for manoeuvre.

The purpose of these studies was initially to fill a gap in the availability of information on FI implementation and, later on, to cross-check the data collected in the annual reporting exercises on FI. Apart from monitoring the state of implementation (e.g. payments to final recipients from the OP money paid into the funds), the recurrent themes were: the rationale for FI use; the effectiveness/performance of FI; monitoring and performance measurement; and the role of context for FI success.

Having built on a critical mass of studies on the rationale for FI use (2.3.2), more and more policy research focused on issues of effectiveness (FI performance). Difficulties in drawing conclusions on FI performance in 2007–13 were, among other reasons, due to the limited comparability of the data, its poor quality and evaluations on effectiveness being largely context driven. In 2007–13 and 2014–20 the resources committed and paid to FI reaching final recipients were initially small, but the situation improved towards the end of the programming periods. In 2012, the ECA issued a special report on the performance of FI, focusing on the first part of 2007–13. The report pointed to the poor track record of FI under CP in terms of efficiency and effectiveness. This was mainly attributed to deficiencies in the regulatory framework, initially designed around grant measures, which did not take into account the specificities of repayable funds. The performance audit further noted a poor record in attracting private co-funding, and that the funding gap in the *ex ante* assessments was either inaccurate or unrelated to the subsequent allocations to the fund (European Court of Auditors, 2012).

A follow up to this special report covered all ERDF and ESF funds in the whole 2007–13 programming period. The ECA found that a significant number of ERDF and ESF FI were oversized and faced problems with capital disbursement. Second, none of the FI audited had been successful in attracting private funding, even when using incentives (i.e. preferential treatment) for private investors. Third, most ERDF and ESF instruments did not achieve a significant revolving effect by the end of 2014. Lastly, in terms of value for money, the levels of management costs and fees in relationship to the actual support disbursed to final recipients were significantly higher than in centrally managed and private FI, hence undermining the cost-effectiveness of public intervention. Notwithstanding this criticism, the ECA recognized that weaknesses identified in the 2017–13 programme were addressed in 2014–20 (European Court of Auditors, 2016). Among the other factors explaining the poor performance of FI for business support in 2007–13 were the slow take-off of the funds and problems in terms of capacity (Wishlade et al., 2016a).

When assessing the effectiveness of FI, various studies looked specifically at the conditions favouring or hindering FI implementation. Several factors were critical to FI implementation, in particular the professionalism and independence of fund management, the development of exit mechanisms for investors, a fiscal and regulatory framework suited to FI, and the partnership between the public and private sectors (Ernst and Young, 1998). Issues with state aid, difficulties in attracting private sector co-funding and the lack of familiarity of the public sector with repayable forms of financing were also noted (Van Ginkel et al., 2013). Other studies observed that implementation challenges were similar across all countries in 2007–13: in particular, as previously noted by the ECA, the lack of operational provisions in the regulations and guidance created uncertainties and caused significant delays, while the limited experience in managing the funds also impacted FI implementation (Wishlade et al., 2016a).

An interesting debate on the conditions for FI implementation is especially relevant for this study. This addresses the problem of minimizing divergent interests among public and private stakeholders. Several elements have to be taken into account. FI have to carefully balance societal and regional development interests with the private interest in the management fees for and amount of investments managed by fund managers. Also, FI have to trade the lack of skills, expertise, and networks to appraise and manage equity investments in the public sector with the know-how available in the private sector (Ward, 2012). In situations where public and private interests diverge substantially, the hybrid fund model was indicated as the most appropriate mechanism to invest in firms with innovation and growth potential. Interestingly, the hybrid model includes incentive mechanisms to encourage private operators to act on behalf of public policy-makers, in evaluating investment proposals and monitoring investment activity (Cowling, 2012).

Other policy studies focused on issues related to the monitoring and performance measurement systems. In FI co-financed under the single programming documents (SPD), the limited quantification of targets for FI was already being remarked on, with advice to strengthen the performance measurement framework for EU-funded FI. Clearer targets and a more comprehensive set of output and impact indicators were required. Targets usually related to financial inputs and activity indicators, for instance the number of assisted SMEs, rather than financial performance, outputs and impacts, making it difficult to assess the added value of the measures and the contribution to

regional development (Ernst and Young, 1998). Among the priorities in this area were the development of comprehensive approaches to performance measurement, the need for standardized procedures for disclosing information on fund management activities and tailoring performance indicators to venture capital and loan funds (CSES, 2007). The *ex post* evaluation of FI for business support in 2007–13 remarked on the absence of quality control systems for monitoring the data collected by managing authorities and the limited number and, at times, unsuitable nature of the indicators for assessing the impact of FI (Wishlade et al., 2016a).

The role of context, institutional context in particular, was often researched in policy studies and is widely acknowledged as one of the most crucial factors of success for FI. Issues of context comprised the administrative capacity of the public sector to manage the funds, the regulatory framework and the financial eco-systems, which also influenced the capacity of recipients to access financing opportunities. An evaluation commissioned in the late 1990s recommended ensuring that professional expertise was available, appropriate management structures in place and exit opportunities for investors available for venture capital investments (Ernst and Young, 1999). Capacity issues were particularly marked in countries with no or limited previous experience of FI. Administrative barriers to smooth implementation were consistently reported in studies of policy implementation (Ward, 2012, Van Ginkel et al., 2013, Wishlade et al., 2016c), while the complexity of FI management was highlighted, especially in complex chains of delegation that shift responsibilities to external actors, on the basis of expertise (Wishlade and Michie, 2017). Furthermore, some of the weaknesses identified in the regulatory framework for 2007–13, although partially addressed in 2014–20, still remained. These included, among other issues, the administrative burden and the mismatch between the length of the seven-year programming period and the longer investment window of some types of instruments.

Finally, the presence of favourable eco-systems for FI was considered an important element for the success of FI, and for venture capital funds in particular. The notion of eco-system referred to the presence of higher education institutions, business incubators and spin-offs and a lively entrepreneurial base. Some policy studies identified the FI eco-systems as the most important area of public intervention to address shortcomings in funding provision and urged public policy-makers to implement the complex, structural reforms required to establish eco-systems for financial instruments (Wiltbank, 2009), while other scholars referred to 'thin-markets'

to address the absence of such framework conditions (Nightingale et al., 2009). Ecosystems are a precondition for the demand to meet the offer of FI, in particular for having viable financial propositions available and a constant flow of projects (Wishlade and Michie, 2017).

2.4 The regulatory framework for 2007–13

This section introduces the regulatory framework for FI in 2007–13. These rules are relevant for the rest of the thesis and were not subject to major changes in 2014–20. The section shows the legal provisions according to the key elements analysed in the empirical chapters, namely the provisions on actors, structures and financial products, and the responsibilities and various obligations on FI implementation. Articles 3 and 5 of the Parliament and Council regulation n.1080/2006 (European Parliament and Council, 2006) set out the legal basis for the establishment and use of FI in CP, while art. 44 of Council Regulation n.1083/2006 (European Council, 2006) detailed the use of FI in CP. Where relevant, this section also refers to the more detailed provisions of Commission Regulation n.1828/2006, the 'implementing regulation' (European Commission, 2006) and guidance from the then Committee of the Coordination of Funds (Committee of the Coordination of Funds, 2012).

(a) Actors

In 2007–13, the actors who could be involved in FI implementation were:

a. the member state or managing authority, deciding to set up a fund
b. the EIB or EIF, involved as holding fund managers
c. other financial institutions involved as holding fund managers or fund managers.

In terms of selection procedures, art. 44 of the Common Provisions Regulation provided for a basic choice between direct appointment and public procurement. Managing authorities could nominate the EIB or EIF as holding fund managers through direct appointment. The same procedure applied to other financial institutions selected as fund managers, following national law compatible with the treaties. In all other cases public procurement rules applied.

The regulations did not include any further specification on the type of actor to be chosen to carry out fund management duties, which gave member states and managing

authorities scope to choose who to delegate to and what characteristics they should have (see 2.5.1 below). Beyond the limited FI implementation responsibilities, the regulations provided for an OP managing authority or certifying authority entrusting some of its duties to an intermediate body, identified for the purpose (art. 59, § 2). Managing authorities had to record formally in writing the relevant arrangements with the intermediate bodies who were to perform one or more of these responsibilities (art. 12 European Commission, 2006).

(b) Structures

As outlined in 2.3.4, article 44 of the Common Provisions Regulation broadly distinguished between a holding fund (a fund of funds), that is, a fund set up to invest in several venture capital, guarantee or loan funds, and projects that are not organized under such structures (specific FI). Most of the provisions in the regulations deal with holding funds, rather than specific funds. More information was provided on how to contribute resources to the financial instruments. Art. 43 of the implementing regulation clarified the two options available: managing authorities could set up holding funds or other funds as independent legal entities, or as separate blocks of finance within an FI. Agreements between the co-financing partners or shareholders had to govern the independent legal entity. Where the FI was established within an existing financial institution, the form of the contribution would be that of a separate block of finance, subject to specific implementation rules. These rules had to stipulate, in particular, the separation of accounts, to distinguish the new resources invested in the FI, including those contributed by the OP, from those initially available in the institution (European Commission, 2006).

(c) Financial products

Art. 3 of the Parliament and Council regulation (EC) n.1080/2006 (European Parliament and Council, 2006) listed the creation and development of FI such as venture capital, loan and guarantee funds among the measures to be co-financed from the ERDF. Art. 5 of the same regulation provided for the creation of FI to promote innovation and the knowledge economy under the 'regional competitiveness and employment' objective.

In considering financial products offered by an FI, this thesis refers to the distinction between equity, loans and guarantees. The regulations did not pay specific attention to

the various types of financial products and they did not provide additional information on their operation. The 'guidance note on financial engineering instruments' (Committee of the Coordination of Funds, 2012) alone specified some operational aspects for financial products, for instance for guarantees, micro-credit and others (i.e. interest rate subsidies, guarantee fee subsidies and equivalent measures).

(d) Business plans and funding agreements

The implementing regulation provided for a business plan to be submitted by the co-financing partners of a fund, the shareholders or their duly authorized representative, which had to include at a minimum the following elements:

a. the market of enterprises or urban projects to be targeted, and the criteria, terms and conditions for financing them
b. the operational budget for the FI
c. the ownership of the FI
d. the co-financing partners or shareholders
e. the FI by-laws
f. the professionalism, competence and independence of the fund management
g. the justification for, and intended use of, the contribution from the structural funds
h. the policy on exits from investments in enterprises or urban projects
i. winding-up provisions for the FI, including the re-utilization of resources from the OP, returned to the fund from investments or left over after all guarantees are honoured.

Art. 43 of the implementing regulation, as amended by regulation n. 1236/2011 (European Commission, 2011) dealt with funding agreements. Funding agreement was the name given to a contract in FI implementation. At a minimum, a funding agreement had to be in place between the FI (the fund) and the entity managing/investing out of the fund (fund manager or holding fund manager). It provided that '*the terms and conditions for contributions from operational programmes to financial engineering instruments shall be set out in a funding agreement, to be concluded between the duly mandated representative of the financial engineering instrument and the member state or the managing authority*'. It then set out the minimum requirements of such contracts, namely:

a. the investment strategy and investment plans
b. the monitoring of implementation under the applicable rules
c. an exit policy for the OP contribution to the FI
d. the winding-up provisions of the FI, including the re-utilization of resources to be returned to the FI from investments or left over after all guarantees had been honoured.

Art. 44 of the same regulation envisaged that the member state or managing authority had to conclude a funding agreement with the holding fund, for FI organized through holding funds. This had to clarify the funding arrangements and fund objectives. Also, it had to include the terms and conditions for contributions to venture capital funds, guarantee funds, loan funds and urban development funds from holding funds. This contract had to be concluded between the venture capital, loan or guarantee fund and the holding fund.

(e) Monitoring, reporting and control

The regulations specified the monitoring obligations for FI only in relation to funding agreements, which, according to art. 43, §5 of the implementing regulation, had to include at a minimum provisions on the monitoring of implementation. Art. 44 of the CPR also stipulated that provisions on monitoring the investment policy must be specifically made in the funding agreements (European Commission, 2006). At the end of 2011, the EU amended the CPR to introduce an obligation for member states to report on FI in the annual implementation reports (European Parliament and Council, 2011). According to this amendment, the annual implementation reports had to include information on the progress made in financing and implementing FI, namely:

a. a description of the FI and the implementation arrangements
b. the identification of the entities implementing the FI
c. the total assistance from the structural funds and national co-financing paid to the FI
d. the amount of assistance paid by the FI to final recipients.

Holding fund managers had to report to member states or managing authorities and to monitor the implementation of investments under the applicable rules. The regulations did not make specific provision for controls over FI implementation. The main rules were those set out for the whole OP. The guidance note on financial engineering

instruments issued by the committee for the coordination of the funds in 2010 and revised in 2012 (Committee of the Coordination of Funds, 2012) detailed that documentary evidence should be kept in relation to the establishment and operation of FI and the specific audit procedures. The regulations specified the frequency of monitoring, reporting and control procedures in relation to the implementation and audit reports, drafted and submitted annually to the Commission (art. 67 European Council, 2006).

2.5 Comparative overview of FI implementation in 2007–13

This section presents a comparative overview of the state of play on FI implementation. It presents and analyses the summary data on the progress made in financing and implementing FI at 31 March 2017 (European Commission, 2017b). It draws from the preliminary data analysis of FI (5.1.1), which uncovered patterns of delegation among member states. The definition of FI that is followed is the one outlined in Box 2-1.

A total of 1058 FI, 77 holding funds and 981 specific funds, were set up in 2007–13.[24] Of these, 897 funds (89%) provided business support, 52 (7%) targeted sustainable urban development investments and 32 (4%) financed energy efficiency and renewable energy projects. The contributions paid by managing authorities to FI amounted to €16.4 million (Column 3a- Table 2-5), out of which €11.3 million ERDF and ESF funds (Column 3c- Table 2-5) and €5.1 million of national public and private co-financing were paid to the OPs (Column 3d- Table 2-5). Of these, €10.8 million came from the ERDF and €0.5 million from the ESF, representing 5.4% of the total amount of ERDF and 0.7% of the total amount of ESF allocated to all 28 member states. Table 2-4 shows the number of funds set up in each country over subsequent years. Table 2-5 reports the OP commitments to FI and investments in final recipients in each member state, giving an indication of implementation rates in percentages. The data show constant increases in FI set up throughout the programming period in most member states and, on average, high levels of commitments and payments.

[24] Including one FI under a cross-border cooperation programme, identified as CBC Eurefi Interreg Sas in the summary report.

Table 2-4 | Number of FI per member state

	2017				2015				2014				2013				2012				2011			
		out of which				out of which				out of which				out of which				out of which				out of which		
MS	n. of FI	HF	FI with HF	FI without HF	n. of FI	HF	FI with HF	FI without HF	n. of FI	HF	FI with HF	FI without HF	n. of FI	HF	FI with HF	FI without HF	n. of FI	HF	FI with HF	FI without HF	n. of FI	HF	FI with HF	FI with out HF
AT	2	0	0	2	2	0	0	2	2	0	0	2	2	0	0	2	2	0	0	2	2	0	0	2
BE	9	0	0	9	9	0	0	9	9	0	0	9	9	0	0	9	9	0	0	9	9	0	0	9
BG	9	2	7	0	9	2	7	0	10	2	7	1	9	2	6	1	9	2	6	1	5	2	3	0
CY	5	1	4	0	5	1	4	0	5	1	4	0	5	1	4	0	4	1	3	0	4	1	3	0
CZ	7	2	3	2	6	2	2	2	5	1	0	4	4	1	0	3	4	2	0	2	3	1	0	2
DE	44	0	0	44	45	0	0	45	45	0	0	45	46	0	0	46	41	0	0	41	42	4	4	34
DK	9	0	0	9	9	0	0	9	9	0	0	9	9	0	0	9	6	0	0	6	6	0	0	6
EE	6	0	0	6	6	0	0	6	6	0	0	6	6	0	0	6	6	0	0	6	6	0	0	6
EL	34	4	29	1	33	4	28	1	32	4	27	1	31	4	26	1	26	4	21	1	14	4	10	0
ES	25	4	6	15	26	4	6	16	16	4	5	7	14	3	4	7	15	6	7	2	9	4	4	1
FI	2	0	0	2	2	0	0	2	1	0	0	1	1	0	0	1	1	0	0	1	1	0	0	1
FR	152	4	19	129	133	2	17	114	120	2	17	101	84	2	17	65	95	2	17	76	111	3	4	104
HU	139	1	137	1	137	1	135	1	170	1	168	1	165	1	163	1	185	1	183	1	3	1	1	1
IT	137	21	35	81	146	23	33	90	128	20	23	85	114	18	21	75	95	13	15	67	80	14	14	52
LT	34	4	29	1	34	4	29	1	36	4	31	1	36	4	31	1	33	4	28	1	29	4	24	1
LV	15	1	10	4	15	1	10	4	15	1	10	4	13	1	8	4	10	1	5	4	9	1	5	3
MT	2	1	1	0	2	1	1	0	2	1	1	0	2	1	1	0	2	1	1	0	2	1	1	0
NL	11	1	2	8	12	1	3	8	11	1	2	8	9	1	2	6	8	1	2	5	5	0	0	5
PL	247	15	139	93	257	15	149	93	248	15	139	94	231	14	125	92	247	16	128	103	139	13	54	72
PT	56	3	43	10	57	3	44	10	56	3	44	9	58	3	39	16	50	3	34	13	19	3	7	9
RO	4	1	3	0	4	1	3	0	4	1	3	0	4	1	3	0	3	1	2	0	3	1	2	0
SE	11	0	0	11	11	0	0	11	11	0	0	11	11	0	0	11	11	0	0	11	11	0	0	11
SI	7	1	5	1	4	1	2	1	3	1	1	1	3	1	1	1	4	1	2	1	10	1	8	1
SK	14	1	12	1	14	1	12	1	7	1	5	1	5	1	3	1	1	1	0	0	1	1	0	0
UK	76	10	28	38	73	10	28	35	74	10	27	37	70	10	27	33	73	10	27	36	68	9	27	32
Tot	**1057**[1]	**77**	**512**	**468**	**1051**	**77**	**513**	**461**	**1025**	**73**	**514**	**438**	**941**	**69**	**481**	**391**	**940**	**70**	**481**	**389**	**591**	**68**	**171**	**352**

Source: Adapted from summary data at closure (European Commission, 2017b).

Notes: FI reported at the end of 2011, 2012, 2013, 2014, 2015 and at 31 March 2017.

[1] CBC Eurefi Interreg Sas FI excluded.

Table 2-5 | Amounts committed in funding agreements paid to FI and invested in final recipients – 2007–13

1	2a	2b	3a	3b	3c	3d	4a	4b	4c
MS	OP contributions								
	Committed in funding agreements (€m)		Paid to FI				Paid to final recipients		
	Amount	Of which structural funds	Amount (€m)	% of commitment (%)	Of which structural funds (€m)	Of which national co financing (€m)	Amount (€m)	% of payment (%)	% of commitment (%)
AT	26.79	10.27	26.79	100	10.27	16.52	21.38	80	80
BE	417.87	167.71	417.87	100	167.71	250.16	427.75	102[2]	102
BG	382.00	324.70	382.00	100	324.70	57.30	356.88	93	93
CY	20.00	17.00	20.00	100	17.00	3.00	18.32	92	92
CZ	285.57	158.56	284.73	100	157.85	126.88	257.68	90	90
DE	1,737.20	1,101.23	1,678.60	97	1,066.84	611.76	1,578.80	94[2]	91
DK	88.00	39.07	88.00	100	39.09	48.92	81.22	92	92
EE	200.00	124.66	200.00	100	124.67	75.33	197.13	99[2]	99
EL	1,081.18	1,081.17	1,081.18	100	1,081.18	0.00	1,033.10	96	96
ES	988.55	767.59	988.55	100	767.59	220.96	594.83	60[2,4]	60
FI	85.22	39.94	59.27	70	28.45	30.82	57.33	97	67
FR	473.60	214.44	442.02	93	202.51	239.51	732.97	166[2]	155
HU	890.31	759.29	867.34	97	737.24	130.10	829.67	96[2]	93
IT	4,918.74	3,114.24	4,850.52	99	3,073.82	1,776.70	4,006.06	83[2]	81
LT	507.32	417.99	453.74	89	418.00	35.74	620.11	137[2]	122
LV	215.04	159.64	214.94	100	159.64	55.30	194.74	91	91
MT	12.00	10.20	12.00	100	10.20	1.80	10.67	89	89
NL	78.52	22.88	75.40	96	21.00	54.40	56.13	74[2]	71
PL	1,311.91	1,112.77	1,269.59	97	1,076.85	192.74	1,184.74	93[2]	90
PT	610.38	368.65	442.99	73	368.40	74.60	624.53	141[3]	102
RO	225.00	193.50	225.00	100	193.50	31.50	244.74	109[2]	109
SE	165.49	76.20	157.47	95	72.25	85.22	133.73	85	81
SI	193.06	164.10	193.06	100	164.10	28.96	171.99	89	89
SK	385.07	327.31	384.70	100	327.00	57.71	349.04	91	91
UK	1,664.63	721.95	1,566.42	94	696.71	869.71	1,407.18	90[2]	85
TOTAL									
SUM	**16,963.45**	**11,495.06**	**16,382.18**		**11,306.55**	**5,075.63**	**15,190.72**		
AVE[5]				**96%**				**97%**	**92%**

Source: Adapted from summary data at closure (European Commission, 2017b).

Notes: **[1] FI = holding funds and specific funds implemented without a holding fund.**

[2] Over reporting of payments to final recipients: a. through revolving amounts, b. interest from treasury management or c. 'overbooking'. This is about €900 million, which represents about 6% of the total amount reported as payments to final recipients. Half stems from over reporting in holding funds (mainly in PL, IT, LT, RO, SI), half from specific funds not implemented through HF (mainly in BE, FR, IT, PL). Almost the whole amount relates to enterprise support.

[3] In Portugal and the UK for some specific funds additional OP contributions (national public or private co-financing) were added at the level of specific funds, which amount to €264 million additional OP contributions. In Portugal the amount paid to final recipients exceeds the amount paid to holding funds.

[4] In Spain a relatively low disbursement rate is mainly due to one instrument having encountered difficulties in implementation.

[5] Average.

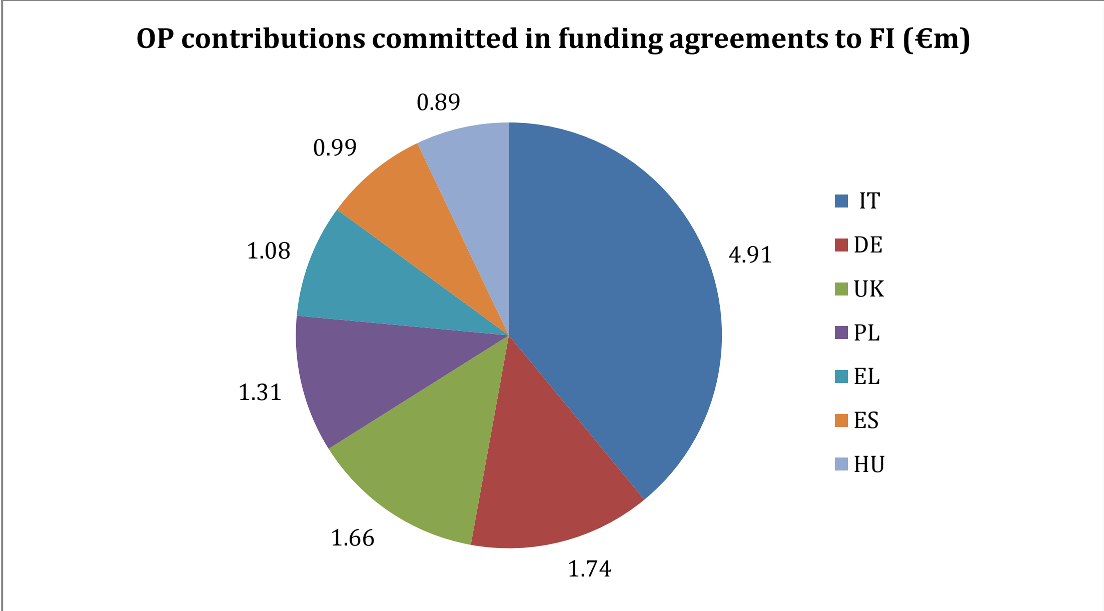
Table 2-6 ranks member states from the largest to the smallest users of FI, based on OP resources committed to funding agreements, paid into financial instruments and to final recipients, which should provide an indication of effective FI management. This data shows that Italy, Germany, the United Kingdom, Poland and Greece are the five top users of FI in CP (Figure 2-5). They not only committed the most, but consistently allocated the most resources to FI and implemented the funds according to plans. With over €4 million being distributed through repayable assistance, Italy was the largest player in CP implementation through FI. The other countries listed just below Italy had similar levels of use of FI. By including Spain and Hungary in the calculations, the data shows that the seven top users managed a volume of repayable funding that was three times larger than the sum of funding channelled through repayable assistance in the remaining 18 member states (Figure 2-6).

Table 2-6 | Ranked OP contributions committed in funding agreements, paid to FI, and paid to final recipients – 2007–13

MS	Ranked OP contributions (€m)		
	Committed in funding agreements to FI	Paid to FI	Paid to final recipients
IT	4,918.74	4,850.52	4,006.06
DE	1,737.20	1,678.60	1,578.80
UK	1,664.63	1,566.42	1,407.18
PL	1,311.91	1,269.59	1,184.74
EL	1,081.18	1,081.18	1,033.10
ES	988.55	988.55	829.67
HU	890.31	867.34	732.97
PT	610.38	453.74	624.53
LT	507.32	442.99	620.11
FR	473.6	442.02	594.83
BE	417.87	417.87	427.75
SK	385.07	384.7	356.88
BG	382.00	382.00	349.04
CZ	285.57	284.73	257.68
RO	225.00	225.00	244.74
LV	215.04	214.94	197.13
EE	200.00	200.00	194.74
SI	193.06	193.06	171.99
SE	165.49	157.47	133.73
DK	88.00	88.00	81.22
FI	85.22	75.40	57.33
NL	78.52	59.27	56.13
AT	26.79	26.79	21.38
CY	20.00	20.00	18.32
MT	12.00	12.00	10.67

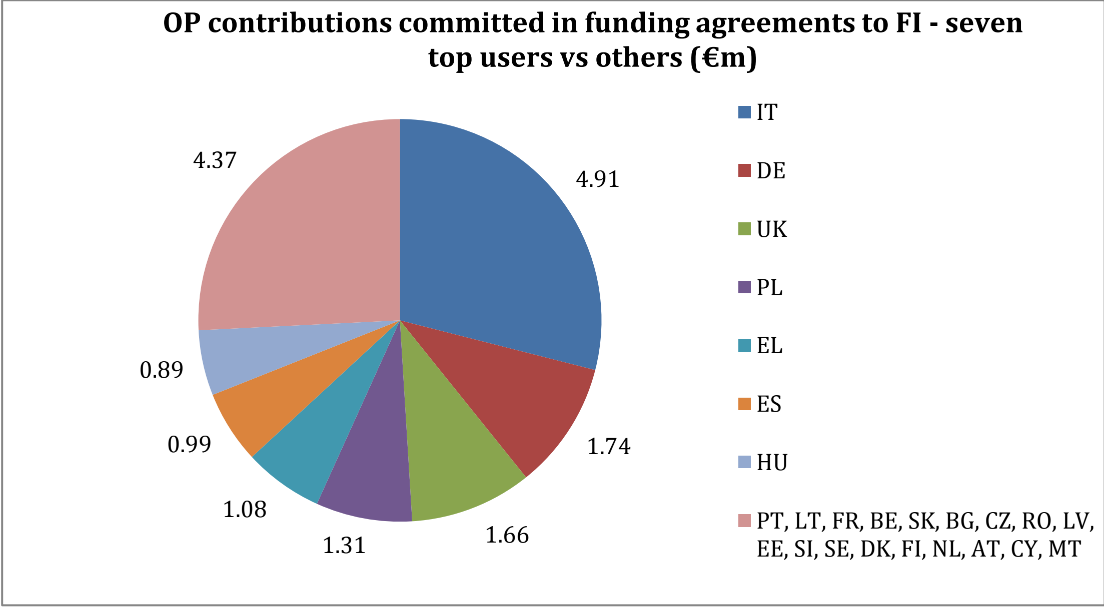
Source: own elaboration based on **summary data at closure (European Commission, 2017b).**

Figure 2-5 | FI top users



Source: own elaboration based on **summary data at closure ([European Commission, 2017b](#))**.

Figure 2-6 | FI top seven users vs 18 smaller users



Source: own elaboration based on **summary data at closure ([European Commission, 2017b](#))**.

2.5.1 Actors

Mapping out the actors is an important preliminary step for understanding the governance of and also the accountability systems in place for FI implementation. The summary reports (European Commission, 2014b, European Commission, 2015, European Commission, 2016, European Commission, 2017b) showed the name of the fund managers, but provided no indication of the legal status of the actors involved in FI implementation. Also, they did not include any information on the procedure applied to the selection of the financial institutions (i.e. direct appointment or public procurement). This was a limitation of the summary data, as they did not immediately allow the identification of the legal nature and ownership of the actors involved as fund managers. The scope for independently researching the legal nature of the actors involved is restricted by linguistic barriers and the specialist knowledge of corporate law and legal systems needed to map out these actors across all member states. It was the acknowledgement that such gaps existed in the data that provided the rationale for the preliminary analysis conducted in this thesis and the identification of public, private and mixed delegation modes (5.1).

Although providing quantitative data on the actors for all member states was not possible, this section presents some general observations based on the preliminary data analysis. One of the first insights was that the European Investment bank group (EIB and EIF)[25] played a central role in the management of funds. Of the 972 ERDF co-funded FI reported by managing authorities in 2015, 31 were managed by the EIB group (European Court of Auditors, 2016). The EIB's main activity is lending money and, to a lesser extent, offering guarantees, micro-finance and equity investments.[26] However, from 2007–13, the bank was also involved in the management of holding funds on behalf of national and regional authorities (van der Zwet et al., 2016).

Beyond the investment bank, a heterogeneous group of actors took over fund management duties. Based on the summary reports, a non-exclusive list of bodies included:

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[25] The European Investment Bank is the bank of the European Union. Its shareholders are all 28 member states in the European Union, based on their GDP at the time of accession. Its four main shareholders are Germany, France, Italy and the United Kingdom, all contributing the same share to the capital of the bank. Blending loans with other EU budget sources and advising on administrative and investment management capacity are also part of the bank's remit.

[26] http://www.eib.org. Last accessed 29/04/2019.

a. private fund management companies
b. mutual guarantee institutions
c. public banks, either national or regional
d. private banks
e. regional development agencies
f. credit institutes
g. business associations/chambers of commerce
h. departments within national ministries, or agencies on their behalf
i. public, private, public–private financial companies.

Managing authorities often reported the name of the funds in the column where the name and legal status of the fund manager should be reported, revealing a confusion of roles. If funds existed as independent legal entities, i.e. companies in effect, they still required a duly mandated representative to carry out fund management duties, which indicates that the list of actors involved as fund managers was longer than the data collected in the summary report suggests.

2.5.2 Structures

Based on article 44 of Council Regulation (EC) 1083/2006, FI could operate through two structures: holding funds and specific financial instruments outside holding funds. Managing authorities set up 1,058 financial instruments co-financed by ERDF and ESF resources in 2007–13. Of these, 469 were specific FI, while 77 of the 1,058 took the form of holding funds with 512 funds below them. About 70% of these holding funds were organized as separate blocks of finance within an existing financial institution and 30% were established as independent legal entities, governed by agreements signed between the co-financing partners and the shareholders. As shown in Box 2-1, every funding agreement (contract) between a managing authority and a fund was considered a separate FI for the purposes of the summary reports. For instance, managing authorities reported resources from two different OPs going into one instrument as one FI (e.g. Hungary) or two FI (e.g. the UK). In other instances, some entries seemed to show new tranches of funding to the same FI, but were reported separately, potentially because they involved a new agreement (e.g. Poland). In a few cases in Poland and Hungary, managing authorities reported a fund procured for delivery at local level as several FI, though only one 'financial product' applied (Wishlade et al., 2016a).

Holding funds and specific FI differed in scale (Table 2-7). Holding funds received contributions from as few as one and as many as ten different OPs and contributed to a minimum of one and a maximum of 139 specific funds. Italy is the country that set up most holding funds in 2007–13. Excluding those countries that only use specific FI, France is the biggest user of specific FI (85% of its funds). The following tables summarize key information on fund scale.

Table 2-7 | Holding funds vs specific FI – key figures

Parameters	Holding fund	Specific FI
Average contributions	€100m	€20m
N. funds exceeding €100m	23	16
N. funds with low contributions	12 (less than €15m)	89 (less than €1m)
Smallest fund	€0.3m	€1m
Biggest fund	€822m	€100m

Source: own elaboration based on **summary data at closure (European Commission, 2017b).**

Table 2-8 | Holding fund – top users

MS	Holding funds + funds underneath (n.)
Italy	21 + 35
Poland	15 + 139
United Kingdom	10 + 28
France	4 + 19
Spain	4 + 16

Source: own elaboration based on **summary data at closure (European Commission, 2017b).**

Table 2-9 | Specific FI – top users

MS	Specific FI[1] (n.)
France	129 (152)
Poland	93 (247)
Italy	81(137)
Germany	44 (44)
United Kingdom	38 (76)

Source: own elaboration based on **summary data at closure (European Commission, 2017b).**

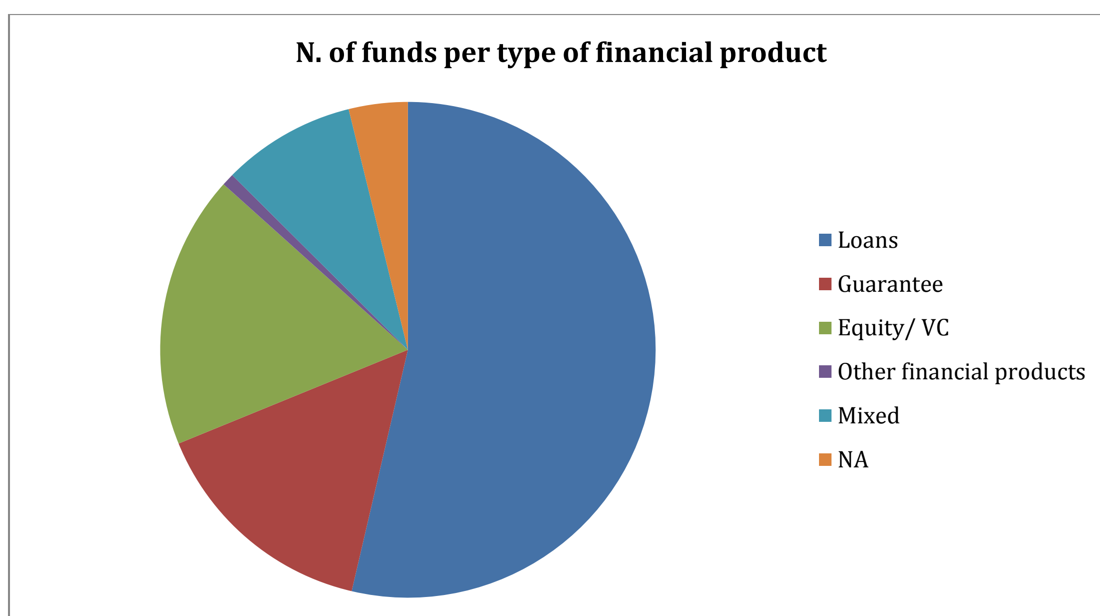
Note: [1] Total FI set-up in the country in parenthesis.

2.5.3 Financial products

FI can offer equity, loans or guarantee products. In 2007–13, most FI co-funded with CF offered loans (Figure 2-7): a total value of €8,491.47 million was provided through loan FI, of which €6,360.14 million came from the ERDF or ESF. Almost two thirds of loans were provided to micro-enterprises or individuals under urban development or energy efficiency projects, making micro-finance the most used form of loan. Guarantees were the second most-offered product. Managing authorities issued guarantee products and other risk-bearing products to final recipients to a total value of €3,717.27. Out of these, €2,539.73 million came from contributions from the structural funds. This product was almost exclusively used for the support of enterprises and, to a minor extent, for energy efficiency and renewable energy support. The least offered of the mainstream financial products were equity and quasi-equity products. A total value of €2,694.52 million was made available to final recipients in this form, of which €1,492.35 million came from ERDF and ESF resources. Equity investments mainly supported enterprises, with few examples in the other two areas. Lastly, a total volume of €288.92 million (€162.26 million from ERDF and ESF) was offered to final recipients through other financial products, which include interest rate subsidies, guarantee fee subsidies and equivalent measures.[27] The Commission noted that the number may be overstated due to some funds reporting quasi-equity products under 'other financial products'.

[27] Considered as an FI when they are combined with loans or guarantees co-financed from structural funds in a single funding package.

Figure 2-7 | Specific funds set up, per product offered



Source: own elaboration based on **summary data at closure (European Commission, 2017b).**

The financial products used varied significantly across member states. 20 member states reported 530 loan FI, with loans being the most common form of funding in 15 member states. Austria, Finland, Malta, Sweden and Slovenia did not offer any loans. 17 countries set up 150 guarantee FI. Guarantees were the most common financial product offered in Poland and Italy, and Malta only offered guarantees. 16 member states established 176 FI offering equity and quasi-equity products. Equity was the most common financial product offered in Portugal and the only form used in Sweden. Specific FI offering other financial products were set up in Estonia, France, Italy and Portugal. Managing authorities across the EU set up 86 mixed funds, mainly providing loans in combination with guarantees and, to a lesser extent, loans combined with equity. Lastly, six funds provided all products: equity, loans and guarantees, while for 38 funds the information was missing.

2.6 Chapter summary

This chapter has presented the area to be investigated by the thesis: FI in CP. It first defined equity and debt instruments and presented the main themes emerging from the literature. According to the literature, governments mainly use FI offering equity, loans or guarantee products, because of credit access constraints for certain businesses or business sectors, and because of the geographic distribution of finance. Second, the chapter introduced CP, tracing its evolution, key features and implementation

arrangements (including actors and responsibilities). Cohesion policy is one of the most financially significant policies in the EU budget, it went through a process of constant reform and is characterised by arrangements that are specific to the national and sub-national contexts where it operates. Third, the chapter examined the use of FI in CP. It outlined the rationale, evolution, key trends and governance arrangements. It then reviewed the regulatory framework applicable to FI in 2007–13 implementation, which for the first time gave FI the status of separate policy tools.

Last, it analysed the implementation patterns among all member states. Financial instruments' use increased substantially over various programming periods due to the perceived benefits for their use in comparison to grants. FI have own characteristics because they involve a new set of actors and apply new structures for policy delivery. It is especially since the 2007–13 period that FI gained financial significance, however this was only partially accompanied by clear regulations. In terms of performance, FI had a slow take–off in 2007–13, which persisted in 2014–20. There were implementation delays, difficulties with their set up and with finding suitable projects to invest in. Also, the seven–year programming period does not suit the longer investment window required for some types of instruments, therefore it is difficult to evaluate outcomes within one period. The 2007–13 programming period was the testing ground for the following periods. The regulatory framework had clear improvements in 2014–20. The European Commission, DG Regio, Commissioner Crețu and President Juncker strongly encouraged FI use, however both the European Parliament and ECA urged to examine the actual effectiveness of FI under CP and the implications of their increased use for the EU budget.

This chapter is an important building block for the rests of the thesis. It set the scene for the thesis and identified the two major issues to be addressed. First, the need for more academic research focusing on FI in the meaning adopted by the EU institutions, second, the need to examine the policy implications of the introduction of a distinct new strand in CP governance. The following chapter presents the theoretical and analytical framework through which this will be carried out.

3 Theoretical framework

This thesis examines the new governance mechanisms required by financial instruments in CP, which are distinct from those required for grant-based support. The aims of the thesis are to explore the implications of new modes of delegated governance in CP and the relationship between delegated governance in CP and public accountability. This chapter sets out the theoretical framework for the study. It first outlines delegated governance in CP. Second, it defines the concepts underlying principal–agent (p–a) problems. Third, it summarizes the key approaches adopted in the study of delegation, reviewing studies from the United States (US) and the European Union (EU) and their application to CP. An appraisal of the main debates within the public accountability literature follows, with key elements of the p–a framework being discussed at the end of the literature reviews. The chapter further defines the general research aims and research questions of the thesis and, finally, outlines the assumptions made.

3.1 The study of delegation

The study of delegation draws on assumptions from rational choice theory and often applies the p–a framework. Research on delegation has two main traditions, the first developed in the US from the 1970s, the second developed in the EU about 20 years later. Until the mid-1990s, most of the literature centred on issues of control and delegation to bureaucratic agencies in the US and, in particular, on relations between political principals and administrative agents. Many of the early studies did not systematically organize key assumptions in formal models (McCubbins and Schwartz, 1984, McCubbins et al., 1987), but later studies did so (Epstein and O'Halloran, 1994, 1996, 1999a, 1999b). In the first wave of delegation studies, historically grounded examples of delegation to executive or regulatory agencies were used to observe the actual behaviour of agents, e.g. McCubbins (1985). In the following decades, the focus of the analyses shifted to investigating the strategic decisions on the powers delegated to agents and the control mechanisms established to limit their autonomy. When this literature moved to the EU, a need emerged to adapt the core assumptions to the particular nature of EU institutional organization. Early studies of delegation in the European tradition focused on the delegation to EU supra-national institutions, the so-called delegation 'to the EU' (Pollack, 2003a, Pollack, 1997), while more recent studies examined the patterns of interinstitutional delegation 'within the EU' (Meunier and Nicolaidis, 1999, Damro, 2007, Da Conceição-Heldt, 2011, 2013 among others).

3.1.1 Delegated governance in Cohesion policy

Governance arrangements distribute resources and responsibilities for tasks within and between offices in the public and private sectors. This distribution links the interests of various stakeholders with government activities (Lynn et al., 2000). Governance arrangements involve both formal and informal authority exercised by actors involved in implementing public policy in various capacities. The study of governance in policy implementation distinguishes two perspectives: one relies primarily on formal devices of command and control that centralize authority; the other relies on informal devices of delegation and discretion that disperse authority (Elmore, 1979). The study of governance, therefore, includes the examination of the actors involved in policy implementation and their formal and informal responsibilities.

Various actors at EU, national and sub-national levels participate in governing CP, and it is the involvement of these actors which explains why multi-level governance (MLG) literature has primarily been used to analyse CP. Multi-level governance, a term coined by Marks (1993), explained the roles of different levels of authority and jurisdictions and their interaction in the EU policy process (Marks, 1993, 1996, Hooghe, 1996b, 1996a, Rhodes et al., 1996, Bache, 1999, Hooghe and Marks, 2001). MLG emerged as a conceptual framework, following the major reform of the structural funds in 1988 and attempted to explain the fundamental principles of CP programming and implementation. Initially, the involvement and empowerment of a new category of actors – sub-national authorities – in policy-making attracted the most attention. Sub-national authorities were either created *ex novo* or strengthened for the purpose of administering structural funds. In terms of power relations, sub-national authorities could now access structural funds and negotiate their programmes directly with EU institutions (Baun and Marek, 2014).

A redistribution of powers between different levels of government (EU, national, sub-national) and between government actors (regions, local authorities) followed the introduction of the principles of concentration, programming, partnership and additionality (Marks, 1993). The observation of such patterns made some MLG scholars argue that sub-national actors and supra-national institutions had been empowered to the detriment of the state (Marks, 1993, Jones and Keating, 1995, Hooghe, 1996a, Marks, 1996, Caporaso, 1996, Hooghe and Marks, 2001). Thus, early debates within MLG focused on the conceptualization of patterns of governance (Smith, 1997, Bache

and Flinders, 2004), the role of the Commission vis-à-vis member states (Pollack, 1995) and the role of member states vis-à-vis sub-national authorities, where states acted as gate-keepers (Bache, 1999, Bailey and De Propris, 2002). A second stream of studies centred on the debates over the centralization/nationalization *vs* decentralization of CP (Sutcliffe, 2000, Bachtler and Mendez, 2007), including the local dimension (Bruszt, 2008) and the Europeanization of domestic regional development policies (Conzelmann, 1998, Benz, 2000, Marshall, 2005). A third stream of studies analysed the horizontal involvement of NGOs and private actors through the partnership principle and discussed the potential empowerment of such organizations. In this context, scholars thoroughly examined the role of networks (Rhodes et al., 1996), the conflicts between levels of government (Bauer, 2002, Gualini, 2003) and the mobilization of societal actors (Heinelt and Lang, 2011, Dąbrowski, 2013).

As noted (2.2.3), various actors are in charge of implementing OPs: managing authorities, certifying authorities and audit authorities, intermediate bodies and monitoring committees. MLG studies have widely examined the upper level of relationships between sub-national authorities represented by regional managing authorities and their counterparts at national (national ministries/agencies) and EU level (the European Commission). However, MLG scholars have rarely examined the meso-level relations between implementing actors and the balance of powers among them. The relationships between managing authorities and the further levels of delegated governance, such as the role of intermediate bodies, or the distribution of responsibilities within the public sector remained largely unexplored by MLG scholars. In particular, the involvement of different categories of actors in policy-making has received scant attention.

Policy and other academic research has instead analysed the practical dimension of CP governance. Taylor et al. (2000), for instance, shed light on the variation in project development, appraisal and selection practices among member states, while Molle (2007) and Stephenson (2016) mapped out the variety of tasks performed by intermediate bodies. Intermediate bodies may be in charge of selecting, contracting, monitoring and evaluating co-financed projects and drafting performance reports. Ferry et al. (2007) mapped out the various actors involved in the governance of CP. They identified managing authorities as the key players in project management, with a variety of bodies being delegated implementation functions. A non-exclusive list included government authorities, agencies, domestic regional policy bodies/agencies,

dedicated bodies such as structural fund secretariats, competent organizations or committees and specific departments in domestic policy bodies. Bachtler and McMaster (2008) examined the varied nature of delegated arrangements in Central Eastern Europe. They found that some managing authorities entrusted management and control duties to intermediate bodies and implementation functions to implementation bodies, while others decided to delegate only implementation functions to intermediate bodies. Having mapped out the various actors, these scholars did not explicitly focus on the implications of shifting responsibilities to 'external' actors.

Scholars assumed that decentralized governance arrangements, e.g. through regional operational programmes, would grant greater decision-making autonomy to sub-national actors (Mendez and Bachtler, 2017). Devolved governance arrangements were hypothesized to enhance accountability by bringing policy-making closer to the citizens (Polverari, 2015). Devolved, decentralized systems of governance may be expected to provide greater scope for place-based leadership in the development of strategies and actions in sub-national territories (Bentley et al., 2017). However, the entrustment of fund management functions in FI implementation creates additional levels of delegated governance, with two main implications for CP. First, delegation of fund management functions to actors outside the public sector means a shift in the governance of CP (Dąbrowski, 2014); second, it requires strengthened scrutiny of such actors (Wishlade and Michie, 2017).

3.1.2 Innovations in the delegated governance of Cohesion policy

Financial instruments introduced a distinct new strand to CP governance from 2007–13 and new governance mechanisms, distinct from grant-based CP support. The innovations relate to actors, relationships, structures, rationale and products. The first innovation was that FI involved a new category of actors – fund managers – that did not exist before and entrusted them with the management of public resources. As noted (2.2.3), OP authorities are actors internal to the public sector, intermediate bodies may involve internal or external, public or private entities, while monitoring committees combine actors from within the public sector with socio-economic partners. FI created a new category of actor, the fund managers. Managing authorities had ample discretion in selecting the financial institutions (p.36) to operate as fund managers.

The second innovation was that FI created new relationships between the actors traditionally involved in CP at programme level and the new actors, the fund managers.

Until the development of FI, managing authorities could only officially entrust formal implementation tasks to intermediate bodies. Therefore, a direct relationship was only established officially between the managing authority and intermediate bodies. With FI, however, managing authorities could delegate a large part of their implementation functions to fund managers. Fund managers took investment decisions and managed the resources held in the FI. They could sometimes be identified as intermediate bodies, depending on the institutional arrangements, but more often they were simply fund managers. Since fund managers could be public, private or mixed bodies, FI could be argued to change core relationships in FI implementation, by providing an option of shifting responsibilities outside the public sector.

The third innovation was an important difference in policy delivery. Managing authorities or intermediate bodies were responsible for payments to final recipients, after project selection (Ferry et al., 2007). Traditionally the payments took the form of grants. FI, however, did not involve a direct distribution of resources, because a fund must be first set up to hold the resources from which the investments will be made. Importantly, different FI structures entailed different degrees of complexity. With specific funds, there was only one additional step between project selection and payments, while with holding funds there were two steps: first, managing authorities paid resources into the holding fund and, second, the holding fund transferred the resources needed for investments to the individual specific funds. It was from these resources that payments were made to the final recipients. FI structures involved one or two more layers between managing authorities/intermediate bodies and final recipients than grants did.

A fourth innovation was that FI introduced new rationale for policy delivery. Broadly, managing authorities could use repayable funds to achieve a sustainable and efficient use of public resources, while enhancing project quality (European Commission, 2014b, Wishlade et al., 2016a) or to fill a gap in the market provision of finance (Cowling, 2012). Each managing authority could set up FI for different reasons, depending on the policy objectives they aimed to achieve. In any case, they had to finance projects with prospective returns on investments (Wishlade et al., 2017). This was a critical policy design issue and important difference between grants and FI.

The last innovation was that a range of financial products (equity, loans, guarantees) had become mainstream for the delivery of EU CP from 2007–13. Grants were the most

traditional of the forms of delivery that governments had at their disposal, together with tax rebates (Salamon, 2001). They were also the most straightforward, as they were easy to administer and involved limited additional effort from the public sector once the subsidy was paid (Wishlade et al., 2016a, Wishlade and Michie, 2017). FI, however, offered a range of diverse financial products (equity, loans, guarantees), with the only common aspect being that they were repayable. Compared to grants, FI were more complex to set up, more difficult to administer and required *ex post* monitoring of investment performance and returns (Michie et al., 2014).

Each of these innovations created scope for deep changes in policy implementation. This thesis argues that FI introduced a distinct new strand to CP governance from 2007–13. The involvement of new actors changed the relationships within CP governance and the new structures created additional levels of delegated governance. Delegation is a defining feature of CP implementation, and the literature on delegation, and in particular the p–a approach, is relevant and particularly suitable to a study of these new modes of delegated governance. This literature is well equipped to identify the problems and solutions adopted before and after an act of delegation and examine the accountability arrangements. Because FI delivered regional development objectives, it was essential for a principal either to select agents with an interest in regional development or to tailor the institutional design and control mechanisms to ensure the agent works towards these objectives. Separately, it was necessary to hold actors accountable for performing their delegated duties, especially when setting clear tasks and goals was difficult to achieve, given the heterogeneous nature of the actors involved. These interlinked elements form the basis for the study of the new forms of delegated governance using a p–a and public accountability approach.

3.1.3 The principal–agent problem: setting the scene

The p-a framework[28] hinges on rational choice assumptions. Individuals[29] act according to their own interests, ranked in order of preference. The interests of individuals may clash with those of wider society, which prompts the state to intervene in order to

[28] P-a can be referred to as a theory, framework, model or approach, depending on the researcher orientation and the role accorded in the research. Because p-a is recognized as a middle-range theory, this thesis will mostly refer to 'the principal–agent framework' or 'approach'. 'Middle-range theories provide a set of hypotheses – sometimes even broad guidelines rather than clearly formulated hypotheses, which serve as a guide for the conduct of the research' (Vennesson, 2008).

[29] For the purpose of this study, the terms 'agent' and 'agency' are used to refer to the individual or the institution.

restore access to public goods. The public policies enacted by governments, however, are not exempt from these same problems. Policy implementation often involves the delegation of responsibilities to civil servants and other actors outside the public sphere, who act according to their own preferences, and who may drift away from socially desired outcomes. For rational choice scholars, therefore, the crucial issue is how to ensure that delegated bodies operate in line with the public interest (Hindmoor, 2006, Cairney, 2012). There are two main reasons for delegating powers: to reduce decision-making costs, or to enhance the credibility of policy commitments. If the logic is to enhance cost-efficiency, then principals face the problem of agency drift, and will select an agent with similar policy preferences. If the purpose is to achieve credibility, principals will be better to select an agent independent from the principal (Majone, 2001). Because one of the intermediate aims of the thesis is to assess how public accountability and compliance are ensured in policy implementation, this thesis applies the first of these two perspectives.

The p-a framework hinges on these assumptions and has been extensively applied to studying the delegation of policy implementation from one person or institution (the principal) to another (the agent).[30] In its simpler configuration, no assumption is made on the nature of the principal (political, administrative, managerial), who is assumed only to hold a higher authoritative position vis-à-vis the agent. Initially, principals have two options available: to delegate policy execution to an agent, or to carry it out themselves (Bendor and Meirowitz, 2004). However, policy implementation requires high levels of expertise and administrative capacity. As the principal will often have an intense workload with many roles and responsibilities, it may lack the time, capacity or expertise to carry out a specific policy measure. As such, delegation will be preferred to non-delegation in a situation in which a policy must be delivered.

Typically a contract establishes a delegated relationship. For the purpose of this research, a contract is an enforceable agreement assigning implementation functions to an agent and designing the boundaries of the agent's action. After the contract is in place, the agent can decide either to respect its terms or to move away from the contract's stated goals (drift away). Why would an actor behave one way or the other?

[30] A good review of principal-agent models is carried out by MILLER, G. J. 2005. The political evolution of Principal-Agent models. *Annual Review of Political Science,* 8**,** 203-225. Specifically on principal-agent and delegation within bureaucracies see GAILMARD, S. & PATTY, J. W. 2012. Formal models of bureaucracy. Ibid.15**,** 353-377.

It is asserted that, because the relationship is dominated by the behavioural assumption of opportunism, three elements make up the p–a problem (Kiewiet and McCubbins, 1991:24-34). These are:

a. hidden action
b. hidden information or the problem of information asymmetries
c. Madison's dilemma.

On a., the principal ignores the exact action of the agent, specifically whether the agent will comply with the instructions on policy execution. The action is hidden, not observable. On b., the information is hidden in that the agent typically holds an information advantage, by retaining specific knowledge on the policy or decision to be taken. The principal suffers information asymmetry, as he cannot know all that the agent knows, which also increases the risk of moral hazard. These information asymmetries feed into a separate problem c. – Madison's dilemma. Agents can decide either to use the information strategically or to conceal it. In so doing, they may be motivated to use delegated powers and resources against the principal. Accordingly, after the decision to delegate is taken, the principal must prevent the agent from using its powers against him. Delegation is essentially a trade-off between power/authority (traded by the principal) and the expertise or the time required to carry out a policy measure (traded by the agent) (Kiewiet and McCubbins, 1991, Bendor et al., 2001). Opportunism, hidden actions, information asymmetries and the risk of non-compliance result in what is termed the *'principal's problem'* (Ross, 1973). The literature found four solutions to this problem, which are grouped by their applicability over time. In the delegation literature, these are the control mechanisms which can be used by the principal before and/or after delegation (see Table 3-1).

Table 3-1 | Control mechanisms

Time	Control mechanism
Ex ante	**Contract design.** The process through which tasks and responsibilities are assigned to an agent and a corresponding schedule for compensation is defined (Kiewiet and McCubbins, 1991). Contracts can be based on the behaviour of the agent or the outcome to be achieved (Eisenhardt, 1989). They may include incentives, rewards and sanctions. The notion of contract design encompasses wider institutional design decisions on structures and process (McCubbins et al., 1989). Epstein and O'Halloran (1999b) refer to contracts as mandates, which can set broad or narrow rules to constrain the action of the agent.
	Screening and selection mechanisms. The tools through which a principal can *'identify those individuals who possess the appropriate talents, skills and other personal characteristics'*, before entering into a contractual relationship (Kiewiet and McCubbins, 1991:30). Since neither the principal nor the agent have complete information, screening the agent can help identify the characteristics that a principal seeks.
Ex post	**Monitoring and reporting.** The procedures through which the agent is required to report on information obtained and actions undertaken. There are two types of monitoring, as identifed by McCubbins and Schwartz (1984): *'police patrol'* – direct centralized action, *'fire-alarm'* – decentralized form of oversight. All things being equal, decentralized incentive-based oversight is more effective and less costly than direct, centralized surveillance.
	Institutional checks. The countermeasures taken to lower the chances that an agent may perform an action which can harm the principal's interests. These are usually enforced through third actors – for instance other agents not directly involved in the specific p–a relationship – or the courts, to veto or block unwanted behaviour on behalf of the agent (Kiewiet and McCubbins, 1991). This category includes the sanctions and rewards applied by the principal after delegation.

Source: own elaboration, based on authors referenced.

3.1.4 The p–a approach in delegation studies

Studies of delegation applying the p–a approach developed several concepts and principles, summarized in the following table and discussed in the subsequent sections.

Table 3-2 | Key elements of p–a in delegation studies

Concept	Defining elements
Institutional design/ Structures and processes	= the decisions taken before the act of delegation, in order to determine how an agent should operate. The trade-off is between flexibility for the principal and the responsiveness of the agency. The institutional design of an agency can be laid down in a contract, which defines its mandate. Broader features of the institutional design include the structures and processes in place, which set the boundary of the agent's behaviour.
Actor selection/ 'Ally principle'	Principals can decide to perform policy on their own or delegate its execution. If delegation is chosen, then principals are assumed to select an agent ideally with a similar position on policy outcomes to theirs. Related to this, the 'ally principle' posits that the more the preferences of principal and agent converge, the higher will be the degree of discretion granted to the agent.
Multiple principals	Each bureaucratic office is an agent to multiple principals, which creates problems in defining the level of authority agents should abide by. Multiple principals compete as actors using structures not only to constrain the agent, but also to establish themselves as the most influential actor over current and future agents.
Discretionary authority/ Autonomy	= the amount of authority awarded by a principal to an agent. This concept is linked to that of institutional design, but it encompasses two distinctive features. The 'politics of delegation' refers to the decisions shaping the act of delegation, while the 'politics of discretion' examines post-delegation politics, for instance factors determining the effectiveness of control or the conditions under which agents can drift away.
'Uncertainty principle'/ Complexity	= a situation in which decision-makers are unsure about the type of policy that should be preferred, for instance because greater complexity affects a policy area. This is represented by a random shock to a policy programme. The principle posits that the greater the uncertainty over policy outcomes, the higher the degree of discretion granted to the agent.

Source: own elaboration, based on Epstein and O'Halloran (1994), McCubbins et al. (1989), Bendor et al. (2001), Delreux and Adriaensen (2018).

3.1.4.1 The United States' tradition

The p–a problem was first conceptualized within a strand of economics known as transaction cost economics (TCE). It first focused on insurance problems between a lender and a borrower (Spence and Zeckhauser, 1971), which have important implications for FI, particularly for debt finance. Stiglitz and Weiss (1981) showed that, in equilibrium, a loan market can be characterized by credit rationing, because imperfect information leads to adverse selection of the borrower. Stiglitz (1989) identified p–a as the basic problem affecting bilateral relations in insurance, credit and rent-extraction. The p–a problem stems from the impossibility of the lender perfectly monitoring an action of a borrower. In addition, the attempt by the principal to extract as much rent (surplus) as possible from the agent is another source of p–a problems (Stiglitz and Weiss, 1981). These insights were then applied to the study of firms as

organizations, in particular to contractual relations inside a company (Alchian and Demsetz, 1972, Ross, 1973, Williamson, 1979, Williamson, 1981, Williamson, 1998) and the characteristics of optimal contracts (Hart and Holmstrom, 1986, Holmstrom and Milgrom, 1991).

The cross-fertilization from TCE to the study of public bureaucracies occurred in the early 1970s. Niskanen (1971), (1975) theorized that bureaucracies seek the maximization of their budgets and aim to secure a higher proportion of the overall budget in exchange for services rendered. Niskanen's work was criticized for assuming that bureaucracies were unitary actors. Nonetheless, his work paved the way for introducing the concept of transaction costs in studies of the public sector. In the early/mid 1980s, rational choice institutionalists based in the US started focusing on bureaucratic organizations, notably on the political control of bureaucracies. Weingast and Moran (1983) looked at the case of congressional control over the Federal Trade Commission and at the number and types of control mechanisms applied by the principal over the agent. Contrary to the widespread assumption that principals were the weaker partners, they argued that it was actually the principal (the US Congress in this case) that dominated the bureaucratic agent, through a wide net of incentives and the oversight role played by committees.

In the mid-1980s, Moe (1984), (1987) carried out a first assessment of the progress made in the literature on congressional control. He demonstrated that the theory outlining the principal's dominance had not been sufficiently specified and tested. His main claims are shown in Table 3-3.

Table 3-3 | Principal–agent framework and the study of public bureaucracy

Scope	Summary of key issues
General	The entire political structure is formed of a series of layers, wherein various p–a relationships occur at the same moment. Apart from the actors located at the top and bottom layer in the hierarchy, every other actor holds a dual role.
Specific	As individual preferences are difficult to measure, the motivation of principals to check whether agents pursue their mandates is crucial.
	Political principals cannot rely on incentive mechanisms used by private organizations, i.e. the economic distribution of surpluses. An alternative mechanism is 'slack', as suggested by Niskanen – that is, the discrepancy between the minimum cost of the service provided and the actual expenditure of the bureau.
	The reputation of bureaucrats and the feedback received by the principal on the agent's performance can mitigate information asymmetries.
	Political principals are expected to rely less on reputation and reporting, and more on the elaboration of *ex ante* structural and procedural constraints.
	There is an asymmetry between the number of principals and the number of agents: each bureau office is agent to multiple principals, which creates problems in defining the levels of authority they should abide by.
	The scope for efficient oversight is undermined by multiple principal-agent arrangements.

Source: own elaboration, based on Moe (1984).

Waterman and Meier (1998) took issue with the classic assumption that principals and agents are unitary actors. They argued that introducing multiple principals to a classic p–a model created two issues. One is that, with multiple principals, there is no clear identification of who is ultimately responsible. The second is that pure information asymmetry is unlikely in a context with multiple principals and, most likely also, multiple agents.

Following Moe's work, the focus of US scholars shifted from *ex post* control issues to *ex ante* institutional design decisions. McCubbins (1985) examined a situation in which a principal could choose between delegating policy implementation to an agent with regulatory powers or drafting detailed laws itself. McCubbins (1985) listed several issues which should be considered when the aim is efficiently constraining bureaucratic authority, namely:

a. the choice of the institutional setting
b. the regulatory scope
c. the choice of regulatory instrument, i.e. between incentive-based versus command-and-control mechanisms
d. the degree of procedural requirements
e. the rewards and sanctions included in the regulatory arrangement

f. the monitoring technology chosen.

Driven by all these concerns, a principal will attempt to minimize shirking or slippage by establishing appropriate institutional arrangements, especially with policies that are inherently conflictual, as these increase the likelihood of agencies moving away from the intended policy preferences (McCubbins, 1985).

McCubbins, Noll and Weingast's research on agency drift was a watershed moment in the study of delegation. It looked at the p–a problem from the perspectives of a coalition of actors enacting a new policy and the bureaucratic office in charge of policy execution. The coalition set the structure and defined the procedures for the agency to implement a specific policy. Assuming that three actors were involved, the agency could drift but stay within the triangle formed by each actor's preferences or drift outside the triangle. In the first case, no correction or punishment was possible, as the agent's action could not be observed in its entirety, while the second case is a perfect example of agency drift. In this instance, all three actors forming the enacting coalition may agree to an amendment of the policy or a sanction. Despite this, however, the new policy would not fully reflect the originally intended goals. Accordingly, the most effective tools to achieve policy stability were thought to be *ex ante* mechanisms, in contrast to measures applicable after delegation (McCubbins et al., 1987).

In their subsequent work on the political control of implementing agencies, McCubbins et al. (1989) developed a theory on the impact of structure and process over compliance in policy implementation. If the intended objectives could be clearly articulated in terms of policy outcomes, the best solution would be to set out, in law, precisely what the agency had to achieve and how to do it. However, such clear terms may be difficult to set or issues may emerge when defining the problem. An alternative method is to constrain the agency through its structures and processes. Structure and process determine the quantity, quality and completeness of available data and the extent to which policy choices have to be supported by this information. In addition, administrative procedures prevent the agent from presenting a fait accompli to the principal, by forcing the agency to *'move slowly, and publicly, giving politicians (…) time to act before the status quo is changed'* (McCubbins et al., 1989:442). Subjecting agencies to administrative procedures is an effective way to prevent agency drift.

Subsequent work by Moe built on the importance of structures and process for the study of public bureaucracy. It also pointed to four key limitations of the previous approaches. The first is that they do not acknowledge that multiple principals are competing actors, using structures not only to constrain the agent, but also to establish themselves as the most influential actors over the agent. The second limitation is that they do not take into account that political uncertainty about the future creates a commitment problem: principals are unable to constrain the agent's future actions, unless they create policies and structures that make the agency independent from future political control (by other principals), yet compliant to the agent's specific mandate. Third, the assumptions should be tested in different institutional contexts. Lastly, Moe interestingly highlighted the effectiveness of a bureaucracy as a crucial factor, as previous approaches had not done: *'for when the legislature imposes structures to stack the deck and otherwise constrain agency behaviour, it interferes with the agency's best applications of its own expertise and undermines its ability to perform'* (Moe, 2012:13-14). Ultimately, it is argued, effectiveness needs to be measured against the specific goals that are to be achieved, which vary as principals change (Moe, 1989, Moe, 1990, Moe and Caldwell, 1994, Moe, 1995).

From the 1990s, a new wave of studies developed formal models of delegation, centred on the assumption that principals strike a balance between *ex ante* provisions and *ex post* oversight. Bawn (1995), (1997) postulated a substitution or complementarity effect between *ex ante* and *ex post* instruments. If principals know that a set of efficient monitoring or sanctioning tools is available *ex post*, they will be more willing to relax the terms of the contract at the outset. This point was developed further by Epstein and O'Halloran. Their influential contribution is summarized in the following paragraphs.

Epstein and O'Halloran conceptualized in simpler terms the complex decisions taken by principals before the act of delegation (institutional design). They identified such complex choices as *'discretion'* or *'discretionary authority'*, defined as *'an agency's policy latitude'* (Epstein and O'Halloran, 1994:702). The authors set out a model in which uncertainty about future events in the policy environment determined the amount of discretion being transferred to the agent. The degree of discretion of an administrative agent can sometimes be defined in clear terms, but this has a cost. Principals trade control with expertise, and distributive losses with informational gains. Principals decide whether to specify a policy in detail or delegate its design and execution to agencies. In the first case, the costs are those of producing a policy internally, while, in

the second, the cost is the risk that agents shirk. Epstein and O'Halloran concluded that, all else being equal, the higher the degree of complexity and uncertainty in the policy area, the greater the discretion the principal grants to the agent and the closer the agent's policy preferences should be to those of the principal. In addition, results showed that a minimum level of discretion is always granted to an agent, irrespective of each actor's policy preferences. The institutional design issue ultimately relates to the trade-off between flexibility in the design of the agencies and their responsiveness (Epstein and O'Halloran, 1994).

In subsequent papers, Epstein and O'Halloran refined their work on the impact that the design of delegation has over policy outcomes. They analysed a situation in which different actors held antagonistic positions, to see if the preferences, bodies and incentives used in decision-making were altered (Epstein and O'Halloran, 1996). They also assessed the variation in delegation in different policy areas (Epstein and O'Halloran, 1999a), investigating why policy-making is kept at the level of the principal in some policy areas and is delegated in others. The main results of the research showed that the principal will delegate more authority to the agent when there is a low degree of conflict between the two and whenever the policy issue was characterized by uncertainty over policy outcomes (Epstein and O'Halloran, 1999b).

Epstein and O'Halloran's approach shaped all research on delegation produced thereafter (see for instance Volden, 2002), which refined the model. Notably, Huber and Shipan (2000), (2002) developed a comparative theory of delegation applied to different institutional contexts, including Europe. In particular, they examined institutional arrangements as the dependent variable and transaction costs as the key independent variable. In addition to the well-established ally and uncertainty principles (see Table 3-4), they suggested three additional factors that help explain how controls vary across institutions: first, the actual internal capacity of principals to detail policy goals and outcomes; second, the involvement of veto players in delegated decisions; and, third, factors and actors that may intervene against the non-compliance of an agent. Huber and Shipan measured these factors in different contexts (parliamentary system, veto model and bicameral model) in a first attempt to take these theories of delegation beyond the US context.

3.1.4.2 The European tradition

The use of the p–a model in EU studies dates back to the mid-1990s. It is a relatively recent yet increasingly used framework for studying delegation in the EU. Two strands of literature have developed: the first and older studied delegation *'to the EU'* (Delreux and Adriaensen, 2018). Scholars in this tradition looked at the EU as an international organization formed of institutions and agencies, to which an increasing number of powers were delegated (Tallberg, 2002, Kassim and Menon, 2003). These scholars examined the motivations and options chosen by member states to delegate powers to supra-national institutions. This first and well-known line of research has been complemented by studies of delegation *'within the EU'* (Delreux and Adriaensen, 2018), which focused on the delegation of specific tasks (for instance in relation to newly established agencies, bodies or mechanisms) or in specific policy areas, such as in international trade negotiations or environmental agreements. The most formalized acts of delegation in the EU are contained in the treaties, but various other acts of micro-delegation occur when an institution is given the authority to implement a policy through a legislative act or a negotiation mandate.

Pollack (1997) introduced the p–a model and transferred the core assumptions developed in the US to the EU context. He suggested that the p–a model could be successfully used as a conceptual framework to overcome the longstanding constrast between intergovernmentalists and neo-functionalists. The basic assumption underpinning Pollack's work is that supra-national organizations (the European Commission, the European Court of Justice and the European Parliament) intend to make their own as well as the EU's position stronger, by furthering EU integration. They act together in voicing these preferences before other external organizations, even though they are internally divided. Pollack considers the functions delegated to supra-national institutions, the conditions that determine how much discretion is delegated and the control mechanisms set out by member states. The main hypothesis that supra-national organizations act autonomously from their principals (member states) and influence their decisions is tested by analysing their capabilities to set the agenda. His conclusions are that EU institutions have been able to exert at least some influence over policy outcomes, and certain decisions would not have been taken by member states in the absence of supra-national action. However, these institutions are highly constrained by the limited powers delegated to them and by the administrative and oversight mechanisms set up by member states. Also, the influence of each actor

over outcomes varies across policy areas. Supra-national organizations promote more European integration, while member states keep various control mechanisms in place to limit agency losses (Pollack, 2003a).

Another prominent contributor is Franchino (2002), (2004). Franchino developed a model to shed light on the balance of powers in the implementation of EU policies. The main research questions related to the division of competence among bodies involved in EU policy implementation, the specific administrative actors in charge of policy execution and the degree of variation in the level of authority enjoyed by these actors in different policy areas. Here, the principal is the EU Council and the agents are those bodies implementing Council decisions, which can either be the European Commission or the member states. Franchino assumed, first, that the EU Council will delegate more discretionary authority to the Commission (agent) in acts voted for under qualified majority and on issues that require general and managerial skills at the supra-national level. Second, the Council awards greater discretion to member states (agents) whenever acts are adopted under the unanimity rule. Third, specialized and technical knowledge is required at national level. The analysis performed on an original dataset of 158 major EC legislative acts showed general support for these assumptions (Franchino, 2004).

Among the new generation of scholars (second wave), Delreux and Adriaensen (2017) argued that there had been a shift in studies using the p–a approach, from the study of macro-delegation to the study of micro-delegation. Consequently, the initial interest in the rationale and mode of delegation was replaced by the study of discretion, the transfer of authority and the use of controls. The focus shifted from the act of delegation (politics of delegation) to the balance of powers post-delegation, namely the use of mechanisms to constrain the agent's autonomy (politics of discretion).

Within this second wave of studies, two distinct approaches emerged. The first examined the preference of actors, with a particular focus on how the heterogeneous preferences of principals affect the agents' discretion (Elsig, 2010, Da Conceição-Heldt, 2011). Other scholars tested and confirmed the 'ally principle' (Kerremans, 2006) and stressed that the degree of discretion granted to the agent may depend on factors beyond the control of the principal (Delreux, 2009, 2013). The second approach considered situations in which p–a relations did not follow a conventional pattern. Schillemans and Busuioc (2015) and Brandsma (2010) uncovered instances in which

principals either ignored the inputs of agents or, de facto, questioned the powers delegated to them. (Dijkstra, 2010) found that member states carry out the exact same tasks that they delegate to the external action service – the issue of 'non-exclusive delegation' – and Menz (2015) investigated instances of 'principal slippage' in EU migration policy.

3.1.4.3 Application to Cohesion policy

EU CP has been the preferred area for analysing multi-level interactions in policy implementation. These were considered through a range of perspectives, with a particular focus on the complexity of instruments used to enforce compliance (Hughes et al., 2004, Mendez and Bachtler, 2011, Davies and Polverari, 2011, Bachtler et al., 2014, Mendez and Bachtler, 2017). However, studies of governance relations that have explicitly applied a p–a approach have been few. There are only a couple of instances in which policy-making in the area of EU CP was explicitly investigated through this conceptual lens. These studies used a traditional approach in which member states were considered the principals in the relationship and the European Commission – as implementing actor – the agent. An early application of transaction cost theories to regional development policy implementation considered the exchange relationships between implementing actors as the units of analysis and put the contractual relations between such actors centre–stage (McAleavey, 1995). The first explicit application of the p–a approach was then Blom-Hansen (2005), who aimed to clarify which bodies directed the implementation of the policy and the degree of effectiveness of the available control mechanisms. The key research question here was how the EU ensured that the funds allocated complied with the additionality principle at national and local level. Blom-Hansen assessed the extent of use and effectiveness of control instruments – the choice of agent, an incentive-based contract, monitoring and sanctioning the agent.

Blom-Hansen argued that the choice of agent was not a contested process in CP, as the member states were designated to implement the policy. The contract could include different types of incentives: the incorporation of legal provisions in the delegation mandate, economic enticements, and the prescription of administrative procedures in order to constrain agents' autonomy. Among these, the partnership principle should allow stakeholders' participation in the policy process. However, Blom-Hansen argued that the partnership principle could not be used to favour EU preferences and concluded that administrative incentives were rather weak. As regards the third

control mechanism (monitoring), Blom-Hansen considered the impact of national monitoring committees, evaluations and reporting obligations on the progress achieved in the implementation of the funds. Fourth, sanctioning mechanisms were available in CP, in both criminal and civil cases. On the basis of these insights, Blom-Hansen concluded that member states were fully in control of the implementation process, arguing that structural fund programmes mostly supported national policy goals, instead of being additional to national expenditure, and as a result tended not to be innovative, funding existing national policies. These hypotheses were tested in a case study on the implementation of an urban initiative in Denmark (Blom-Hansen, 2005).

The second instance in which policy-making in the area of EU CP was investigated through this conceptual lens of p–a was the research of Bachtler and Ferry (2013), who tested and subsequently confirmed the assumption made by Blom-Hansen that the EU had weak control mechanisms in some instances. To test such a hypothesis, they analysed the use of conditionalities, i.e. the legal, institutional and policy delivery preconditions set out by the Commission for the implementation of CP. The authors paid close attention to the effectiveness of three types of conditionality: the decommitment rule, the performance reserve and the earmarking of expenditure. They specifically assessed whether the design of these control mechanisms had an impact on their effectiveness and demonstrated that the deployment of control mechanisms in CP was affected by the dual role of the Commission as agent and principal. In the policy formulation stage, the Council and, to a lesser extent, the Parliament acted as principals. In the policy implementation stage, however, the Commission acted as a principal towards the member states. Bachtler and Ferry concluded that improvements in the delivery of conditionalities would enhance the overall effectiveness of such control mechanisms (Bachtler and Ferry, 2013).

3.1.5 Applying the p–a framework to delegated governance in Cohesion policy

P–a relations characterize every context in which the delegation of tasks is involved. The p–a framework is applied to this research because it reduces interactions in complex settings (e.g. multi–level interactions) to their simplest form, namely a relationship between a manager/boss and an employee/agent (see Bendor et al., 2001 and, Bendor and Meirowitz, 2004), making it widely applicable to a number of contexts. As well as being one of its biggest assets, this is also the key limitation of the model: actors may in reality be motivated by a mix of factors, not only self-interest. This is why, as the literature developed, some of the core assumptions were relaxed or

reconsidered. The choice made for this thesis is to base its research design on simplified assumptions, but it aims to test whether the more complex assumptions on p–a relations apply.

In EU studies, the use of the p–a framework had the merit of transcending established theoretical debates. Its asset is the potential to distil the most crucial elements of a delegated relationship, irrespective of the theoretical framework applied. The applications to EU studies were highly tailored for the EU institutional context and mainly focused on bottom–up delegation by member states to EU supra–national institutions. This thesis, instead, decided to contribute to the recent applications of the framework to other levels of policy–making, which have not yet been exploited in full. In particular the application of this framework is relevant for the study of the internal ('intra–level' governance) and external delegated relations in CP implementation, because it focuses on the actors and their authority to take decisions.

In fact, the whole range of top-down relationships within policy implementation, in which delegation is a crucial aspect, is yet to be explored and the p–a framework provides a relevant theoretical tool to explore these. The p–a framework is the primary theoretical lens applied in this study. A decision was subsequently made to complement it with the public accountability literature. Based on these considerations, this thesis assesses the degree to which the assumptions underlying the p–a approach can be applied to a context of meso–level delegation in EU policy implementation. Table 3-4 summarizes these concepts and outlines their application to this study:

Table 3-4 | Applying principal-agent framework to delegated governance in Cohesion policy

Concept	Application to the study
Institutional design/ Structures and processes	The institutional design of delegated governance is the main area of investigation of the thesis. It analyses the institutional design decisions and distribution of responsibilities to explore the variation in the governance of FI implementation. This study examines the formal decisions in terms of structures, delegated tasks and control mechanisms to prevent 'agency drift'.
Actor selection/ ally principle	The thesis considers the selection mode (direct appointment vs open procedure) and background information on the type of agent (public, private, mixed ownership, etc.) chosen, as well as the motivations behind this decision.
Multiple principals	The thesis examines the extent to which the simplified assumptions behind the simplest p–a models (i.e. unitary actors) apply. In particular the study considers the extent to which multiple principals can be identified.
Discretionary authority/ Autonomy	Discretion will be addressed by looking at: the actual use of control mechanisms; how relations between principals and agents are organized; the authority and autonomy that agents have vis-à-vis principals; and how power is distributed among all actors involved.
Uncertainty principle/ Complexity	This assumption is incorporated in the thesis in broad terms. The study examines the extent to which a higher degree of discretion is awarded to an agent when more complex policy instruments (e.g. equity funds) are used.

Source: own elaboration.

3.2 The study of public accountability

Public accountability as a separate area of investigation is relatively recent. Although early applications can be found in the mid-1980s in the US (Romzek and Dubnick, 1987) and the UK (Day and Klein, 1987), the core literature developed in the early 2000s. This covered diverse geographic contexts, ranging from Australia (Mulgan, 2003) to Europe (Bovens, 2007), as well as different accountability domains, e.g. democratic accountability (Strøm et al., 2003). Various classifications of accountability were proposed throughout the years, with the aim of clarifying the key concepts and providing solid ground for future empirical applications.

One of the fundamental reasons for studying delegation relationships is to understand whether there is sufficient accountability in a given political–administrative system. In particular, the aim is to assess whether non-elected bodies are accountable to the ultimate principals in any democratic system – the citizens. Principal–agent problems are especially relevant when policy-making and implementation are jointly managed by a range of actors inside and outside the public sector. In such contexts, each implementing actor may have different policy preferences and multiple accountabilities. Studies of accountability make frequent use of the p–a framework to identify the variation in institutional arrangements (actors and relations) and assess how this translates into ideal behavior or good accountability (Gailmard, 2014:91). Although the study of accountability, in particular the assessment of the degree of

accountability in a specific system, may call for normative judgements, *'the broader institutional context in which specific principal–agent relationships are embedded calls for legitimacy-related normative assessments to be made only with the utmost care'* (Brandsma and Adriaensen, 2017:41). This approach will also be followed in this thesis, in that no recommendation or prescription will be made on how accountability systems ought to be.

3.2.1 Public accountability and delegation

Public accountability has been conceptualized in different ways and its meanings vary, so it is first important to define the concept. Bovens (2007:450) defined public accountability as *'a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences'.* Mulgan (2003:10) asserted that *'the full core sense of accountability thus includes the right of the account-holder to investigate and scrutinise the actions of the agent by seeking information and explanations and the right to impose remedies and sanctions. Conversely, for the accountor, the agent, accountability implies the duty to inform and explain to the account-holder and to accept remedies and sanctions.'*

The key distinction between a principal–agent and a forum–actor relationship is not only semantic. It lies essentially in the *potential* of being held to account. *Ex ante* and *ex post* control mechanisms in a p–a relationship are not accountability mechanisms per se, because they need to be applied. They are activated through procedures in which actors have to explain and justify a certain behaviour to forums. It is important to note that, even while acknowledging the distinction between a p–a and an accountability relationship, Mulgan (2003) still talks about 'principals and agents', rather than the 'forums and actors' identified by Bovens. Strøm et al. (2003) suggested that, beyond any specific categorization, two different components of accountability are always applicable in delegation settings. For agents to be accountable, principals must have: '*a right to demand information, and a capacity to impose sanctions*'. In direct hierarchical lines of responsibility, such as vertical relationships between two actors, accountability mechanisms should be more easily applicable and effective (Strøm et al., 2003) and in fact the majority of public accountability arrangements which are based on the delegation from principals to agents are forms of vertical accountability (Bovens, 2007). Networked governance, in fact, makes the identification of who is accountable and the relative responsibilities difficult to achieve (Mulgan, 2003:37).

Dubnick and Frederickson (2010) provided a fine-grained interpretation of accountability relationships. They argued that, in its simplest configuration, an accountability relationship occurs when one party is obliged to explain his conduct to the other party involved, and where specific mechanisms are in place to make the first act in a responsive manner. Broadly speaking, the relationship between the two parties consists of at least three elements:

a. the actor has the duty to inform the forum about his behaviour
b. the forum should be able to question the actor's conduct and the adequacy of the information provided
c. the forum should have the prerogative to judge this behaviour, if necessary by imposing sanctions on the agent's performance.

A common accountability system therefore involves an actor providing information about the performance of tasks and duties and about the outcomes of procedures carried out. At the same time, it requires a forum to assess the legitimacy of these actions and issue sanctions, in case of non-compliance, or rewards, reflecting good performance (Mulgan, 2003). Compliance is one of the dimensions of public accountability. The concept of accountability is often regarded as all-encompassing and, accordingly, it is helpful to define its boundaries. Accountability is not transparency, as it does not necessarily involve scrutiny by a specific forum. Similarly, it does not simply equate to responsiveness, answerability or participation. Bovens (2007) further specified that accountability is not equal to controllability.

There are two distinct traditions in the conceptualization of public accountability: the first views it as a virtue, a set of normative concepts – the American tradition – while the second sees it as a social mechanism, an institutional arrangement in which an agent can be held to account by another agent or institution – the European view (Bovens, 2010). In the first broad sense, accountability is a desired feature of a person or organization, whereas in the second, narrower definition, it is a process. The process starts with the assignment of responsibilities from the forum to the actor and follows with the actor reporting activity and the forum investigating or asking for information. It finishes with sanctioning or rewarding activity by the forum (Mulgan, 1997). An alternative to this is offered by Lupia (2003), who suggested a basic distinction between situations in which accountability is ensured by taking an active role in a process and those where the end result of a process is of primary concern, regardless of

how agreed-upon goals and targets are met. In the first case, accountability is a process of control, while in the second accountability focuses on the outcome.

A similar distinction was set out in Behn (2001), who asserted that accountability can be envisaged for either the finances, the fairness or the performance of a system. The first category refers to the oldest conceptualization of accountability, essentially related to bookkeeping activities. Fairness is rather connected to a moral duty within a democratic system. Both of these operate as safeguards against abuses of power and relate to how governments carry out their fundamental functions. In contrast, accountability for performance refers to what governments do. The focus would in particular be on the consequences of government activities. Behn (2001:10) summarized the basic performance accountability dilemma as: *'Are the policies, programs, and activities of government producing the results that they were designed to produce?'* In order to carry out this type of account-holding function, it is essential to have a clear benchmark of performance and indicators on how well the agency has carried out its duties against some preliminary expectations, objectives or goals. The focus is not on the process, but on the results. A similar distinction was made in Day and Klein (1987), who categorized the managerial dimension of accountability according to three elements (Table 3-5):

Table 3-5 | Managerial accountability dimensions

Type	Focus
Fiscal/regulatory	inputs
Process/efficiency	outputs
Programme/effectiveness	outcomes

Source: own elaboration, based on Day and Klein (1987:26-27).

Several scholars offered different categorizations of accountability, based on different key attributes of p–a relations. Romzek and Dubnick (1987) developed a widely used typology of accountability, reproduced in Table 3-6.

Table 3-6 | Romzek and Dubnick (1987) typology of accountability

		Source of control	
		Internal	External
Degree of control	**High**	Bureaucratic	Legal
	Low	Professional	Political

Source: own elaboration, based on Romzek and Dubnick (1987).

Bovens (2007) bases his typology on a set of guiding questions. For mapping out accountability relations he suggested first asking whether a social relationship or

practice was an accountability relationship at all. Following this, one needed to ask whether a relationship qualified as full accountability or was rather a form of participation, responsiveness or transparency. When this was ascertained, one needed to ask who the actors were in the relationship, what the object of accountability was and why there was an obligation to be accountable.

Table 3-7 | Bovens (2007) typology of public accountability relations

To whom is account to be rendered?	
Nature of subjects in the forum	Political accountability
	Legal accountability
	Administrative accountability
	Professional accountability
	Social accountability
Who is the actor required to render account?	
Nature of the actor	Corporate accountability
	Hierarchical accountability
	Collective accountability
	Individual accountability
About what is account to be given?	
Nature of the conduct	Financial accountability
	Procedural accountability
	Product accountability
Why does the actor have to give account?	
Nature of the obligation	Vertical accountability
	Diagonal accountability
	Horizontal accountability

Source: own elaboration, based on Bovens (2007).

This typology reflects the four dimensions of accountability identified by Mulgan (2003:22-23).

Table 3-8 | Mulgan (2003) dimensions of public accountability relations

Who is accountable?	
Forum/principal	'*The person held accountable is the person who can choose to act or not to act in the performance of certain duties and who is therefore liable for praise or blame*' (Mulgan, 2003:33-40). Individual and collective accountability is summative. In addition to being individually accountable for performing their respective duties (individual or personal accountability), those accountable are also subject to the obligations derived from being members of an organization (collective accountability).
To whom are they accountable?	
Actor/agent	The account-holder or principal is the individual or institution having the ultimate right to hold to account, precisely to investigate or to require information on the actor's behaviour. Multiple individuals may share this right towards the same actor; however only vertical relationships (either top-down or bottom-up) count as accountability relationships.
For what are they accountable?	
Object of delegation	The specific duty or task assigned to actors/agents, which they have the responsibility to perform and report on. Depending on the sector, the object of delegation can be specified in various ways. In the private sector, a contract usually sets out the tasks and the minimum performance expected. In the public sector, by contrast, the performance goals are often harder to specify and constantly reviewed and adjusted. As such, accountability often focuses on the correctness of process procedures.
How are they accountable?	
Accountability mechanisms	Accountability mechanisms comprise three stages: *'initial reporting and investigating (information), justification and critical debate (discussion), imposition of remedies and sanctions (rectification)'* (Mulgan, 2003:40) In practice, these stages may include the presentation of financial accounts or other reports, public hearings, open discussions in the political debate, and private discussion and investigation.

Source: own elaboration, based on Mulgan (2003).

Beyond the identification of actors, purposes and mechanisms, a distinct exercise is that of classifying the effectiveness of the accountability mechanisms. In so doing, Bovens (2007) reflected on the role and effects of accountability. He argued that accountability is important for three reasons:

a. to provide a democratic means to monitor and control government
b. to prevent the development of concentrations of power
c. to enhance the learning capacity and effectiveness of the public sector.

Each of these motivations hinges upon a separate perspective for the assessment of accountability relations. Public accountability is important from a democratic point of view, as it helps citizens to control those holding public office. This approach has been defined theoretically, using the p–a model. From a constitutional perspective, accountability is important for the prevention of corruption and abuse of power. An excessive use of power is constrained through 'checks and balances' performed by institutional powers. Finally, from a learning perspective, accountability can be

considered as a tool to urge elected politicians and civil servants to deliver effectively on their promises. From this point of view, it provides a regular means to confront administrators with information about their own procedures, functioning and policy performance. These views do not offer exclusive tools to evaluate accountability, but are complementary (Bovens, 2007).

Having defined the core concepts and classified the different types of accountability, it is important to situate accountability in the wider debate on the effectiveness of the public sector. Dubnick (2005:377) argued that accountability has been regarded as a panacea that could enhance democracy, justice, ethical behaviour and performance. He claimed that the causal relationship between accountability and performance is *'an institutionalized myth'* that does not hinge upon any solid research. The management-focused approaches to accountability, he further argued, *'reflect an analytic and conceptual bias of paradigmatic proportions'* (Dubnick, 2005:381). This misconception explains the so-called *'accountability paradox'*, according to which accountability is not a driver of improved performance, but rather slows down or halts performance (Halachmi, 2002). Dubnick (2005) concluded that exogenous factors, such as expectations and trustworthiness, needed more consideration. A causal link between performance and accountability is implied in the third metric suggested by Bovens (2007) to assess accountability – the learning perspective.

The measurement of performance as a tool to achieve better accountability was put centre stage in the debates on new public management reforms. For new public management scholars (for instance Pollitt and Bouckaert, 2011), accountability could be achieved through the definition of clear objectives and targets and by strengthening their measurement. They recognized the private sector as a model to aspire to. In line with this, the accountability mechanisms incorporated in these reforms sought to increase the efficiency and effectiveness of public organizations, to ensure a shift in the focus of public accountability from inputs and procedures to outputs and outcomes (Mulgan, 2003). As much as it is debated, better performance remained one of the strongest drivers for introducing accountability-focused public sector reforms.

Finally, the actual correspondence of p–a assumptions to real policy situations was questioned by some accountability scholars. In particular, they argued that the literature had always put the agent centre-stage, by examining the motivations for agents' behaviour and the wider characteristics of the institutional context. They

asserted that the outcome of interactions depends on a range of external factors, not only on the configuration given to p–a relations. Scholars supporting this line of thinking turned the p–a relationship upside down (agent–principal) and uncovered instances of principals' failure. For instance, principals were found to ignore the input of the agent or question the powers delegated to the agent (Schillemans and Busuioc, 2015, Brandsma, 2010). Schillemans and Busuioc (2015) argued that public sector accountability processes often do not match the expectations developed in p–a theory because of four conceptual misunderstandings: 1) the accountability forum is not necessarily a principal, and the same behavioural assumptions will not always hold; 2) principals and forums change over time; 3) actors are often more properly understood to be stewards to a cause, therefore intrinsic motivations need to be considered; 4) accountability processes go beyond compliance and legality. On these grounds, accountability is important as a way to build trust, credibility, and reputation and can sometimes even be instrumental for performance. This is a relevant point in FI implementation, especially because formal elements of compliance (e.g. legality, regularity of spending) are now considered an essential but not sufficient component of accountability relationships, where the focus is now shifting towards instruments' performance.[31]

3.2.2 Applying public accountability to delegated governance in Cohesion policy

This study applies elements of a second theoretical framework to unpick the wider public accountability mechanisms operating in FI implementation. The public accountability literature was chosen for its potential to complement the assumptions of the p–a framework, introducing more operational elements to assess the public accountability for FI implementation.

As outlined in the previous section, various typologies can be used to categorize public accountability. These mainly distinguish between institutional (*Who is the account-giver? To whom is account to be given? How?*) and operational (*For what is account to be given?*) dimensions. The main institutional dimension is not easily identifiable in the governance of FI implementation, because the actors involved are heterogeneous (public, private and mixed). As such, it is essential to contain the area of application of this study strictly within the boundaries of a p–a (vertical, hierarchical) relationship at

[31] See for instance the evolution in the ECA activity in this area, where the audits targeting the effectiveness dimension of EU policies now cover a large part of the ECA annual activities.

the meso-level (managing authority–fund manager) of policy implementation. The institutional dimensions of accountability depend on the configuration given to the specific p–a relationship. Therefore this will be analysed through the p–a approach. To examine the operational dimension, the public accountability literature is central. This thesis focused on two operational dimensions:

a. the duty or function for which agents are held accountable (content)
b. the orientation given to the accountability relationship (focus on process or results).

The first dimension (content) is the specific duty or task assigned to the actor, which he has the responsibility to perform and to report on. It corresponds to the *For what?* and *About what*? questions in Mulgan (2003) and Bovens (2007). The second dimension (focus) points to two distinct options: accountability relations can be oriented either towards the correctness of process procedures or towards their performance. A distinction can be made between financial, procedural and product accountability. Accordingly, accountability can focus on process or the end result (Lupia, 2003). It can be designed for the finances, the fairness or the performance of a system (Behn, 2001:6-10) and it can be focused on the inputs (fiscal), outputs (process) or outcomes (programme) of activities (Day and Klein, 1987). Table 3-9 summarizes the application of the public accountability concepts to delegated governance in CP. Operationally, the two aspects considered are the object of delegation and the accountability mechanisms.

Table 3-9 | Applying public accountability to delegated governance in Cohesion policy

Concept	Application in the study
Content	The content can be defined in different ways depending on the sector: public or private. This thesis examines how the performance frameworks (content of the accountability relationship) vary across countries and on the basis of type of actor and product. It analyses the information reported and indicators used.
Focus	This thesis assesses whether the focus of the accountability relationship is on the process or the results. The actual frequency of monitoring and reporting, the availability and use of specific evaluations and the provision and applications of sanctions and rewards are looked at. A general orientation towards accountability for results is expected, given the rationale for choosing FI. Variation on the basis of actor involved (public, private, mixed) and type of instrument is also considered.
Operational dimensions	
Object of delegation	The thesis analyses how the object of a delegated relationship is specified in the private and in the public sector. In particular, this thesis assesses whether the tasks and expected performance are clearly specified or whether performance goals are less clearly worded and more constantly reviewed.
Accountability mechanisms	This thesis broadly looks at the three stages identified in Mulgan (2003:40). In particular, it analyses the reports on implementation performance (internal/external, annual/final/other) and the policy evaluations, as well as the 'private discussion and interrogation' with fund managers (frequency, extent of use).

Source: own elaboration.

3.3 Linking the literature to the objects of the thesis

This thesis aims to fill a gap in the state of knowledge on CP governance, determined by FI introducing a distinct new strand to CP governance from 2007–13. In so doing, it provides a theoretical contribution to the literature on delegation in EU studies and includes an empirical investigation on public accountability for CP. It is envisaged that this thesis will add to the literature on CP governance more widely, by using a different approach to MLG. It will apply assumptions from the p–a literature.

3.3.1 Research aims and research questions

This thesis has a primary and a secondary aim. The primary aim is to explore the implications of new modes of delegated governance in CP. In order to do so, it will consider the institutional design decisions taken in the governance of FI implementation. The secondary aim of the thesis is to explore the relationship between delegated governance in CP and public accountability. In order to achieve these two primary aims, two intermediate objectives are identified: to explore the variation in the governance of FI implementation, and to assess the public accountability for FI implementation. In practical terms, the governance of FI implementation is explored through the analysis of institutional design choices and the distribution of responsibilities, while public accountability for FI implementation is assessed through the examination of control mechanisms and implementation of performance

frameworks. All aims and research questions are summarized in the Table 3-10, while the operational research questions will be discussed in section 4.3 in the methodology chapter.

Table 3-10 | Thesis aims and research questions

Research aims	Research questions		
	Primary		
To explore the implications of new modes of delegated governance in CP	What implications do the new modes of governance in CP have for the relationships between actors?		
	Intermediate		
To explore the variation in the governance of FI implementation	1. How is the implementation of financial instruments in Cohesion policy organized?		
To assess public accountability for FI implementation	2. How is public accountability for financial instruments implementation in CP ensured?		
	Secondary		
To explore the relationship between delegated governance in CP and public accountability	What is the relationship between delegated governance in CP and public accountability?		
	Operational		
	1a. What is the institutional design for FI implementation in CP?	1b. How does the institutional design for FI implementation in CP work?	1c. How does the institutional design for FI implementation in CP distribute responsibilities?
	2a. What are the control mechanisms and performance frameworks in FI implementation?	2b. How do control mechanisms and performance frameworks work in FI implementation?	

Source: own elaboration.

3.3.2 Assumptions

This section presents the key assumptions[32] formulated on the basis of the delegation and p–a literature, the public accountability literature and a range of other academic and policy readings. These assumptions refer back to the delegation modes outlined in 2.5.1 and further examined in 5.1. P-a studies did not formulate any assumptions based on the variation in legal status and ownership of the agent (i.e. delegation modes). However in a context in which public services are often privatized or outsourced to

[32] In the rest of the thesis the terms assumption and hypothesis are used as synonyms.

private service providers (Pollitt and Bouckaert, 2011), it is necessary to include these actors in analyses of delegation. For these reasons, the first two hypotheses outlined below are formulated inductively from the preliminary observation of the data. Subsequent assumptions derive directly from the delegation and p–a literatures.

The public accountability literature provides limited precedents for formulating hypotheses relevant to FI implementation, as it mainly focuses on conceptual clarification rather than on empirical testing. Nonetheless, two concepts (object of delegation and accountability mechanisms) provided analytical reference for this research, given their complementarity to the above p–a assumptions. Finally, the exploratory nature of this research and the limited literature base of studies on the impact of CP governance on public accountability (Polverari, 2015 being an exception) did not allow the formulation of specific hypotheses on the relationship between governance and accountability, therefore no tentative assumption was made about this relationship. The assumptions are presented below.

(a) Delegation modes are associated with different degrees of agent autonomy

Governance characteristics are assumed to shape the distribution of responsibilities, the configuration of p–a relations and, consequently, the amount of discretionary authority granted to agents. The study of governance in policy implementation distinguishes between formal devices of command and control that centralize authority and informal devices of delegation and discretion that disperse authority (Elmore, 1979). Modern private organizations evolved from rigid hierarchies into more flexible, flatter structures which delegated authority to the lower levels (Pollitt and Bouckaert, 2011, Fukuyama, 2013). In the context of CP, decentralized governance arrangements, e.g. through regional operational programmes, are assumed to grant greater decision-making autonomy to sub-national actors (Mendez and Bachtler, 2017). Also, devolved governance arrangements are hypothesized to enhance accountability by bringing policy-making closer to the citizens (Polverari, 2015) and provide greater scope for place-based approaches in sub-national territories (Bentley et al., 2017). On these grounds, the private delegation mode is expected to be associated with devolved delegated arrangements that disperse authority. The public delegation mode is, however, assumed to entail minimum autonomy of the agent, as authority is centralized in the public sector. The mixed mode is expected to combine features of the two.

(b) Delegation modes shape the balance between *ex ante* and *ex post* control mechanisms

Based on the same line of thinking and incorporating the ally principle, this thesis expects the various delegation modes to adopt distinctive mixes of control mechanisms, on the basis of the nature of the agent. The private delegation mode is assumed to rely strongly on control mechanisms (especially *ex ante*), to lower the risk of agency drift in implementation. Two reasons explain this assumption: delegation to private agents is expected to disperse authority; and preferences and interests of a public principal are assumed to be distant from those of a private agent. The public delegation mode is hypothesized to rely less on control mechanisms, given the limited dispersal of authority of centralized arrangements and the alignment of policy preferences between public principal and agent. The mixed delegation mode is assumed to combine features of public and private modes.

(c) No single principal, but multiple principals can be identified

Principals can be conceptualized as unitary actors or as multiple entities. The classic literature depicts principals as unitary entities, whereas other streams assume that multiple principals use structures to constrain the agent and establish themselves as the most influential actors over current and future agents. In the same way as multiple principals, multiple agents may coexist (Moe, 1984, Waterman and Meier, 1998). In its work on CP, Blom-Hansen (2005) based its analysis on the existence of multiple principals. This research uses the simplified assumption of principals as single actors as a starting point, leaving the alternative assumption of multiple principals open for testing.

(d) The risk of 'agency drift' is bigger with private agents

The 'principal–agent problem' may give rise to 'agency drift', a situation in which policy outcomes move away from the originally intended purposes (McCubbins et al., 1989). This is based on the preliminary behavioural assumption of opportunism and the underlying assumptions of hidden action, information asymmetries and the risk that agents use information strategically or hide it from the principal (Ross, 1973, Kiewiet and McCubbins, 1991). Based on the above literature, this thesis assumes agents to be motivated by opportunism, which is hypothesized to affect private agents especially, them having different preferences and interests at stake compared to public actors.

(e) Various reasons influence extent of discretion granted to agents

Based on the p–a literature, the degree of discretion awarded to an agent depends primarily on how close the policy preferences of principals and agents are. Other things being equal, the more the preferences of principals and agents converge, the higher the degree of discretion granted to agents. However, no matter the policy preferences, there is always a minimum degree of discretion awarded to agents (Epstein and O'Halloran, 1994, Epstein and O'Halloran, 1999b). This thesis assumes that various reasons (not only policy proximity) may influence the degree of discretion granted to an agent, and that a minimum discretion is awarded as it is an intrinsic element in the decision to delegate.

(f) Delegation modes influence the extent of discretion granted to agents and more complex FI delegate more authority to agents

The thesis also supposes that the preferences of a public sector principal will be close to those of a public sector agent and distant from those of a private one. Direct appointment of a fund manager is assumed to be used to select a specific agent with specific characteristics and policy preferences. Public procurement through an open procedure, however, is assumed to be used whenever other motivations prevail or when principals have a range of other monitoring mechanisms available to steer compliance. Therefore, the thesis tests the assumption that the private delegation mode grants less discretion to private agents than the public mode does to public ones. It also assesses how these two modes compare to the mixed mode. The literature envisages that the greater the complexity of a policy area, the less likely the chance of achieving a policy outcome. So, the greater the uncertainty over policy outcomes, the higher the degree of discretion granted to an agent (Epstein and O'Halloran, 1994, Epstein and O'Halloran, 1999b). On this basis, the thesis assumes that FI with a higher degree of complexity grant more discretionary authority to an agent. These policy instruments are hypothesized to be those delivered through holding funds and those offering equity products.

(g) *Ex ante* control mechanisms preferred to ex-post, but no substitution effect

The p–a literature postulates that, other things being equal, principals prefer to constrain the agents' action through structure and process (institutional design) before

the act of delegation, rather than relying on control mechanisms *ex post* delegation (McCubbins et al., 1989). The thesis tests this assumption directly, having specified the various control mechanisms in the context of FI implementation. The control mechanisms identified in the p–a literature (Table 3-1) have been defined for operational purposes. The mechanisms identified in the public accountability literature (Table 3-8) were considered. Contrary to the definition of control mechanisms in the p–a literature, the definition of control mechanisms in the accountability literature only focus on the tools activated after the act of delegation. This thesis merged the p–a and public accountability definitions and defined the mechanisms as in Table 3-11:

Table 3-11 | Control mechanisms in FI implementation

Before the act of delegation (*ex ante*)		
Definition	**Contract design:** The various legal tools defining the agent's action. The narrow definition refers to the fund management contract. The broader definition includes other legal and non-legal documents.	**Choice of agent:** The choice of the specific financial institution in charge of fund management **Choice of structure:** The choice of the structure for policy delivery
Examples	Funding agreements, contracts, fund by-laws, operational guidelines	**Choice of agent:** choice of a public bank, private fund management company, other financial institution **Choice of structure:** choice of a specific financial instrument or holding fund
After the act of delegation (*ex post*)		
Definition	**Monitoring, reporting and control**: The mechanisms through which the activities delegated to and performed by the agent are overseen. They include: the formal obligation to report on the activity performed, the account-holder examining such activities, and justifying and debating the actions taken.	**Rewards and sanctions:** The set of measures available to ensure the compliance of the agent.
Example	Financial accounts, annual and final implementation reports, other types of reports ('information' stage), hearings, open debates, private discussion, meetings ('discussion' stage).	Fund withdrawal, revision of management fees, fund manager dismissal ('rectification' stage)

Source: own elaboration.

Some p–a scholars (Epstein and O'Halloran, 1994, Bawn, 1997) postulate a substitution effect between *ex ante* and *ex post* control mechanisms. The substitution effect implies that factors affecting the usefulness of one control technique affect the extent to which principals engage in the other. It is a direct result of the assumption that more oversight (*ex post*) decreases the marginal benefit of statutory control (*ex ante*), and

vice versa. This thesis hypothesizes no substitution effect between control mechanisms, i.e. that a range of control tools are used by principals in each p–a relation, before and after the act of delegation, no matter the perceived benefits of one over the other.

(h) Delegation modes influence the focus of the accountability relation

The object of delegation can be specified in various ways, depending on the sector. In the private sector, a contract usually sets out the tasks and the minimum performance to be expected. In the public sector, by contrast, the performance goals are often harder to specify and are constantly reviewed and adjusted. As such, accountability is often focused on the correctness of process procedures (Mulgan, 2003). Accountability can focus on the process through which certain actions are carried out or the results of such actions (Lupia, 2003). This thesis hypothesizes that private agents are held accountable chiefly 'for results', whereas public ones are held accountable mostly for process procedures and mixed agents for a combination of the two.

(i) Delegation modes determine the mix of mechanisms

Distinct accountability mechanisms are envisaged for different phases. In the information stage, agents can be asked to present their financial accounts or other types of reports; in the discussion stage, public hearings, open debates and private discussion and interrogation can be used, whereas in the rectification stage, remedies and sanctions may be imposed (Mulgan, 2003). Contrary to the definition of control mechanisms in the p–a literature, which considers the full range of mechanisms, the definition of mechanisms in the accountability literature focuses only on the tools activated after the act of delegation (discussions, hearings, sanctions, etc.). This thesis merges the p–a and public accountability definitions and assumes that the mix of mechanisms will vary for each delegation mode.

3.4 Chapter summary

This chapter presented the theoretical framework of this thesis: first, it outlined how CP governance has been studied so far and the major changes that FI introduced, as a distinct new strand within CP governance. Delegation is a defining feature of CP implementation. Therefore, a core section in this chapter examined the delegation literature and, in particular, the p–a approach to the study of delegation. This section clarified the key elements upon which p–a problems are based. It reviewed the various approaches and selected the key concepts applied in the thesis. In a separate section,

the chapter analysed the key concepts and categorizations of public accountability and outlined the relevant elements for the study of p–a relations. To conclude, the chapter outlined the aims and questions of the research and developed key assumptions on the basis of the literature reviewed.

This chapter contributes to clarifying the problems and key solutions (control mechanisms) used by principals before and after an act of delegation to ensure compliance in policy implementation. For FI, this literature is especially relevant because the involvement of a heterogeneous range of actors in complex delivery structures may make it difficult to set out clear implementation tasks and hold actors accountable for their performance. The p–a approach has the merit of simplifying the complex relations characterizing MLG arrangements, while the public accountability literature is useful for examining the operational dimension (object of delegation and accountability mechanisms) of the p–a relationships. The next chapter builds on the theoretical framework outlined here and develops the analytical criteria applied in the rest of the thesis.

4 Research methodology

As has been outlined in chapter 3, this thesis has the primary aim of exploring the implications of new modes of delegated governance in CP and the secondary aim of exploring the relationship between the governance of and the accountability for financial instruments implementation. This chapter describes the methodological approach and key steps followed in this study. It will first provide an overview of the key approaches adopted in the study of delegation, and then an illustration of the two major methodologies applied in the thesis: the comparative case study method and the mixed method. The second part of the chapter will focus on the research plan, describing its operationalization (4.3) and implementation (4.4). In section 4.3, the operational aims, questions and stages of the research are outlined and the criteria used in the analysis are presented. Section 4.4 presents the key activities undertaken to implement the plan and the rationale behind their choice.

4.1 Methodology, methods and data sources

Various methodologies can be used to study delegation (Pollack, 2003a). These range from a positivist/post-positivist perspective, mainly adopted by scholars using quantitative techniques (Epstein and O'Halloran, 1994, 1996), to more interpretivist approaches (Blom-Hansen, 2005, Bachtler and Ferry, 2013). A middle ground between these two broad orientations is taken by scholars advocating mixed methods (Delreux and Adriaensen, 2017), who combine techniques from both traditions pragmatically. Methods and techniques range from statistical analysis to qualitative comparative analysis (QCA) and process-tracing. Data sources vary from secondary sources such as datasets of legislative policy decisions and other policy documents to primary sources, such as raw data from interviews.

Recent policy studies consider selected aspects of delegated governance within FI implementation (Wishlade et al., 2016a, Wishlade and Michie, 2017). However, no study has yet focused on all aspects of innovation and their implications. The study of governance and accountability issues in FI implementation presents distinctive methodological challenges. The approach adopted in this thesis has been largely determined by FI being relatively new in CP. This created two challenges. The first is that there is a small literature base and a scarcity of empirical studies targeting this topic. Therefore, there were limited precedents for key factors and assumptions. The

second challenge is that the data available are limited and of poor quality. Both factors influenced the choice of research design for the thesis: the lack of a literature base and data meant that the nature of the thesis had to be exploratory. Also, as exploratory objectives were better met through combining quantitative and qualitative data-sets, this study took a mixed-methods approach. The key motivation for engaging in primary data collection (survey and interviews) was that policy documents did not provide the necessary evidence from which to answer the research questions. This was particularly evident when examining responsibilities, relations among actors and control mechanisms. Interviews were chosen for their potential to allow the investigation of in-depth motivations, contexts and decisions behind certain governance and accountability arrangements. A secondary motivation for engaging in primary data collection was the need to triangulate evidence from quantitative and qualitative data sources.

The limited availability and poor quality of data on FI implementation motivated the decision to carry out an exploratory multi-country survey. However, several challenges were encountered. First, the survey used the summary reports on all FI set up with European Regional Development Fund (ERDF) resources in 2007–13 as the initial dataset. The summary reports were produced every year from 2011 to 2015 and at the closure of the programming period (2017) and are the main dataset available on FI co-financed with CF. In the summary report at closure, the Commission acknowledged that the increased use of FI meant a need to collect more information, to fulfil the obligation of the Commission towards the budgetary and control authorities, the European Parliament and European Court of Auditors (ECA). In other words, the increased use of FI required strengthened accountability. Having this stock of information proved useful to start analysing variation; however, following the summary data definition of FI (Box 2-1) proved challenging. In particular, the aim of gathering data at fund level was difficult to achieve, particularly in cases where managing authorities had set up multiple FI under the same OP. In such cases, authorities would be required to answer a survey questionnaire for each fund, often with little variation being reported across the funds.

Second, as the survey was an attempt to collect more exhaustive data than the Commission summary report data, there was limited scope for cross-checking and validating the information gathered. Also, benchmarking (through e.g. literature)

proved difficult, due to the various types of products (equity, loans, guarantees) analysed and their context-driven nature.

On the basis of these key challenges in the availability of primary data and the limited application of findings from the literature, an embedded mixed-methods plan (Table 4-1) was adopted. The main orientation of the research design was qualitative, i.e. there was a primary qualitative component and a supplementary quantitative component. An advantage of this approach was that the quantitative data gathered via the online survey helped in the collection of the qualitative data. This was achieved through a sequential design, in which the survey was carried out first, followed by the analysis of the survey data. The survey analysis provided the basis for the selection of the case studies, for which the interviews and the analysis of policy documents were carried out. The selection of cases (see 6.1 for the full explanation) was made on the basis of the survey response rate, geographic coverage/region type, scale of funding, variation of financial products and, most importantly, the identification of typical cases. In this way, both the primary and the secondary component of the research design contributed to the overall qualitative research design.

Table 4-1 | Embedded mixed-methods research design

<table>
<tr><th colspan="5">Overall M-M design orientation: qualitative</th></tr>
<tr><th>Methodological aims</th><th>Research method</th><th>M-M design component</th><th>Type of component[1]</th><th>Time sequence</th></tr>
<tr><td>Explore variation in performance and governance in selected countries</td><td>Preliminary data analysis, survey</td><td rowspan="2">Supplementary</td><td rowspan="2">quan</td><td rowspan="2">Before</td></tr>
<tr><td>Select typical case studies</td><td>Survey, literature</td></tr>
<tr><td>Explore the governance of FI implementation in selected regional case studies</td><td>Case study</td><td rowspan="2">Primary</td><td rowspan="2">QUAL</td><td rowspan="2">After</td></tr>
<tr><td>Assess public accountability for FI in selected regional case studies</td><td>Case study</td></tr>
</table>

Source: own elaboration.

Note: [1] The mixed-methods notation uses capital letters for the predominant method and an arrow to indicate which method follows the other. In this case, the quantitative method comes before the qualitative and has less weight. Hence, the m-m notation: quan→QUAL.

Given that the primary aim of the thesis was to explore the implications of new modes of delegated governance in CP, (comparative) case studies played a central role in the overall research plan. The evidence presented in the thesis is based on a range of data sources, which are summarized in Table 4-2. The interplay between data sources, key activities and outputs is shown in Figure 4-1.

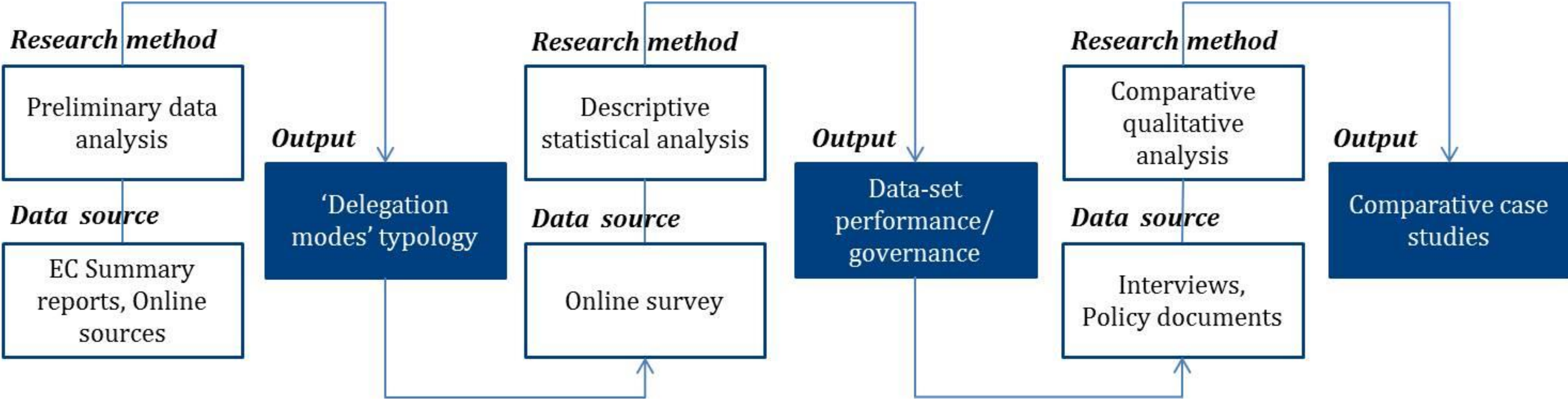
Table 4-2 | Data sources for the thesis

Type of data source	Data collection technique/ specific data source	Information gathered/sought
Primary	Online survey	Quantitative and qualitative data on implementation performance and governance (DE, IT, UK)
	Semi-structured interviews	Qualitative data on FI governance and accountability (BE, TU, NEE)
Secondary	EC summary reports Online data from financial institutions' websites, other relevant data sources (e.g. Register at Companies House in the UK)	Quantitative and qualitative data on FI performance, implementation patterns, FI structures and legal status/ownership of fund managers
	Operational programmes Annual and final implementation reports OP evaluations Other OP documents	Qualitative data on FI governance and accountability, qualitative and quantitative data on implementation performance frameworks

Source: own elaboration.

The research plan for this thesis combines elements of three methodological approaches. First, it considers the empirical studies of delegation in the EU and public accountability, which are characterized by methodological pluralism. Second, it draws from the growing mixed-methods literature, by developing an embedded sequential mixed-methods design. Third, it includes comparative case study within the larger design, in order to emphasize the comparative orientation of the thesis.

Figure 4-1 | Data sources, research methods, outputs



Source: own elaboration.

4.2 Overview of methodological approaches

4.2.1 Methodological approaches to the study of delegated governance

Overall, there are three approaches to the study of delegation: the first uses large-N datasets for quantitative analyses; the second uses small-N case studies and process-tracing as a method of performing qualitative data analysis; and the third combines these approaches or utilizes hybrid techniques (e.g. QCA). In the study of public accountability, empirical analyses mostly take the form of case-study research. Empirical work is, however, rare, as most of the literature in the discipline aims at clarifying key concepts and creating typologies.

The first approach to the study of delegation was developed in the US. US scholars all follow, to a greater or lesser extent, a positivist/post-positivist epistemology. In the first wave of delegation studies, past examples of delegation to executive or regulatory agencies were used to observe the actual behaviour of agents, e.g. McCubbins (1985). In the following decades, the focus of the analyses shifted to investigating the strategic decisions on the powers delegated to agents and the control mechanisms established to limit their autonomy, e.g. Epstein and O'Halloran (1994), (1996). Overall, US scholars studied the existence and determinants of agents' autonomy through case studies and large-N studies, looking at the correlation between principals' preferences and agents' behaviour (Pollack, 2003b).

The second approach was part of early studies on delegation in the US and the first wave of delegation studies in Europe. Pollack (2003a) argued that methods used in the US could not directly apply to the study of EU institutions, because delegation occurred through different pieces of legislation and treaties, not a clearly defined act. In his comparative research, Pollack (2003a) used process tracing within case study research. Pollack also provided some methodological guidance to scholars of agency and delegation issues in the EU. He observed: *'that principal–agent analysts should employ carefully chosen, comparative case studies featuring variation across the hypothesised independent variables; and that these cases should be disaggregated in ways that allow us to both multiply the "observable implications of theory" and trace the hypothesised causal mechanisms at work'* (Pollack, 2003b:216). Delreux and Adriaensen (2017) endorsed this approach and praised the suitability of process-tracing for identifying causal mechanisms, and of comparative research designs for detecting the conditions that explain particular patterns of delegation or degrees of discretion. Within the specific

context of CP, scholars most often relied on case studies. Through qualitative data collection and analysis, these authors tested their empirical assumptions on a small number of units (Blom-Hansen, 2005, Bachtler and Ferry, 2013).

The third approach, which is relatively recent, was followed by Delreux and Adriaensen (2017), who pointed to the potential for techniques to be combined in mixed-method designs, where: *'for instance the cross-case comparison allows for identifying conditions and the within-case process-tracing for unravelling the causal mechanisms'* (Delreux and Adriaensen, 2017:294). Accordingly, methodological pluralism was encouraged among the scholars following this approach.

Methodological pluralism was a key feature in accountability studies too, especially as public accountability can be looked at by different disciplines. Scholars tend to adopt the specific methodological approaches accepted in their respective fields (Bovens et al., 2014). Political science and the public administration literatures provide the most relevant reference points for this research. A review conducted by Schillemans (2013) showed that quantitative techniques and theoretical/conceptual contributions were the preferred approaches to the study of accountability in political sciences, whereas in the public administration sphere content analysis and interviews were most frequently used. The broad categorization adopted[33] showed the heterogeneity of approaches, which were heavily reliant on case studies, often unrelated to each other and very context dependent. In summary, studies of accountability mostly offer conceptual contributions where the focus is on meaning and typologies, whereas the limited empirical work mostly takes the form of case studies.

These methodological options were carefully considered for this study. The research plan for the thesis followed in part the approach developed by Delreux and Adriaensen and in part the work of scholars in the public accountability literature. This has been accomplished by mapping out the actors in and the object of delegation and exploring the interplay of decisions on the discretion awarded to the agent and the distribution of responsibilities, and by assessing the content and focus of the accountability

[33] The categories used are quantitative, experiment, content analysis, interviews, observation, theoretical/conceptual and literature review. These combine different methodological orientations (e.g. quantitative) with specific techniques for data collection and analysis (e.g. content analysis, interviews) and non-methods (theoretical, literature review), possibly due to the heterogeneity in approaches in the disciplines reviewed.

relationship. The research design draws from the mixed-methods approach and comparative case studies.

4.2.2 Mixed-methods research

Over the last three decades, mixed-methods have become *'the third methodological movement'* (Teddlie and Tashakkori, 2009:4). The first formal conceptualizations of mixed-methods research, as opposed to quantitative and qualitative research, date back to the late 1980s. In the early days, mixed-methods designs were broadly defined as: *'those that include at least one quantitative method (designed to collect numbers) and one qualitative method (designed to collect words)'* (Greene et al., 1989:256). This basic definition paved the way for the development of the discipline. Almost 15 years after its first recognition, the definitions focused on the methodological aspects underlying the discipline, with mixed-methods being referred to as: *'a type of research design in which QUAL and QUAN approaches are used in types of questions, research methods, data collection and analysis procedures, and/or inferences'* (Tashakkori and Teddlie, 2003:711).

The defining characteristic of mixed-methods research is that it combines qualitative and quantitative techniques of data collection and analysis and integrates the findings at some stage of the research study (Tashakkori and Creswell, 2007). Accordingly, mixed-methods designs are substantively different from multi-method approaches, where multiple methods from different traditions are used but the findings are not necessarily integrated (Johnson et al., 2007, Creswell and Plano Clark, 2006, Teddlie and Tashakkori, 2009). An additional distinctive feature is the pluralism in approaches within the discipline. These hinge upon the different rationale for adopting mixed-methods designs (Tashakkori and Teddlie, 2010). The purposes of mixed-methods research have been fruitfully synthesized by Greene et al. (1989:259) as in Table 4-3:

Table 4-3 | Research purposes in mixed-methods research

Purpose	Definition
Triangulation	convergence, corroboration, correspondence or results from different methods
Complementarity	elaboration, enhancement, illustration, clarification of the results from one method with the results from another
Development	use of results from one method to help develop or inform the other method, where development is broadly construed to include sampling and implementation, as well as measurement decisions
Initiation	discover paradoxes and contradictions, new perspectives on frameworks, recasting of questions or results from one method with questions or results from the other method
Expansion	extend the breadth and range of enquiry by using different methods for different inquiry components

Source: own elaboration, based on Greene et al. (1989:259).

Mixed-methods research began as an attempt to challenge the widely supported idea that quantitative and qualitative approaches were incompatible (Teddlie and Tashakkori, 2009, Plano Clark and Creswell, 2011). An internal debate within the mixed-methods discipline emerged, focusing on the extent to which separate approaches could be combined (Greene, 2007:68-69). As a response to this, the stance most often associated with mixed-methods research is pragmatism (Teddlie and Tashakkori, 2009:137-140, Johnson and Onwuegbuzie, 2004), the belief that a variety of worldviews may serve as philosophical basis for the use of mixed-methods research (Teddlie and Tashakkori, 2012). Pragmatism stands out from post-positivist, constructivist and participatory standpoints as the approach most suitable to conduct mixed-methods research (Creswell and Plano Clark, 2011). The main characteristics of such an approach are summarized in Table 4-4:

Table 4-4 | Pragmatism

Worldview element	Core question	Pragmatist position	Examples
Ontology	What is the nature of reality?	Singular and multiple realities	Test hypotheses and provide multiple perspectives
Epistemology	What is the nature of knowledge? What is the relationship between researcher and what is being researched?	Practicality	Collect data by 'what works' to address research questions
Axiology	What is the role of values?	Multiple stances	Include both value-neutral and value-conscious perspectives
Methodology	What is the research process?	Abductive and/or Combined	Collect both quantitative and qualitative data and mix them

Source: own elaboration, based and adapted from Creswell and Plano Clark (2011:42).

Over the years, mixed-methods scholars refined the operational elements of their research designs. In particular, they reflected on the specificity of mixed-methods research questions (Hesse-Biber, 2010) and on the procedures to be followed in mixed-methods research designs (Morse and Niehaus, 2009). Creswell and Plano Clark (2011) focused on the characteristics of the most-used research designs in the discipline, among which is the embedded mixed-method design (Table 4-5). The core characteristics of these are summarized in section 4.3. As remarked by the authors, these designs exemplify but do not prescribe the type of plan which should be adopted, which remains an open choice of the researcher.

The embedded design is a mixed-methods strategy in which the collection and analysis of quantitative and qualitative data are combined within a traditional qualitative or quantitative research design. The secondary dataset is a supplementary component of the main strategy, and its generation can occur before, during or after the procedures conducted for the larger design (Creswell and Plano Clark, 2011). The case-study method can be incorporated in this strategy. Following Greene et al. (1989:259), the purpose of this study spans complementarity and development (Table 4-3). Overall, a pluralist and pragmatic approach (Table 4-4) is adopted in the thesis. In practical terms, the thesis followed the guidance offered by Creswell and Plano Clark (2011), especially regarding the data generation process.

Table 4-5 | Embedded mixed methods research design

	Characteristics
Definition	Either the concurrent or sequential generation of supporting data with separate data analysis and the use of the supporting data before, during, or after the major data generation procedures
Design purpose	- Need preliminary exploration (sequential) or - Need more complete understanding (concurrent) or - Need follow-up explanations (sequential) of an experimental trial
Priority of strands	Either quantitative or qualitative emphasis
Timing	Either concurrent or sequential
Mixing strategies	Embedding of one strand within a design based on the other type occurs: - before, during, or after major component - through the use of secondary results to enhance the planning, understanding, or explaining of the primary strand

Source: own elaboration, slightly adapted from Creswell and Plano Clark (2011:73-76).

4.2.3 The comparative method and case studies

Comparative case studies are a central output of the mixed-methods plan in this thesis (Figure 4-1). The rationale for case study selection is explained here and will be

detailed in section 6.1. Two approaches can be identified in comparative research. The variable-oriented approach relies on a high number of units of analysis (large-N) and a limited number of explanatory (independent) variables, while case-oriented strategies (small-N) consider a higher number of factors to explain why a specific outcome can be found across countries. The choice between these two strategies depends on the epistemological position of the researchers, their skill-set, the research stage and, most importantly, the availability of data. The comparative method – as a distinct approach in contrast to the experimental and the statistical method – is used when the number of cases does not allow for statistical techniques to be used. In general, it should be preferred when researchers address complex phenomena or target institutions (della Porta, 2008).

The case-study method is used by scholars from different epistemologies, ranging from positivist (King et al., 1994), to interpretivist and middle-ground positions (Becker and Ragin, 1992, Brady and Collier, 2010, Gerring, 2007). It has been noted that the case study method is dependent upon the existence and use of middle-range theories, which provide a number of hypotheses or broad assumptions that help guide the research (Vennesson, 2008). 'Casing', or the selection of cases, is a fundamental preliminary component for conducting case-study research. It is a conscious methodological step, through which the proper identification of a case serves as a bridge for matching ideas and evidence (Ragin, 1992). The theoretical approach adopted shapes the case study. In particular, the purpose the case study serves depends on the theoretical approach, and a case study may be used to test theories or generate new hypotheses (Bennett, 2004).

A case study is an *'intensive study of a single unit for the purpose of understanding a larger class of similar units'* (Gerring, 2004:341). A *'case connotes a spatially delimited phenomenon (a unit) observed at a single point in time or over some period of time'* (Gerring, 2007:19). As noted by Gerring (2007), for students of political science, the archetypical case is the nation-state, but the study of smaller political units, such as regions, is also common. Case-study research can focus on single cases or cases can be compared (Bennett, 2004). Different authors offer different typologies of case studies and case-selection techniques. Some are more reliant on quantitative selection procedures (Seawright and Gerring, 2008, King et al., 1994), others combine reflections on the purpose of the theory with the identification of cases in the population of interest, to determine the scope for generalizations. In typical cases, generalization is limited to similar cases (Rohlfing, 2012).

Case-study methods target two alternative objectives: the interpretation of empirical cases or the analysis of causal mechanisms. These can be pursued separately or jointly (Ragin, 2014). Within-case analysis is usually associated with process-tracing. Process-tracing seeks to identify causal mechanisms operating between a dependent and independent variable with the aim of assessing whether the causal process hypothesized or implied by a theory is actually present in the sequence and values of the intervening variables (George and Bennett, 2005). Cross-case analysis is performed through multiple methods. The most-used method for comparative analysis is Mill's method of difference, an examination of the characteristics that make two cases with similar outcomes differ. Two different strategies can be used in practice: in the 'most-similar systems' design, similar cases are compared, while in the 'most-different systems' design, the comparison is between cases that are different (Teune and Przeworski, 1970). The disadvantage of this method is that conclusions can only be drawn regarding a specific context and, if several variables intervene, there is no scope to control their influence (della Porta, 2008). For this reason, this design is usually used in either a general or a preliminary fashion, in order to pin down potentially relevant variables (Bennett, 2004). 'Structured focused comparisons' focus on the various patterns that can occur and the conditions under which these patterns emerge. This allows contingent generalizations to be made, by treating cases as configurations of variables and thereby taking the complexity of the interactions between variables into account (Bennett, 2004, George and Bennett, 2005).

In this study, the p–a framework (middle-ground theory) sets the broad guidelines for the conduct of exploratory research (Vennesson, 2008). It is used to assess whether the mechanisms hypothesized by p–a operate in the chosen case studies, with the purpose of theory-testing. This thesis uses the case-study method within a general mixed-method research design. It combines within-case and cross-case qualitative data analysis, without adopting a specific formalized technique. The within-case and cross-case presentation of data follow Miles and Huberman (1994). In practical terms, the selection of cases ('casing') followed the preliminary data analysis of the survey findings and was based on a range of parameters (see 6.1). The key reason for the selection of cases has been the identification of typical cases for each delegation mode. The cases are identified at sub-national level and typify the characteristics of each mode. This allows the examination of the variation of governance and accountability arrangements within and across each case.

4.3 Research plan operationalization

4.3.1 Operational aims, stages of the research design and questions

The primary, intermediate and secondary aims described in section 3.3, are operationalized in stages. Each of the aims is examined separately.

Table 4-6 | Thesis operational aims

Governance
to explore the institutional design of FI implementation in CP
to explore the operation of the institutional design of FI implementation in CP
to understand how the institutional design distributes responsibilities and shapes relations
Public accountability
to explore the control mechanisms and performance frameworks for FI implementation in CP
to explore the operation of the control mechanisms and the performance frameworks for FI implementation in CP
Governance and public accountability
to assess how the institutional design of FI implementation interacts with its control mechanisms and performance frameworks

Source: own elaboration.

The research plan has been implemented in three stages. In the first stage, the analysis focused on the institutional design of FI implementation in CP. In the second stage, it examined the control mechanisms and performance frameworks for FI implementation. In the third stage, the research plan analysed the interaction between governance of and accountability for FI implementation.

On the basis of the key factors identified in the delegation (p–a) literature, the analysis first focused on the institutional design of FI implementation in CP, to understand how responsibilities are distributed and relations between actors are shaped. The following intermediate and operational questions were formulated:

a. How is the implementation of financial instruments in Cohesion policy organized?
   a) *What is the institutional design of financial instruments implementation in Cohesion policy?*
      i) What is the historical/economic context and the rationale for FI use?
      ii) Who are the actors formally involved? Who is the principal? Who is the agent? Who are the specific financial institutions chosen as fund managers?
      iii) What structures are used? i.e. holding fund or specific FI, independent legal entity or separate block of finance?
      iv) What instruments/products are offered? i.e. equity, loans or guarantees?

b) *How does the institutional design of financial instruments implementation in Cohesion policy distribute responsibilities and shape relations?*
   i) What is the formal set of delegated responsibilities? What are the actual responsibilities exercised?
   ii) What is the extent of the discretionary authority of fund managers?
   iii) How is power distributed among all actors involved?
   iv) How are relations between actors organized? Who is the actual principal? Who is the actual agent?

On the basis of the key factors identified in the delegation (p–a) and public accountability literatures, the second stage of the analysis focused on the control mechanisms and performance frameworks used in FI implementation, to understand how accountability is ensured. The following intermediate and operational questions were formulated:

b. How is public accountability for financial instruments implementation in Cohesion policy ensured?
   a) *What are the control mechanisms for financial instruments implementation in Cohesion policy?*
      i) What *ex ante* control mechanisms are chosen? How are they designed and applied?
      ii) Through what mechanisms is strategic compliance ensured?
      iii) What *ex post* control mechanisms are chosen? How are they designed and applied?
      iv) How are all control mechanisms balanced?
   b) *What are the performance frameworks for financial instruments implementation in Cohesion policy?*
      i) Are implementation performance documents accessible?
      ii) What is the content of the performance framework set out by the Commission?
      iii) What is the content of the performance frameworks set out by managing authorities?
      iv) What is the content of the evaluations carried out?
      v) Is the focus of these implementation performance frameworks on processes or results?

The third and final stage of the analysis examined the interaction between the accountability for and governance of FI implementation. The following intermediate question was formulated:

c. Does the institutional design influence how accountability is ensured in financial instrument implementation?
   a) *What are the channels through which institutional design may influence how accountability is ensured?*
   b) *To what extent do they influence how accountability is ensured?*

Research question c. is investigated on the basis of the data collected and analysed in the first and second stages.

4.3.2 Analytical criteria

In order to implement the research plan, several factors had to be operationalized. Table 4-7 sets out the factors that were examined to achieve the primary, intermediate and secondary objectives of the thesis.

Table 4-7 | Thesis analytical criteria

What is the institutional design?	
Context	Historic/economic context
	Rationale for FI use
Actors	Identification and characteristics of all actors involved in FI implementation
	Identification of roles (based on p–a assumptions)
Structures	Identification and characteristics of structures used: HF, specific FI/independent legal entity, separate block of finance
Instruments/Products	Identification and characteristics of products offered: equity, loans, guarantees
How does the institutional design work (distribute responsibilities and shape relations)?	
Formal responsibilities	Identification of formal responsibilities of all actors involved derived from the regulations
Informal/actual responsibilities	Identification of actual responsibilities exercised by all actors involved
	Definition of overall balance of responsibilities (formal and actual)
Discretionary authority	Definition of extent of authority of fund managers in defining selection criteria
	Definition of extent of authority of fund managers in applying selection criteria
Relations	Identification of (p–a) relationships structure
	Identification of leading responsibility in (p–a) relationships structure
What are the control mechanisms?	
***Ex ante* control mechanisms**	Identification of specific *ex ante* tools (contract design, choice of agent, choice of structure) envisaged
	Identification of design choices made for the tools
	Verification of application of tools
Control mechanisms to ensure strategic compliance	Identification of tools envisaged and applied to ensure strategic compliance
***Ex post* control mechanisms**	Identification of *ex post* specific tools (monitoring, reporting and control, rewards and sanctions) envisaged
	Identification of design choices made for the tools (e.g. frequency of monitoring)
	Verification of application of tools
Overall mix of control mechanisms	Assessment of balance among specific *ex ante*/*ex post* tools envisaged
What are the performance frameworks?	
Accessibility	Degree of accessibility of documents on implementation performance
Content	Identification of content of the performance framework set out by the Commission
	Identification of content of the performance frameworks set out by managing authorities
	Identification of content of evaluations commissioned by managing authorities
Focus	Assessment of focus of implementation performance frameworks (processes/results)
Does the institutional design influence how accountability is ensured?	
Channels of influence	Identification of channels of influence of institutional design over accountability tools
	Assessment of influence of institutional design over accountability tools

Source: own elaboration.

4.4 Research plan implementation

Figure 4-1 shows the key steps followed in the research plan. The design was sequential. A survey collecting mostly quantitative but some qualitative data was conducted first. The survey targeted all ERDF instruments set up in three countries (Germany, Italy and the United Kingdom). It explored the variation in the implementation and governance of FI across these countries. The countries were selected on the basis of various parameters, among which were representativeness (the top users of FI), broad theoretical orientation (delegation modes validated through the varieties of capitalism) and variation in core factors of interest (implementing actors, structures and financial products). The survey allowed the gathering of first-hand descriptive evidence on the variation within these countries.

The core component in the research design is the qualitative case study. The survey identified typical case studies on which in-depth qualitative research could be carried out. The specific research questions were defined after the survey data analysis, and the case-study selection depended on this analysis (Yin, 2009, Yin, 2018). Given the different purposes of survey and case studies within the mixed-methods design, the data from the survey and findings from the case studies are contained in separate empirical chapters. Chapter 5 is devoted to the survey findings, chapter 6 presents the evidence from each case study, while chapters 7 and 8 set out evidence across the cases.

The methodological traits of the research design are summarized as follows:

a. The research design was an embedded mixed-method one and the main design orientation was qualitative. The primary component encompassed qualitative data collection (EC summary reports, policy documents and semi-structured interviews) and analysis (QDA), through the case-study method. The supplementary component was quantitative and included data collection through survey and a descriptive statistical analysis. The survey data were collected and analysed before the case study data.
b. The main reason for a survey was the lack of comprehensive quantitative data on FI implementation (performance and governance). The data collected would also be useful for development purposes (Table 4-3), i.e. to identify typical cases for further inquiry. The survey was administered as an online self-completion questionnaire.

c. The key motivation for conducting interviews, alongside gathering documentary evidence, was the need to complement one type of data with the other. Policy documents did not offer adequate evidence to answer the research questions. The interviews were face-to-face semi-structured expert interviews with civil servants and actors (sub-national government officials, department staff and representatives of the financial institutions) involved in FI implementation.
d. For the quantitative data analysis, descriptive statistics (frequencies, diagrams, etc.) were used to explore the data collated in one Excel spreadsheet. No specific software was needed to carry out the analysis.
e. The qualitative data analysis involved both an analysis of the content of policy documents and the identification of themes within interviews. This was partly carried out with the help of NVivo qualitative data analysis software.
f. The case-study research was used to assess how the key assumptions defined in delegation studies operated in practice, namely in the context of FI implementation. The data from primary sources (surveys and interviews) were collected in English, German and Italian. Thus, special attention was devoted to ensuring that the German and Italian translations from and into English were accurate and applied consistently when preparing the survey material, contacting the survey and interview respondents, conducting interviews and writing the thesis.

Specific components of the research design and its implementation are described below. These are presented in the sequential order followed in the research plan.

4.4.1 Quantitative component

4.4.1.1 Preliminary data analysis and survey

Primary sources of quantitative data were the summary reports on the progress made in financing and implementing financial engineering instruments reported by the managing authorities (European Commission, 2014b, European Commission, 2015, European Commission, 2016, European Commission, 2017b). These reported on FI co-funded with CP resources (ERDF, ESF), across the EU. The quantitative data in these reports includes:

a. Amount of OP contributions paid to FI (holding fund or specific fund)
b. Amount of OP contributions paid to the fund or set aside in case of guarantees (holding fund or specific fund), and within that the amounts from Structural Funds, national public co-financing, national private co-financing
c. Management costs and fees
d. Investments made by FI in final recipients
e. Total number of financial products offered, of which loans, guarantees, equity/venture capital, other products
f. OP contributions invested in final recipients, of which loans, guarantees, equity/venture capital, other products
g. Contributions invested from the specific FI in final recipients, of which loans, guarantees, equity/venture capital, other products.

The deficiencies in the available data on FI implementation provided the rationale for an initial exploration of implementation arrangements in the EU. A preliminary data analysis (5.1.1) was first conducted by gathering and reviewing the summary reports which covered 2014, 2015, 2016 and 2017. Information on the legal status of fund management companies, which had been mainly gathered from the companies' websites and from relevant data sources (e.g. register at Companies House in the UK), was also analysed. This information has been used to build a dataset on the variation in the legal status of fund managers. This was the first step to identify typologies of actors and governance arrangements.

At this stage, the benefits of using structured interviews against self-completion questionnaires for the survey were examined. The survey was to serve two purposes:

a. to explore broadly the variation in FI implementation among the three top players in FI implementation, i.e. Germany, Italy and the United Kingdom
b. to provide a basis for case selection.

The advantages and disadvantages of different modes for administering the survey were compared, including postal and online (e-mail or web) questionnaires and structured interviews. Questionnaires had the most advantages, and a comparison of postal and online questionnaires was then carried out. The main advantages/disadvantages are summarized in the following tables.

Table 4-8 | Postal and online questionnaires vs interviews

Advantages	Disadvantages
Easier, faster and cheaper to administer, especially when the population is geographically dispersed	No scope for clarifying question content, to prompt or to expand answer given
Interviewees can reply any time within the set timeframe and at their own pace	Risk that a questionnaire is answered more than once (online surveys in particular)
Enhanced response validity	Lower response rate (especially online surveys). *minimised through pre-alerts, follow-ups*
Minimization of 'interviewer effect' (bias introduced by interviewer's approach to asking questions in interviews)	
Minimization of 'order effect' (bias introduced by asking questions in different order)	
Respondents are more likely to report realistically, when asked about sensitive matters	
Low degree of data entry errors from online questionnaires compared to all other modes of survey completion	
Respondents' answers can be downloaded into spreadsheets for online questionnaires	

Source: own elaboration, based on Bryman (2012:232-236 and 677-678).

Table 4-9 | Online vs postal questionnaires

Advantages	Disadvantages
Minimal time required to gather completed questionnaires	Risk of tiredness of the respondent
Option to use display filters to reduce respondents' fatigue by speeding-up the completion time	Lower number of answered questions and lower quality of responses in case of open-ended questions
Option to use display filters to safeguard the independence of each answer compared to the others	

Source: own elaboration, based on Bryman (2012:232-236 and 677-678).

Based on reflection on the strengths and weaknesses of the various modes of administration within the context of FI, it was decided to use web questionnaires to deliver the survey. The following considerations were taken into account:

a. The survey targeted all managing authorities delivering business support through FI in Germany, Italy and the United Kingdom in 2007–13. Given the geographic dispersion of respondents, gathering data through face-to-face interviews would be scarcely manageable, due to limited time and financial resources.
b. Data could be collected in standardized format, which allowed easier collation of data and minimized the 'interviewer effect'.

c. A web survey was considered more likely to encourage completion, as this method is now common practice for managing authorities involved in policy studies and evaluations.
d. A web survey was considered more useful to optimize time and resources: the responses could be sent back straight away and the researcher could monitor the collection process and quickly follow-up non respondents.
e. An option could be used to filter questions and provide a staggered display to reduce the 'tiredness effect' and offer a more intuitive access to the survey.

As outlined in Table 4-1, the survey served two practical aims: to explore the variation in implementation and governance in selected countries; and to allow identification of typical case studies. In practice, the survey was used to gather data on key performance indicators for 183 ERDF co-funded FI set up at regional level across three different countries: the United Kingdom, Italy and Germany. The quantitative data collected through the survey were cross-checked with the summary report data whenever possible. The survey was administered using Qualtrics software. Annex I reports the key dates and figures.

The questionnaire in English was used as the master version. The questionnaire was first piloted with colleagues at the European Policies Research Centre and civil servants in the Structural Funds Division of the Scottish government. The questions were translated by the researcher into German and Italian. The two versions were then checked for consistency by peer researchers (German) and a civil servant (Italian). The preparation of the survey questionnaire required a substantial amount of time. In particular, the online platform did not allow for tailoring the questionnaire to the respondent automatically. Because the unit of analysis chosen in the study was the FI as defined by the summary reports (Box 2-1), every questionnaire had to display the name and details of a specific fund, which was done manually. The English version of the survey was launched in late July 2016 and was available until the end of August 2016. The surveys were sent out to 13 ERDF managing authorities across the UK, covering 66 funds. 11 questionnaires were returned (a response rate of 17%).

The Italian online survey was first launched in late October 2016 and was originally available for three weeks. Reminders were sent after two weeks and in the last week of the completion period. The surveys were sent out to 17 ERDF managing authorities in all Italian regions that used FI in 2007–13. The total number of surveys distributed was

76; however, by the end of the third week, the number of returned surveys was very limited (5). Therefore, a decision was taken to extend the period for completion of the survey until early 2017. This was accompanied by a round of telephone calls to the public sector officials potentially involved in the survey completion. After this stage, the final number of questionnaires collected was 16 (21%).

The German version of the online questionnaire was first launched in early November 2016 and was originally available for three weeks. Reminders were sent after two weeks and in the last week of the completion period. The surveys were sent out to 16 ERDF managing authorities in all German *Länder* that used FI in 2007–13. The total number of surveys distributed was 41; however, by the end of the third week the number of returned surveys was very limited (4). Therefore, it was decided to extend the period of completion of the survey until early 2017. The final number of surveys returned was 11 (27%).

4.4.1.2 Descriptive statistical analysis

The analysis of survey data was done before and independently from the qualitative data analysis. Crucially, the type and quantity of data collected determined the type of analysis that it was feasible to carry out. Descriptive statistics were used to analyse the implementation performance data collected through the survey, as a way to simplify and summarize the information/data. Descriptive statistics are *'techniques that take raw scores and organize or summarize them in a form that is more manageable'* (Gravetter, 1995:6). The two most used ways to present the quantitative data collected in this study are in frequency tables and diagrams.

4.4.2 Qualitative component

4.4.2.1 Interviews and desk research

The qualitative component of the research design aims to:

a. explore the governance of FI implementation in selected regional case studies
b. assess public accountability in selected regional case studies.

This component of the research design generated the key evidence to address the primary and secondary aims of this thesis (Table 3-10). A combination of sources was used to achieve these goals. The in-depth case studies required both primary data and evidence from secondary sources. The two data sources were complementary to each

other, as the information included in policy documents could rarely provide a fully-fledged answer to the research questions and did not always provide adequate evidence to make inferences. Face-to-face interviews with key respondents were deemed essential.

The various characteristics of interviews were considered, to choose the most suitable mode for administering the questionnaire (Table 4-10).

Table 4-10 | Characteristics of interviews

Main criterion for categorization	Characteristics
Epistemological (Warren, 2002) and methodological orientation	Qualitative
Type of research questions of the study (Johnson, 2002:103-119)	In-depth
Type of questions in questionnaire (Aberbach and Rockman, 2002:674)	Open-ended
Presentational structure (Berg, 2017:67)	Semi-structured
Mode of administration (Sturges and Hanrahan, 2004)	Face-to-face
Type of respondent (Bogner et al., 2009)	Expert

Source: own elaboration, based on literature referenced.

An in-depth approach to conducting interviews was found to be relevant as the researcher sought meaningful ('deep') information and understanding. '*Whether in-depth interviewing should be used in research depends on the nature of the research question'* (Johnson, 2002:105). The need to gather expert, complex information was an essential consideration behind the choice to conduct in-depth interviews in this thesis. A semi-structured, open-ended interview format was chosen, on the basis of three core motivations, which corresponded to the considerations of Aberbach and Rockman (2002:674). First, the *'study explored a series of rather abstract and complex issues in a relatively uncharted area'*. Since the governance of FI implementation and its implications for CP governance were fairly unexplored areas of study, open-ended questions within a semi-standardized structure were preferred to closed ones. Second, '*open-ended questions provide a greater opportunity for respondents to organize their answers but within their own frameworks*', which enhanced response validity. Third, highly educated people (élites or experts) do *'not like being put in the straightjacket of close-ended questions. They prefer to articulate their views, explaining why they think what they think.'* The following aspects were considered in particular:

a. time resources, which include among other things the time spent conducting the interviews, transcribing and coding them
b. financial costs related to the relative slowness of an open-ended process, in comparison to quicker closed questions
c. costs in analytic rigour, i.e. in terms of limits on the analysis, as coding is necessarily less systematic for open-ended questions than for closed interview questions.

On the specific mode of administering the interview questionnaire, face-to-face interviews were preferred to other modes (telephone, Skype), even though telephone interviews have been found to yield the same results as face-to-face interviews in qualitative research (Sturges and Hanrahan, 2004). There were two specific considerations: first, the expert interviewee would value the effort of the researcher in meeting them in person and would devote an adequate amount of time to the interview in return; second, the researcher would be able to meet the expert in their working environment, favouring a social interaction beyond mere interview administration, and allowing the drawing of inferences about the organization where the respondent worked (Warren, 2002).

Qualitative interviewers usually distinguish between *élite* (Anglo-American tradition) and expert (German-speaking tradition) interviews. The two notions overlap on two criteria: the knowledge and power at the disposal of élites and experts. Littig (2009) argues that, if the central area of research is a combination of interpretive and procedural knowledge in a specific occupational or professional field, then the interview can be considered an expert interview. The degree of power of the actor helps distinguish between experts, *élites*, specialized lay people and specialists. On this basis, experts are top-level economic, political and governmental decision-makers. People who do not have these characteristics are specialists or (specialized) lay people. On the basis of the type of power exercised (formative and/or interpretive), it is possible to make a further distinction. While experts can have both types of power, *élites* have more formative power, because they occupy the positions in which the higher decisions are taken, and experts have more significant interpretive power because they attach meaning (through notions, concepts and relevance) to these decisions (Littig (2009) after (Bogner, 2005). This thesis follows the European literature tradition. On the basis of the power held, some of the interviewees in this

thesis can be considered as experts, whereas others can be categorized as specialized lay people and specialists in FI implementation.

It was also important to select actors at different levels of the delegated structure. Hence, the interviews were conducted with management-level staff at each of the three regional administrations. The interviews were scheduled in December 2016/January 2017 (North East England), and in the second and third week of March 2017 (Berlin and Tuscany). In each of the three regions, interviews were held with heads of managing authorities, 'intermediate level' bodies (the holding fund manager in NEE, the representatives of the specialist departments-intermediate bodies in Berlin, and the action manager in Tuscany) and selected fund managers. A total of 16 interviews were carried out in the three regions.

The interview questionnaire was discussed with supervisors and peers in the European Policies Research Centre first. The questions fall broadly under the following headings: types of actor, types of structure, governance structures, distribution of responsibilities, monitoring and control, policy objectives and external factors (e.g. administrative capacity, networks). The questionnaires (Annex II) were slightly adapted depending on the respondent, with a few more strategic questions being asked of managing authorities. If interviewees provided their consent, interviews were recorded and then transcribed. Where consent was not given or circumstances did not allow recording, written notes were taken during the meetings.[34]

Some of the data collected in the second part of the survey was used to complement the information collected through documents and interviews in the analysis. Policy reports and implementation documents were used to triangulate the evidence gathered through interviews, whenever possible. The first type of documents to be analysed were the summary reports on implementation of FI published in September every year. They provided an initial source of information, which gave a snapshot of all instruments set up across the EU and co-funded with ERDF and ESF funds. Under the

[34] The process of arranging interviews followed the University of Strathclyde Code of Practice on Investigations Involving Human Beings. The following procedure applied: an email outlined the aims of the study and its compliance with the Code and asked participants to cooperate with the study. Consent to participate was obtained in writing and agreement to conduct the interview. Consent to use the information gathered from the interviews was requested at the time of conducting the interviews. As an interviewee did not want to be identified, the data were anonymized for all interview respondents, following the general Data Protection Act 1998 principles.

heading 'Description and identification of the entities which implement FI', the summary reports include the following type of qualitative data:

a. Name of the fund
b. Operational programme(s)
c. Type of FI – holding or specific fund, Article 44, §1 (a) or (b) or (c)[35]
d. Fund manager
e. Fund set-up year

Other specific policy documents related to FI programming and implementation included:

a. The OPs and related documents (e.g. management and control system document)
b. The annual implementation reports and the final implementation report at programme closure, when available
c. The *ex ante*, ongoing and *ex post* evaluations of FI, if available.

4.4.2.2 Qualitative data analysis

The data gathered in this part of the study were analysed through QDA carried out on text material from policy documents and interview transcripts. QDA is a set of techniques that help identify patterns in data and interpret these patterns. The techniques vary depending on the research problem, how questions are formulated and how the research purpose is defined (Blaikie, 2009). The analysis in this thesis takes within and cross-case analysis (Miles and Huberman, 1994) as a reference point. This is a method that compares similarities and differences of cases with the aim of generalization. In-depth descriptions within and across cases are used, and explanations of cases in similar settings are also sought. The technique has the merit of gaining a rich understanding of a phenomenon and contributing to the generation of theoretical contributions.

The information collected through face-to face interviews was transcribed, shared with the interviewees for accuracy, then coded using NVivo QDA software. The coding scheme mainly followed the key analytical criteria identified in the research design, but

[35] Art. 44, §1 foresees investments in (a) financial instruments for enterprises, (b) urban development funds and (c) energy efficiency and use of renewable energies in buildings (including in existing housing).

also developed new codes on the basis of emerging themes. The transcripts of interview findings for each case study were based on the codified information and were grouped on the basis of the following broad codes: actors, actor properties, the relations between and across them; and the responsibilities held by each actor. The analysis of policy documents was carried out throughout the entire research project. The NVivo software proved useful for mapping the core elements to be included in the writing-up of the case studies. However two points must be noted. First, since the primary and secondary sources were relatively self-contained and the information quite focused, the software was useful but not essential in carrying out the analysis. Second, the interviews were transcribed in the original language for consistency and to avoid losing content. For consistency purposes, however, the coding was carried out in English. This resulted in coding selected parts of text in the three languages, which required translating the material into English. For this reason, only the interviews and part of the policy documents were coded and analysed in NVivo, while the remainder of the analysis was carried out without the help of the software.

4.5 Chapter summary

This chapter described the methodological approach adopted in the thesis. It reviewed the key methodological orientations of other studies in the discipline. It then described the two major orientations of this thesis: mixed-methods, and the comparative case-study method. The second part of the chapter outlined the practical research questions and the factors that guided the data collection and the analysis set out in the empirical chapters. Finally the research plan was described at length, with the detail of key decisions taken and their implementation. Delegation can be studied from various methodological approaches, ranging from a positivist/post-positivist perspective, to a more interpretivist approach. A middle ground is envisaged by mixed-methods advocates, who seek to combine pragmatically techniques from both traditions.

The decision to apply a mixed-method research design was motivated by policy documents not providing the necessary evidence to answer the research questions and by the limited and qualitatively poor data available from secondary resources. In particular, the sequential M-M design allowed the collecting of data on performance and governance when the data from policy documents and secondary sources was poor or missing, and subsequently making an informed decision on the case studies to be analysed. This made the whole process coherent and the research design suitable for

generating the relevant evidence. This chapter contributes to the rest of the thesis by setting out the analytical criteria applied throughout the study (4.3.2), which built on the literature reviewed in Chapter 3. Importantly, the chapter also details the techniques applied to generate and analyse the evidence presented in the empirical chapters (4.4).

5 Exploring FI implementation and governance

This chapter sets out the results of the exploratory survey, with some background information on the survey and the data collected (5.1). The chapter has two main sections: the first presents the data on how FI were implemented (5.2) and the second on their governance (5.3). These two sections define the indicators for which the information was collected and provide an overview of the information, trends and issues identified. Last, the sections describe how such indicators were applied in the survey and the results gathered. Section 5.4 summarizes the key insights from the analysis of the survey data.

5.1 The process of country selection

The preliminary analysis of the summary data on the progress made in financing and implementing financial engineering instruments (European Commission, 2014b, European Commission, 2015, European Commission, 2016, European Commission, 2017b) helped map out the various structures (holding funds and specific FI) and actors (legal status/ownership of financial institutions) involved as fund managers of the ERDF and ESF co-funded FI in 2007–13.

5.1.1 Outcomes of the preliminary data analysis

The first finding from the preliminary data analysis was the variation in the structures involved. 55% of FI were set up via holding funds and their sub-funds, with the remaining 45% set up as specific funds. As indicated in Chapter 2 (2.5.2), the variation in practice across member states was marked, with funds differing widely in their average size and their structure. Specific FI are more widely used than holding funds. Comparatively, Italy, Poland and the United Kingdom made large use of both holding funds and specific funds. In some countries, such as France, the use of specific FI predominates, and in Germany all managing authorities choose the simpler structure of specific FI.

The second finding was the variation of actors involved as fund managers. As previously observed (4.4.2), the summary data included the name and often, but not always, the legal status of the fund manager. Full additional data on the legal status of fund managers was collected and examined for the three top users of FI in 2007–13

(Italy, Germany and the United Kingdom) and less systematically[36] for the next three (Poland, Greece and Spain). A parallel dataset was compiled, linking the fund with the fund managers, the ownership structure and the legal status of the entity chosen. The preliminary analysis focused on the three levels of fund management – EU institutions, member states and regions.

On EU institutions, the EIB Group managed a non-trivial number of CP FI on behalf of national and regional managing authorities.[37] Among the countries that implemented FI under national ERDF OPs, most member states from Central Eastern Europe used support from the JEREMIE initiative, and therefore entrusted management to the EIB Group (Wishlade et al., 2018). Under article 44 of the Common Provisions Regulation (European Council, 2006), managing authorities could entrust implementation tasks to the EIB. In 2007–13, the CPR specified that the EIB Group could only set up holding funds. Although the EIB Group had not anticipated accepting positions as holding fund managers at the beginning of 2007–13, managers with adequate levels of expertise could not always be found (especially for urban development funds), and therefore the EIB was asked to take over the role (van der Zwet et al., 2016). Delegation to the EIB has 'standard' characteristics, which were applied in various regional contexts. In particular, the EIB Group was granted 'special status' in 2007–13, so that it could be appointed as fund manager without a public procurement procedure (Schneidewind et al., 2013, European Court of Auditors, 2016). The EIB group managed only holding funds, thus not reflecting the full variety of implementation arrangements across the EU.

FI set up and centrally managed by member states under national OPs were usually managed by departments within ministries or agencies. There were fewer national FI co-financed with ERDF and ESF OPs than regional FI. Among the countries not benefitting from the JEREMIE initiative (described above), practices varied widely. Some were determined by type of fund, e.g. only ERDF national OP (e.g. CZ) or only ESF (e.g. DE), while others mixed national with regional contributions from various OPs (e.g. EL). Some countries (e.g. IT, LV) set up several FI under their national OPs. Austria, Belgium, Denmark, the Netherlands, Sweden and the United Kingdom did not set up any national FI co-funded with Cohesion resources in 2007–13 (Wishlade et al., 2018).

[36] This was due to linguistic barriers.
[37] Of the 972 ERDF co-funded FI reported by managing authorities, 31 were managed by the EIB group according to European Court of Auditors (2016).

Some countries (e.g. the UK) did not have a national OP and therefore, technically, no nationwide FI could be co-financed with CF. FI could also be used to implement cross-border cooperation programmes, which happened in only one instance in 2007–13.[38]

The majority of FI were implemented at sub-national level within regional OPs, and that is the level considered in this thesis. This level was characterized by the marked variation in the actors involved. This thesis identifies three broad types of delegation to sub-national fund managers. Some member states, e.g. Germany and Spain, delegated fund management duties primarily to public institutions. Others, such as the United Kingdom and Greece, entrusted fund management responsibilities mostly to private actors. In a third set of countries, including Italy and Poland, duties were delegated to a combination of public or private entities, or to bodies with mixed ownership. The preliminary analysis for this thesis identified these three delegation modes, public, private and mixed.

On the basis of these preliminary observations, it was decided to focus the analysis on countries that exemplified these delegation patterns. – Germany for the public, Italy for the mixed and the United Kingdom for the private delegation mode. In Germany, about 70% of FI were managed by public institutions, mainly by regional development banks or credit institutions (*Landesbanken*) in the various states. In Italy, while about one third of funds were managed by private institutions and less than two thirds by public bodies, in a non-trivial number of cases these were managed by institutions with a mixed composition of stakeholders: mixed ownership/half public–half private entities. Furthermore, in Italy delegated fund managers were heterogeneous, ranging from regional development agencies to mutual guarantee institutions, private banks and fund management companies. In the United Kingdom, almost 90% of FI were managed by private fund management companies or similar institutions. Funds set up in Scotland and to some extent in Wales could be managed by public limited companies or similar public entities. As most FI were set up in England, however, the private delegation mode was prevalent in the UK.

The preliminary data analysis and resulting identification of delegation modes determined the geographic coverage of the survey. The countries to which the survey was addressed had to exemplify the variation in delegation modes. Some secondary

[38] CBC Eurefi Interreg sas FI.

factors also played a role. First, the survey was intended to cover countries with strong commitments and significant payments to FI, and from these to the final recipients. This meant the selection of countries in which FI had critical mass and, in the following stage, avoiding the selection of any regions in which FI use would be limited. As shown in section 2.5, Italy, Germany and the United Kingdom were consistently listed as top users and implementers of FI in CP. Second, the survey had to cover countries where it would be possible to conduct research on primary and secondary data sources in the country's national language. Italy, Germany and the United Kingdom were suitable countries, whereas in Poland, Greece and Spain – the other high users of FI – this criterion could not be met. The combination of these factors narrowed down the countries where the survey could be administered and provided a strong basis for the selection of the case studies.

Following the mixed-method design shown in Figure 4-1, the survey was conducted before the qualitative data collection. It was decided to cover the entire population of FI set up in the three countries in 2007–13, without making any distinction between funds at that stage. A final decision was taken to focus on ERDF-co-financed measures only, as this would enhance comparability across funds, primarily because no ESF-funded FI had been set up in the United Kingdom and only a few in Germany and Italy. On this basis, the survey was distributed to all 46 managing authorities using ERDF-co-funded FI in Germany, Italy and the UK (Annex I). The 36 questionnaires returned represent an overall 20% response rate. The related FI were almost entirely established to support enterprises.[39] Table 5-1 provides the detail of the funds for which information was gathered through the survey and an overview of the data reported to the Commission for each of the funds at programme closure. This shows the variation in fund size, type of product offered and FI implementation.

[39] Exceptions were *'Fondo Energia'* and *'Fondo Starter'* in Emilia-Romagna (ER1, ER2), which were established under art. 44, §1 (c).

Table 5-1 | Surveyed FI overview

1	2	3	4	5	6	7	8a	8b	9
FI[1]	Fund name	S[2]	P[3]	Fund manager	Y[4]	OP contributions (€m)	Out of which		OPcontributions invested in final recipients (€m)
							Structural funds (€m)	Management costs and fees (€m)	
BE1	Berlin Kapital	SF	L	Investitionsbank Berlin (IBB)	2009	3.20	1.60	0.89	3.35
BE2	Berlin Mezzanine Fonds	SF	L		2011	5.00	2.50	0.43	5.00
BE3	KMU-Fonds	SF	L		2008	135.65	67.83	13.08	122.57
BE4	VC Fonds Kreativwirtschaft	SF	E	IBB Beteiligungsgesellschaft mbH	2007	32.00	16.00	4.91	29.87
BE5	VC Fonds Technologie	SF	E		2007	47.00	23.50	6.45	45.52
HH	Innovationsstarter Fonds Hamburg	SF	E	IFB Innovationsstarter GmbH	2011	13.40	6.70	1.82	11.72
RP	Innovationsfonds Rheinland-Pfalz	SF	E	Wagnisfinanzierungsgesellschaft für Technologieförderung in Rheinland-Pfalz mbH	2008	28.66	14.33	1.49	27.51
SH1	EFRE-Risikokapitalfonds Schleswig-Holstein II	SF	E	Investitionsbank Schleswig-Holstein	2007	48.00	21.00	0.00	48.00
SH2	EFRE-Seed- und Startup-Fonds Schleswig-Holstein	SF	E		2011	6.00	3.00	0.00	6.00
TH1	Darlehensfonds Thüringen Dynamik	SF	L	Thüringer Aufbaubank, Anstalt des öffentlichen Rechts	2010	134.00	100.50	0.00	134.78
TH2	Darlehensfonds Thüringen Invest	SF	L		2008	25.00	18.75	0.00	25.70
AB	Fondo di rotazione POR Fesr Abruzzo 2007-13 Attività 1.2.2–1.2.4	SF	M	ATI Fira	2012	39.57	15.59	1.94	37.62
ER1	Fondo Energia	SF (HF)	L	Unifidi Emilia-Romagna Soc.Coop R.L.	2012	23.76	6.14	0.51	23.76
ER2	Fondo Starter	SF	L		2013	24.86	7.34	0.23	24.86
LA	Fondo di capitale di rischio POR I.3	SF	E	Lazio Innova SpA	2010	24.00	12.00	2.83	20.44
MO	Fondo Unico Anticrisi	SF (HF)	G	Finmolise SpA	2009	-	17.88	-	35.02
PI1	Fondo di garanzia per le PMI per smobilizzo crediti verso enti locali	SF	G	Finpiemonte Spa, società finanziaria pubblica	2011	2.55	1.01	0.41	2.55
PI2	Fondo di ingegneria finanziaria per integrazione fondi rischi dei Confidi piemontesi per la concessione di garanzie alle PMI	SF	G		2013	30.00	11.87	0.37	29.63
PI3	Fondo di riassicurazione per PMI artigiane	SF	G	Artigiancassa Spa	2010	11.50	4.55	0.00	10.99

1	2	3	4	5	6	7	8a	8b	9
FI[1]	**Fund name**	**S[2]**	**P[3]**	**Fund manager**	**Y[4]**	**OP contributions (€m)**	**Out of which**		**OPcontributions invested in final recipients (€m)**
							Structural funds (€m)	**Management costs and fees (€m)**	
PI4	Fondo di riassicurazione per PMI non artigiane	SF	G	Finpiemonte Spa, società finanziaria pubblica	2013	17.90	7.08	1.16	17.90
SA	Fondo regionale di cogaranzia e controgaranzia per le PMI sarde	SF	G	SFIRS spa	2009	233.20	164.64	4.67	268.91
TO1	Linee 1.4b1 e 14b3 - Fondo di garanzia Sez.1, 3,4 Regione Toscana	SF	G	RTI ToscanaMuove FidiToscana Spa, Artigiancredito Toscano Sc, Artigiancassa Spa	2014	4.01	1.24	0.00	4.03
TO2	Fondo Unico Rotativo per Prestiti (FURP) Regione Toscana	SF	L		2011	62.09	16.37	0.00	62.09
TO3	Fondo Toscana Innovazione	SF	E	Sici - Sviluppo Imprese Centro Italia S.g.r. S.p.A.	2008	23.99	2.59	1.31	7.77
TO4	Interventi di sostegno a patrimonializzazione e evoluzione degli organismi di garanzia	SF	G	ArtigiancreditoToscano; Italia Comfidi scarl; Confidi imprese toscane soc.coop; Cooperfidi Italia soc.coop. di garanzia fidi; Eurofidi soc.cons.Fidi Spa	2010	12.60	4.36	0.00	12.75
TO5	Linea 1.4b1 - Intervento di garanzia per gli investimenti delle PMI Regione Toscana	SF	G	Fidi Toscana Spa	2009	33.00	11.75	0.00	33.37
UM	Servizi finanziari alle PMI umbre	SF	M	ATI Prisma 2 - Gepafin spa Sviluppumbria spa	2009	44.28	17.27	3.33	40.07
NE	Finance For Business North East UK	HF	-	North East Finance (Holdco) Ltd	2009	164.73	61.45	36.57	
NE1	NE Accelerator Fund	SF (HF)	E	Northstar Equity Investors Ltd - Northstar Ventures	2010	41.06	15.32	6.17	41.06
NE1	NE Angel Fund	SF(HF)	E	Rivers Capital Partners Limited	2010	13.37	4.99	2.47	13.37
NE3	NE Growth Fund	SF (HF)	E	NEL Fund Managers Limited	2010	34.23	12.77	3.85	34.23
NE4	North East Proof of Concept Fund	SF (HF)	E	Northstar Equity Investors Ltd - Northstar Ventures	2010	24.91	9.29	4.62	24.91
NI	Co-Investment Fund, Invest NI	SF	E	Clarendon Fund Managers Ltd	2012	10.98	5.49	0.00	10.98
SC1	East of Scotland Investment Fund	SF	L	WSLF Management Services Ltd	2010	7.10	2.53	0.85	1.26
SC2	Scottish Co-Investment Fund	SF	M	Scottish Enterprise	2008	94.48	37.68	0.46	56.8
SC3	West of Scotland Loan Fund	SF	L	West of Scotland Loan Fund	2009	21.30	8.52	0.00	12.07
WA	Finance Wales plc	HF	-	Finance Wales plc	2009	104.94	52.47	0.00	-

1	2	3	4	5	6	7	8a	8b	9
FI[1]	Fund name	S[2]	P[3]	Fund manager	Y[4]	OP contributions (€m)	Out of which		OPcontributions invested in final recipients (€m)
							Structural funds (€m)	Management costs and fees (€m)	
						65.51	17.18	0.00	-
WA1	JEREMIE Cardiff	SF (HF)	-	Finance Wales Investments Ltd, 100% owned subsidiary of Finance Wales plc	2009	104.94	52.47	0.00	104.94
						65.51	17.18	0.00	64.58

Source: own elaboration, based on summary data as of 31 December 2015 (European Commission, 2015) and at closure (European Commission, 2017b).

Notes: [1] FI = Fund names (Column 2). [2] S =STRUCTURE: holding fund (HF), specific fund (SF) or specific fund under HF: SF (HF). [3] P=PRODUCT: loan (L), guarantee (G), equity/ VC (E), mixed (M) n.b. type of financial product not reported for holding funds. [4] Y = set-up year.

5.1.2 Validating country selection

The outcome of country selection, based on the criteria outlined above was cross-checked against the relevant literature. Hooghe (1998) argued that, in the ten years since the 1988 reform, CP had followed a (German-like) model of regulated capitalism. British neoliberalism, however, was putting considerable pressure on transforming CP into a less redistributive, less socially oriented policy, tailored for competitiveness and innovation purposes. A few years later, an influential strand in political economy sought to clarify the variation in the economic systems associated with capitalism. Hall and Soskice (2001) distinguish between coordinated market economies (CMEs) and liberal market economies (LMEs), and also identify a further type of hybrid economic system. The first variety of capitalism was represented by Germany, the second by Anglophone countries (United States and United Kingdom) and the third included Mediterranean countries such as Italy, Spain and France.

This threefold classification is based on the observation of the relationship between firms and other economic actors in capitalist systems, which covered five areas: industrial relations; vocational training and education; corporate governance; inter-firm relations; and employment. Under each of these categories, they appraised how firms maximized their capabilities and concluded that in CMEs they did so by relying on long-term finance, cooperative industrial relations, firm-sponsored vocational training and inter-company cooperation in technology transfer with incremental innovations. LMEs relied on short-term finance, deregulated labour markets, universal education and sharp inter-company competition in technology transfer with radical technological innovations. The primary difference is that institutions encouraged cooperation between economic actors in CMEs and competitive market-based relationships in LMEs.

The 'varieties of capitalism' literature (VoC) has attracted widespread attention and also criticism. Some scholars have suggested ways to improve or expand the categories provided. Nölke and Vliegenthart (2009), for instance, created a new category of so-called dependent market economies, broadly represented by Central Eastern Europe countries, and characterized by a reliance on foreign direct investment and foreign-owned banks as a way to raise funding. Scholars took issue with the dichotomy between LMEs and CMEs, as this conflates all other types of capitalism into a residual hybrid category. Also, the classic VoC literature was criticized for not taking into account regional varieties of capitalism (Ebner, 2016). These result in the

differentiation of local governance structures with their own systems of production and competition (Crouch et al., 2009). Notwithstanding this criticism, the distinction between coordinated liberal market economies and a hybrid category is broadly accepted. This is confirmed by the fact that the theory has been refined and not rejected over the years. The categorization of regulated market economies exemplified by Germany, liberal economies typified by the UK and a hybrid category in which Italy is included provided an additional validity check for confirming the country selection.

5.2 Exploring FI implementation

The first part of the survey, on FI implementation, gathered quantitative data on the revolving nature of funds, defaults, management costs and fees and private funding and asked for a qualitative assessment of the contribution of FI to the strategic objectives of the OP and the added value by this form of intervention (compared to grants). A definition of the indicators and an indication of how such indicators were applied in the survey precedes the presentation of key findings. The various headings correspond to the indicators used.

5.2.1 Revolving factor

OP resources that have been invested in final recipients must be paid back to the FI for further use (European Commission, 2017b). The revolving factor indicates the extent to which resources originally paid from an OP to a holding fund or specific FI are reused after the fund endowment has been fully disbursed to final recipients (European Court of Auditors, 2012). For the purpose of this thesis, the revolving factor was calculated on the basis of the total OP contributions committed to the FI (in loans, guarantees or equity products) and paid to final recipients as of December 2015 and the amount paid back to the fund. The study also asked about the location of the revolved funds, to understand who had responsibility for them. The data collected through the survey on amounts paid from the fund to final recipients are similar to the data reported at programme closure by the European Commission. The discrepancies may be attributable to the fact that the summary data were collected almost 18 months later than the survey data, therefore reflecting a more advanced stage in implementation. In any case, the trends were broadly confirmed. When it was possible to calculate the revolving factor, this was found to vary widely.

Table 5-2 | Aggregate measure of revolving factor

1	2	3	4	5
FI	Total OP contributions committed to FI and paid to final recipients (€m) – survey data	OP contributions invested in final recipients (€m) – summary data	Amount paid back (€m) – survey data	Funds revolved (%) - own calculation
BE1	3.35	3.35	1.36	40.60
BE2	5.00	5.00	0.85	17.00
BE3	122.57	122.57	42.13	34.40
BE4	29.87	29.87	3.84	12.80
BE5	45.52	45.52	9.88	21.70
HH	11.70	11.72	0.00	n/a
RP	28.76	27.51	4.90	15.60
SH1	38.40	48.00	4.90	12.70
SH2	5.25	6.00	0.07	1.30
TH1	134.00	101.28	n/a	n/a
TH2	25.00	19.45	n/a	n/a
AB	11.40	37.62	0.00	n/a
ER1	14.56	23.76	2.26	15.50
ER2	15.88	24.86	2.54	16.00
LA	16.60	20.44	1.20	7.20
MO	35.60	35.02	15.00	42.00
PI1	2.50	2.55	2.30	92.00
PI2	29.90	29.63	29.70	99.30
PI3	9.90	10.99	8.60	78.20
PI4	16.50	17.90	13.00	72.60
SA	239.92	268.91	256.90	95.50
TO1	3.00	4.03	0.00	n/a
TO2	42.78	62.09	0.00	n/a
TO3	9.07	7.77	0.00	n/a
TO4	12.60	12.75	0.00	n/a
TO5	33.00	33.37	13.19	39.50
UM	22.00	40.07	n/a	n/a
NE	n/a	n/a	n/a	n/a
NE1	n/a	41.06	n/a	n/a
NE1	10.89	13.37	3.10	28.50
NE3	29.14	34.23	21.41	73.40
NE4	21.38	24.91	5.42	25.30
NI	5.75	10.98	0.00	n/a
SC1	5.67*	1.26	3.03*	53.30
SC2	106.85*	56.80	72.35*	67.70
SC3	19.63*	12.07	92.99*	473.70[40]
WA	137.03	104.94	0.00	n/a
WA1	55.65	64.58	0.00	n/a

Source: own elaboration, based on survey data and summary data at closure (European Commission, 2017b).

* Data reported in £, converted at average rate applicable on 31 December 2015 – GPB 1 = Euro 1.3575.

[40] Clarification was sought on this seemingly high figure, but no specific answer was provided by the Scottish Government. The figures shown in column 2 were validated against relevant annual implementation reports. However, the data in column 4, which came from an elaboration of survey data, was not also contained in such reports and could not therefore be so checked.

The data on the location of returned resources is reported in Table 5-3. This provides original insights, for which no precedent has been identified in the previous research. Germany implemented FI through specific funds only and, according to the survey results, returns were only allowed to go back to such funds. In Italy, the situation was much more nuanced. Even though some of the funds surveyed were sub-funds of holding funds, the returns did not accrue to those funds. Specific provisions (noted under other) were made for the majority of funds:

a. In Molise, resources went back to a different FI, namely the regional fund providing direct guarantees.
b. In Piedmont, funds returned to the region, on the basis of provisions made in the funding agreement.
c. In Sardinia, money had to be reused for the same purposes, but the mode had yet to be defined.
d. In Tuscany, resources went back to a budget managed by the managing authority to be reused for the benefit of SMEs.

In the United Kingdom, resources could return to the specific FI or holding funds or other arrangements could be applied. In Wales (other), the managing authority specified that the resources of the holding fund and sub-fund were to be used to repay the EIB loan first. Any further returns from equity exits – yet to be realized – would form a legacy for reinvestment via the holding fund.

Table 5-3 | Where do OP contributions paid back to the FI go?

Country	Original specific fund	Holding Fund	Other
Germany	11	0	0
Italy	5	0	11
United Kingdom	4	3	2

Source: own elaboration based on survey frequencies.

Note: NE, NE1 data not provided.

5.2.2 Default rate

Default is the failure of a company to repay credit under the terms on which it was granted. In the case of a guarantee, default is when a guarantee is executed (European Court of Auditors, 2012). Even though default rates are one of the most commonly used indicators to appraise FI performance, they were rarely provided in EU-wide evaluations and reporting obligations for FI (e.g. the summary data at closure). This survey asked about the expected and achieved default rates, how the expected default

rates were set out and the total value of defaulted investments. The survey also asked for a qualitative assessment of the actual compared to the expected default rate. The data in Table 5-4 show that in the UK expected default rates were set out for all the funds, but in Germany and Italy the majority of FI did not estimate a potential rate.

Table 5-4 | Was an expected default rate set?

Country	Yes	No
Germany	2	9
Italy	5	11
United Kingdom	9	2

Source: own elaboration, based on survey frequencies.

Note: All FI.

Where the expected default rate was set out, various methods and background sources were used to calculate it. Most of the managing authorities built on previous experience to calculate expected performance. In some situations, they relied on 'benchmark' funds and data from other sources. The most refined approach to calculating the default rate was found in North East England, and involved internal financial modelling with external validation. The survey asked about the actual default rate, the volume of defaulted resources (Table 5-5) and how the actual rate compared to the expected rate (Table 5-6). Given that such data were not required in the summary report, the scope for drawing conclusions on FI performance was limited to some exploratory evidence of practices across countries and funds.

Table 5-5 | Actual default rate and value of products defaulted

FI	Actual default rate (%)	Total value of disbursed products subsequently defaulted (€m)
BE1	21.99	n/a
BE2	0.00	n/a
BE3	1.10	n/a
BE4	28.15	n/a
BE5	16.65	n/a
HH	n/a	0.00
RP	15.99[1]	4.60
SH1	19.89	9.55
SH2	11.20	0.59
AB	0.00	2.70
MO	6.00	1.60
PI1	2.00	0.36
PI2	0.50	0.83
PI3	1.04	1.29
PI4	3.00	5.40
SA	45.00	n/a
NE	32.40	n/a
NE1	34.20	11.90
NE1	34.20	4.15
NE3	23.30	8.26
NE4	46.20	11.37
NI	8.00	0.44
SC1	17.50	1.00*
SC2	0.00	n/a
SC3	18.8	3.70*
WA	21.0	29.02
WA1	38.0	22.90

Source: own elaboration, based on surveys.

Notes: only FI which provided full data shown. TH1, TH2, ER1, ER2, LA, TO1–TO5, UM data not provided.

[1] Own calculation, based on survey data.

* Data reported in £, converted at average rate applicable on 31 December 2015 – GPB 1 = Euro 1.3575.

The managing authorities which set out a default rate were asked to compare the actual and forecast values (Table 5-6). Germany provided too few responses for conclusions to be drawn. In Italy, there were several results below expectations. In the United Kingdom, results matched or bettered expectations in most cases.

Table 5-6 | Actual default rate compared to expected default rate

	Significantly lower	Lower	Same as expected	Higher	Significantly higher
Germany	1	1	1	0	0
Italy	5	0	1	0	0
United Kingdom	0	4	4	2	1

Source: own elaboration, based on survey frequencies.

Notes: respondents' self-assessment. Only actual responses shown.

5.2.3 Management costs and fees

According to article 78(6) of the Common Provisions Regulation, management costs and fees (MC&F) include any fees, costs, expenses and other earnings paid from the OP to the manager of a holding fund or specific fund as reimbursement or compensation for managing the funds provided from the OP for investment in final recipients. Such costs and fees were eligible expenditure for reimbursement from the structural funds (European Council, 2006). Not infrequently, MC&F were paid for from resources outside the OP and the payments of fund managers were met from resources other than fees. Fund managers could also earn from investments on their own account, for instance by charging fees to final recipients directly (Wishlade et al., 2016a).

Article 43(4) of the 'implementing regulation' stipulated maximum recommended thresholds for each category of funds, on a yearly average: a 2% rate was applicable to contributions from the OP to an holding fund or guarantee fund; a 3% rate applied to loan and equity funds; and a 4% rate applied to microcredit instruments (European Commission, 2006). Information on MC&F was not one of the annual compulsory reporting obligations in 2007–13, but it was required at closure. Even at closure, however, not every OP provided the relevant information and even when information was reported, managing authorities would often provide a blank or zero value (European Court of Auditors, 2016).

The information collected in the summary report was cumulative for the period from 2007 to 31 March 2017, therefore a comparison of MC&F should be based on the average annual rates. Cumulative MC&F amounted to 6.7% of the sums paid to FI, which equalled an average of 1.26% per year. This is lower than the average annual MC&F rate of 1.71% reported at the end of 2015 (European Commission, 2017b). Overall, the Commission observed (Table 5-7) that MC&F for holding funds and their sub-funds were higher than for specific funds (European Commission, 2017b).

Table 5-7 | MC&F paid to FI, compared to the amount of OP resources invested in final recipients

Structure type	31 December 2015 (%)	31 March 2017 (%)
Holding funds	13.40	13.00
Specific funds	7.90	6.70
All FI	10.80	9.10

Source: own elaboration, based on summary data at closure (European Commission, 2017b).

Note: figures refer to FI that report MC&F.

Marked differences could be observed in the amount of MC&F across financial products (equity, loans, guarantees). The Commission observed that, generally, guarantee instruments were the least costly and equity funds were the most expensive. Loans were found not to be particularly difficult to administer and involved moderate MC&F (European Commission, 2017b). Table 5-8 shows the variation in OP resources spent on MC&F for each fund category.

Table 5-8 | OP contributions for MC&F by type of instrument

Instrument type	Cumulative total (%)	Annual average
Equity/VC instruments	10.00	1.66
Loan instruments	5.10	0.90
Guarantee instruments	3.30	0.56

Source: own elaboration, based on summary data at closure (European Commission, 2017b).

Note: figures refer to FI that report MC&F.

The approach adopted in the survey was to ask for the total amount of MC&F paid to holding funds or specific funds as of 31 December 2015. With a few exceptions, the survey data presented in Table 5-9 were in line with the information reported at closure. The table also shows calculations of the rate of MC&F compared to OP invested in final recipients. The calculated rates based on survey and summary data as of 31 December 2015 appear to be consistent with each other and, overall, broadly in line with the calculations based on information reported at closure (31 March 2017). As highlighted by the Commission, the data in Table 5-9 does not offer clear-cut evidence of variation in MC&F between holding funds and specific funds, or across types of instruments. As indicated by the ECA, zero values could be interpreted as missing data or indicate that MC&F were, for instance, paid in a different form.

Table 5-9 | Management costs and fees reported

FI	P[1]	S[2]	MC&F - survey[3]	MC&F - summary[4]	MC&F paid to FI compared to amount of OP resources invested in final recipients		
					Survey and summary data[5]	Summary data[6]	Summary data[7]
BE1	L	SF	0.89	0.89	0.26	0.24	0.26
BE2	L	SF	0.43	0.43	0.11	0.24	0.09
BE3	L	SF	13.08	13.08	0.12	0.26	0.11
BE4	E	SF	4.91	4.91	0.18	0.18	0.16
BE5	E	SF	6.45	6.45	0.16	0.16	0.14
HH	E	SF	1.80	1.82	0.17	0.15	0.15
RP	E	SF	1.49	1.49	0.04	0.04	0.05
SH1	E	SF	0.00	0.00	0.00	0.00	0.00
SH2	E	SF	0.00	0.00	0.00	0.00	0.00
TH1	L	SF	0.00[8]	0.00	0.00	0.00	0.00
TH2	L	SF	0.00	0.00	0.00	0.00	0.00
AB	M	SF	1.20	1.94	0.10	0.20	0.05
ER1	L	SF (HF)	0.37	0.51	n/a	n/a	0.02
ER2	L	HF	0.12	0.23	n/a	n/a	0.01
LA	E	SF	2.30	2.83	0.14	0.03	0.14
MO	G	SF (HF)	1.80	n/a	0.17	0.00	0.00
PI1	G	SF	0.00	0.41	0.00	0.14	0.16
PI2	G	SF	0.00	0.37	0.00	0.01	0.01
PI3	G	SF	1.65	0.00	0.16	0.00	0.00
PI4	G	SF	0.00	1.16	0.00	0.04	0.06
SA	G	SF	2.87	4.67	0.01	0.02	0.02
TO1	G	SF	0.00	0.00	0.00	0.19	0.00
TO2	L	SF	0.00	0.00	0.00	0.00	0.00
TO3	E	SF	1.31	1.31	0.17	0.16	0.17
TO4	G	SF	0.00	0.00	0.00	0.00	0.00
TO5	G	SF	0.00	0.00	0.00	0.19	0.00
UM	M	SF	2.60	3.33	n/a	n/a	0.08
NE	-	HF	32.79	36.57	n/a	n/a	n/a
NE1	E	SF	5.77	6.17	0.17	0.17	0.15
NE1	E	SF	2.31	2.47	0.21	0.21	0.18
NE3	E	SF	3.60	3.85	0.12	0.12	0.11
NE4	E	SF	4.32	4.62	0.20	0.20	0.18
NI	E	SF	0.00	0.00	0.00	0.00	0.00
SC1	L	SF	1.44*	0.85	1.14	0.67	0.67
SC2	M	SF	3.12*	0.46	0.05	0.01	0.01
SC3	L	SF	2.67*	0.00	0.22	0.00	0.00
WA	-	HF	0.00	0.00	n/a	n/a	n/a
WA1	M	SF	0.00	0.00	0.00	0.11	0.00

Source: own elaboration, based on surveys and summary data at closure (European Commission, 2017b).

Notes: [1] P=PRODUCT: loan (L), guarantee (G), equity/ VC (E), mixed (M) n.b. type of financial product not reported for holding funds.

[2] S =STRUCTURE: holding fund (HF), specific fund (SF) or specific fund under HF: SF (HF).
[3] Figure as of December 2015 (€m).
[4] Figure as of March 2017 (€m).
[5] Figure as of December 2015 (%) – own elaboration based on survey and summary data.
[6] Figure as of December 2015 (%) – own elaboration based on summary data.
[7] Figure as of March 2017 (%) – own elaboration based on summary data.
[8] MC&F based on actual documented/checked expenses.
* Data reported in £, converted at average rate applicable on 31 December 2015 – GPB 1 = Euro 1.3575.

The survey also examined how MC&F were calculated and the process of setting them out (Table 5-10). It identified various approaches. In 2012, the Commission provided guidance to managing authorities that the fund manager's remuneration should be linked to the quality of investments made, as measured by their contribution to the achievement of the OP strategic objectives and the value of resources returned from investments undertaken (Committee of the Coordination of Funds, 2012). In 2016, the ECA stated that MC&F should be based on the performance of fund managers, instead of being paid as a percentage of the OP contribution (European Court of Auditors, 2016). However, performance-based remuneration was not the norm, according to the survey data. Most of the managing authorities in Germany and Italy had other arrangements in place for calculating MC&F (Table 5-11) – reimbursing in full the actual expenses; stipulating MC&F in the funding agreements or tender procedures; not charging management costs to the ERDF, but to the national or regional public or private co-funding; paying MC&F from interest earned. Among the options given in the survey, most managing authorities based MC&F on the private sector equivalent or offset them as part of a framework agreement with the fund manager, which did not require MC&F to be specified.

Table 5-10 | How were management costs and fees calculated?

	Base remuneration	Base + performance-based remuneration	% of fund size	Not specified, as part of a framework agreement with the fund manager	Set by private sector equivalent (market rate)	Other	Data not provided
Germany	1	1	0	2	0	5	2
Italy	0	0	1	4	3	8	0
United Kingdom	1	0	0	0	4	4	2

Source: own elaboration, based on survey frequencies.

Table 5-11 | How were management costs and fees calculated? - Other

FI	Other way to calculate management costs and fees
BE1	Actual documented and checked expenses
BE2	
BE3	
BE4	
BE5	
ER1	European tender
ER2	Specification of terms of contract
LA	Reimbursement of reported management costs within the limits of the ERDF regulation
PI3	Agreement and contract between the Region and fund manager
TO1	Management costs, if present, are charged to the regional budget and not to the OP. Administrative costs are not certified to the Commission
TO2	
TO4	
TO5	
NE	Actual costs (management costs); set by private sector (product fund fees)
NI	Paid from national funds, not claimed from ERDF
SC1	Tender and fund management contract based on fund size
SC3	Paid from surplus bank interest earned

Source: own elaboration, based on surveys.

Variation is also evident in the process of arranging fees (Table 5-12). The majority of German funds surveyed adopted the same approach for calculating fees and setting them out, i.e. basing them on actual costs (Table 5-13). Second in order of preference was for MC&F to be negotiated in the context of the funding agreement. In Italy, in most cases MC&F were decided in the bidding process, set out in a framework agreement or spelled out in the fund management agreement. They could also be unilaterally set out by the managing authority. In the UK, where most of MC&F were either determined on the basis of the market rate or the alternative ways outlined in Table 5-11, the most common process for setting out MC&F was at the point of bidding or tendering.

Table 5-12 | How were management costs and fees set out?

Country	Fixed by the managing authority	Decided in the bidding process	Negotiated as part of the funding agreement	Other	Data not provided
Germany	0	1	3	5	2
Italy	3	4	1	4	4
United Kingdom	0	6	1	2	2

Source: own elaboration, based on survey frequencies.

Table 5-13 | How were management costs and fees set out? - Other

FI	Other way to set out management costs and fees
BE1	Actual documented and checked expenses
BE2	
BE3	
BE4	
BE5	
PI1	Framework agreement
PI2	
PI4	
PI3	Agreement and contract with fund manager
SC1	Fund management contract was tendered
SC3	Management costs and fees were not set as part of the ERDF application

Source: own elaboration, based on survey.

5.2.4 Private funding

In the context of FI implementation, private funding is the amount of private resources added to ERDF and national contributions in an OP. As a percentage of the total, it gives a measure of the multiplier effect of public investments (European Court of Auditors, 2012) – the leverage that the public investement has created. Two issues have affected how private funding has been defined and calculated over the years. First, the Commission defined leverage as the total financial support provided to final recipients divided by the EU contribution to the FI via the OP. The ECA, on the other hand, argued that leverage should be defined as the amount of finance to eligible final recipients – distinguishing between national co-financing and any additional national contribution (which goes above the OP) – divided by the amount of the public contribution to the OP (ERDF and ERDF co-funding), to provide a reliable indication of the actual performance in attracting additional private or public funds on top of the public contributions to the OP (European Court of Auditors, 2016).

Second, private co-financing to FI could not only be incorporated in the priority axis[41] co-financing of an OP (e.g. loan FI) but also or alternatively at the level of a transaction (e.g. guarantee and equity funds). The data collected by managing authorities might then not capture the actual scale of private funding, as the focus would be on contributions to the OP only. For instance, the co-investment model often applied to equity funds required equal co-investment from public and private investors at deal level. In other situations, final recipients may themselves contribute with additional resources to the funding received (Wishlade et al., 2016a).

[41] The operational programmes detail the objectives to be achieved, priority axes and actions/measures taken. In 2007-13, the OP had to be detailed by priority axis not by measure.

Data on leverage ratios for ERDF and ESF contributions to FI were not available for 2007–13, because the legislation did not make it compulsory for member states to report on these (European Commission, 2017b). The Commission asked for reports on private co-funding at OP level, but on a voluntary basis. Although it was not compulsory, a number of managing authorities did provide information on the total amount of other contributions, at the level of final recipients. In its summary report at closure, the Commission observed that, for those FI where information on other contributions was provided, a leverage of 18 to 20 times the EU contribution was sometimes reported (European Commission, 2017b).

The approach adopted in this survey involved asking whether any additional private funding had been integrated with the OP resources paid into the FI. Additional private funding was defined as national private co-funding at OP or any other level contributing to the FI, excluding structural funds, national public co-financing and any additional contribution made by final recipients. This definition would give an idea of the genuinely private contribution of extra funding at OP, FI or investment level. As previously noted, the data collected by the Commission did not take into account private funding other than additional contributions to the OP. Therefore, the survey data had no relevant benchmark data. A first observation is that there is no obvious pattern between contributing additional private funding to FI or deciding not to (Table 5-14). In Germany, most of the surveyed funds did not add private co-funding, whereas in Italy most did. In the UK, almost half of the funds incorporated additional private resources and half did not.

Table 5-14 | Has any additional private funding contributed to the fund?

Country	Yes	No
Germany	4	7
Italy	9	7
United Kingdom	5	6

Source: own elaboration, based on survey frequencies.

Table 5-15 shows the amount of additional private funding as reported in the surveys and in the summary report for those funds that reported having topped up FI contributions with additional private resources. In general, the data collected through the survey were broadly in line with those collected by the Commission. When this is not the case, discrepancies might be explained by the different definition of 'additional private funding' used in the survey, which included extra resources at any level (OP, FI). In the case of the four FI in Piedmont (PI1 – PI4), the values are explained as leverage

obtained at FI level. These data are not captured in the Commission's reporting requirements. Furthermore, those funds that declared not to have added private funding to the FI in the survey consistently report a zero or missing value in the summary data. It would be advisable for the Commission to provide a distinct option for reporting actual zero values and distinguish them from additional private funding at other levels.

Table 5-15 | How much additional private funding?

FI	Value reported in survey (€m)	National private co-funding reported in summary data (€m)
HH	n/a	0.00
RP	n/a	0.00
SH1	9.60	9.60
SH2	0.75	0.75
ER1	10.74	7.13
ER2	3.97	4.97
MO	1.50	-
PI1	13.90	0.00
PI2	385.00	-
PI3	0.26	0.00
PI4	607.90	0.00
TO3	14.92	14.92
UM	10.00	9.73
NI	8.84	5.49
SC1	2.04*	2.13
SC3	8.14*	6.39
WA	54.8	52.47
WA1	21.0	28.25

Source: own elaboration based on surveys and summary data at closure (European Commission, 2017b).

Notes: All funds declaring additional private funding in the survey.

* Data reported in £, converted at average rate applicable on 31 December 2015 – GPB 1 = Euro 1.3575.

The survey examined the reasons why no additional private funding was provided. In Berlin, this was motivated by the low profitability of structural policy measures and by the additional requirements deriving from ERDF for investors. In Thuringia and Abruzzo, private funding was simply not foreseen at fund set up and in the funding agreement. In Lazio, private funding was added at deal level but not at fund level. In Sardinia, additional private funding was perceived as not needed. In Tuscany, private co-financing was added at the level of the single transaction and was essentially provided by private recipients from their own resources, because the share of funding defined for each transaction did not cover the full investment required. In North East England, FI reported having levered €211 million additional funding on a deal-by-deal

basis, outside the holding fund structure. For one of the Scottish funds (SC2), private funding was added at the level of the individual deal.

To those managing authorities who reported having topped up FI with extra private funding, the survey asked whether the amount matched their expectations. As seen in Table 5-16, omitting one fund for which information was not reported, for more than half (10) of the 18 funds, private funding was aligned to expectations. Two funds described it as higher and four as significantly higher than expected. Only one fund signalled a negative experience, with the private sector investment levered in being significantly lower than foreseen.

Table 5-16 | How does the amount of private funding compare to your initial expectations?

FI	Scale[1]	Additional information	Funding provider
HH	n/a	-	-
RP	Significantly higher	-	-
SH1	Same as expected	Private share of the fund volume provided by a capital holding company	Capital holding company
SH2	Same as expected		
ER1	Same as expected	Public funding upgraded to 70% of total funding	Public sector
ER2	Same as expected	Percentage of public participation as collateral up to 80%	
MO	Significantly lower	-	
PI1	Higher	Private funding provided by credit institutions taking on 20% of risk of the amount paid upfront and not covered by the guarantee	Credit institutions, mutual guarantee institutions
PI2	Significantly higher	Private funding provided by mutual guarantee institutions and banks through the provision of finance for which the guarantee covered the risk up to 70%	
PI3	Significantly higher	Private funding is the share of the guarantee covered by the mutual guarantee institution. This is 30% of the guaranteed amount and of the share of funding covered by the bank, not guaranteed by the mutual guarantee institution.	
PI4	Significantly higher	Private funding provided by the mutual guarantee institution up to 80% of the funding granted	
TO3	Same as expected	Private funding came from eleven Tuscan banks (53%), Fiditoscana (4%) and other investors (3%), including SICI, the fund manager.	Banks, other investors
UM	Same as expected	Private funding is 10% for the guarantee fund, 50% for the risk capital fund. Private funding not foreseen for the mortgage fund.	-
NI	Higher	Private investors are required for every investment made. The target level of private funding was 55% private to 45% ERDF funding for each investment. The actual rate was 57% private to 43% ERDF	Private investors
SC1	Same as expected	Private funding came as a €2* million loan, secured from the Royal Bank of Scotland as part of the overall funding package	Bank loan
SC3	Same as expected	Private funding came as a €8* million loan on bank terms, secured from Barclays Bank as part of the funding package	
WA	Same as expected	The EIB loan was counted as private funding	EIB loan
WA1	Same as expected		

Source: own elaboration, based on surveys.

Notes: respondents' self-assessment.
[1]Significantly higher/ Higher/ Same as expected / Lower/ Significantly lower.
* Data reported in £, converted at average rate applicable on 31 December 2015 – GPB 1 = Euro 1.3575.

5.2.5 Contribution to OP objectives

As previously noted, in 2007–13, FI could only target support to enterprises, urban development, energy efficiency and renewable energy in buildings. In 2014–20, however, FI could contribute to any of the proposed 11 thematic objectives. Notwithstanding a trend towards streamlining thematic objectives, the specific objectives pursued with co-financed FI vary, given that OPs are tailored to the local context. The contribution to OP objectives is often linked to the rationale for FI use. On this basis, an assessment of the contribution made by FI to the attainment of OP objectives should take into account the specific objectives described in an OP and the indicators used to measure those achievements (Wishlade et al., 2016a). This explains why FI evaluations often rely on self-reported perceptions of success in achieving OP goals, rather than mapping out the objectives and cross-checking their attainment, which would represent a more complex endeavour.

In the summary data at closure, the European Commission (2017b) judged that FI had made a demonstrable contribution to the objectives of the OPs they were designed to deliver. This statement, however, does not seem to be sufficiently supported by the data presented in the summary reports, as a qualitative assessment of contribution to OP objectives is limited to non-compulsory indicators of jobs created and final recipients supported. The approach adopted in this thesis's survey was to ask managing authorities to report on their degree of satisfaction regarding the achievement of the policy objectives underpinning FI use. The data shows that all funds are perceived to have fulfilled the OP objectives sufficiently (Table 5-17). Most managing authorities reported high levels of satisfaction, ranging from full (10) to almost full (9), with only one in five funds having lower yet still satisfactory scores.

Table 5-17 | Extent to which investments addressed OP objectives

Question	0 -5	6	7	8	9	10
To what extent did the investments made by the fund manager address the OP objectives?	0	2	0	6	14	14

Source: own elaboration, based on surveys.

Notes: respondents' self-assessment/TH2 data not provided/Scale 0 = no contribution to OP objectives; 10 = full contribution to OP objectives.

Furthermore, the survey asked about the perceived achievement of some specific policy objectives (Table 5-18), such as:

a. Addressing the identified market gap

b. Reaching the target recipients
c. Providing good value for money
d. Supporting the target business sector.

Managing authorities judged the achievement of all these objectives as at least satisfactory, with an average rate of between 8.7 and 9. In fact, 60–70% of funds were judged to have achieved each of the objectives almost in full (scores of 9 and 10). Variation is evident across funds, but no clear pattern is identifiable. With an average value of 9.4, the UK managing authorities are the most satisfied with the objectives achieved, followed by the Italian (8.9) and German (8.2) managing authorities.

Table 5-18 | To what extent did the investments...?

Question	0-4	5	6	7	8	9	10
...address the identified market gap?[1]	0	0	1	2	9	14	11
...reach the target recipients?[2]	0	0	0	2	8	11	16
...provide good value for money?[3]	0	0	2	0	12	14	7
...support the target business sector(s)?[4]	0	1	0	7	6	11	14

Source: own elaboration, based on survey frequencies.

Notes: respondents' self-assessment / [1] TH2 data not provided / [2] TH2 data not provided / [3] BE4, TH2, LA data not provided / [4] BE1, BE2, TH2, AB data not provided / Scale 0 = no contribution to OP objectives; 10 = full contribution to OP objectives.

An additional question sought to determine the explanation for any possible mismatch between OP objectives and the investments made. In other words, the survey asked what factors would explain certain objectives not having been achieved. The data presented in Table 5-19 shows that the economic crisis was the main obstacle for the achievement of OP objectives via FI in the United Kingdom. The second most mentioned factors were that the target values and objectives were not sufficiently defined (Other). In one case, the managing authority explictly stated that no discrepancy between OP objectives and the investments made had occurred, as the FI fully contributed to the successful OP outturn. Among the options given, other frequently reported factors were the excessive autonomy of fund managers, restricted demand for the type of financial product offered and weaknesses identified in the regulatory framework.

Table 5-19 | Which of the following factors could explain any potential discrepancy between OP objectives and investments made?

Factor	Frequencies			
	Germany	Italy	United Kingdom	Total
The economic crisis	0	1	9	10
Other	2	2	1	5
The Fund Manager had too much autonomy	3	0	0	3
Not enough demand for this type of product (loans, guarantees, equity)	2	0	1	3
Insufficient legislative framework	0	1	2	3
The Fund Manager had too little autonomy	1	0	0	1

Source: own elaboration, based on surveys.

Note: only actual responses shown / all applicable answers ranked most recurrent, least recurrent.

5.2.6 Rationale and added value of FI support

In 2007-13, no provision on additionality was made in the regulations. In the 2014–20 programming period, the concept of additionality can be found in the provisions on FI *ex ante* assessments, which included, among others, an appraisal of the added value by the FI that were being considered for support from the ESIF (art.37(2)b European Parliament and Council, 2013). The added value of an intervention is usually measured by checking whether the intervention would have occurred even in the absence of support. In this thesis, however, it was decided to adapt this definition to FI, by checking whether FI had been specifically chosen to achieve objectives or target businesses that would not have been achieved or targeted through grants. For this reason, the survey first explored the perceived added value of FI as instruments of public policy in comparison to grants, i.e. the rationale for choosing to implement through FI instead of grants. It then asked whether the rationale were respected. A series of commonly put forward options were given in the survey, namely:

a. to attract private funding
b. to move away from a grant-based culture
c. to improve the cost-effectiveness of public spending
d. to attract private expertise
e. to generate a legacy fund
f. to respond to Commission pressure to increase the use of FI
g. other.

The aggregate analysis of answers for all of the surveyed funds (Table 5-20) in Germany, Italy and the UK shows that, overall, the top three most frequently occurring

reasons for FI use were improving the cost-effectiveness of public spending; attracting private funding; and moving away from a grant-based culture. Improving the cost-effectiveness of public spending was the reason most frequently ranked first, followed by other motivations which were then detailed. Attracting private funding is, in absolute terms, the reason most often ranked in the top positions. Most of the managing authorities ranked it second in the order of most to least important. The reasons most often ranked in the lower-middle positions were: attracting private expertise (most often ranked fourth); followed by generating a legacy fund (fifth). The reasons that occurred least often were responding to Commission pressures and other motivations.

Table 5-20 | What were the most frequently occurring reasons for using FI instead of grants?

Ranking position	Reason	Frequencies per ranking position
1	Improving the cost-effectiveness of public spending	15
	Other	12
2	Attracting private funding	18
3	Attracting private expertise	13
4	Attracting private expertise	16
	Moving away from a grant-based culture	13
5	Generating a legacy fund	16
6	Responding to Commission pressure to increase the use of FI	16
7	Responding to Commission pressure to increase the use of FI	15
	Other	15

Source: own elaboration, based on surveys.

Note: most recurrent reason in specific ranking position. Reasons ranked from most recurrent to least recurrent. In case of similar values for the same ranking, two reasons are shown.

Some degree of variation is evident across countries. In Germany, the top three most frequently occurring reasons for FI use (Table 5-21) were to move away from a grant-based culture, to improve the cost-effectiveness of public spending, and other motivations. In Italy attracting private funding came first, followed by improving the cost-effectiveness of public spending and attracting private expertise. In the United Kingdom, the option most often ranked first was attracting private funding, followed by other motivations. Improving the cost-effectiveness of public spending and attracting private expertise were ranked joint third (Table 5-22).

Table 5-21 | Most frequently occurring reasons ranked in top 3 positions

Ranking position	Germany	Italy	United Kingdom
1	Moving away from a grant-based culture	Improving the cost-effectiveness of public spending	Attracting private funding
2	Improving the cost-effectiveness of public spending	Attracting private funding	Other
3	Other	Attracting private expertise	Improving the cost-effectiveness of public spending
			Attracting private funding

Source: own elaboration, based on surveys.

Table 5-22 | Most frequently occurring reasons ranked in top 2 positions

Ranking position	Germany	Italy	United Kingdom
1	Other	Improving the cost-effectiveness of public spending	Other
		Attracting private funding	
2	Improving the cost-effectiveness of public spending		Attracting private funding
	Attracting private funding		Improving the cost-effectiveness of public spending
	Moving away from a grant-based culture		

Source: own elaboration, based on surveys.

Among the other motivations specified in the survey, a few funds in Germany mentioned the use of returns after the liquidation of the investment fund to the benefit of SMEs and business start-ups. The Berlin managing authority said that key reasons were the high efficiency of FI through professional project selection; their low take-up (crowding out) effects; the financing function for SMEs, as 100% financing could be provided, contrary to grants where lower thresholds applied; and the administrative relief for SMEs. Another German managing authority mentioned the creation of a tailor-made financing option for the final recipient. In Italy, other reasons included speeding up the payments for invoices issued by the public sector (Piedmont) and supporting access to finance of SMEs or to micro-entrepreneurs in the handicraft sector during the economic crisis (Tuscany). In the United Kingdom, various funds mentioned addressing a market gap in the provision of finance in the OP as the main reason, beyond the ones provided in the survey list.

The survey asked for a self-assessment of the degree of satisfaction in achieving the rationale. Among those funds for which information is available, the level of satisfaction is high overall, as shown in Table 5-23.

Table 5-23 | How well were the reasons addressed in FI implementation?

FI	Self-assessment. Open answer
HH	Very well. They have been respected
SH1	The ranked order of reasons is fully addressed in the implementation of financial instruments.
SH2	
ER1	(Through) the implementation of axis 3 of ERDF OP to promote energy competitiveness and energy efficiency and upgrade
PI1	Fully
PI2	
PI4	
PI3	Fully, given that allocations were fully spent. €10M funds allocated, €9.92M funds committed. Multiplier effect 1/38 on disbursed funds. A substantial amount of additional private resources was mobilized. By 31/12/2015 defaults were only 1.04%.
NE	New fund managers were attracted to the locality, fund is investing to profile and considered successful. A large legacy fund is forecast.
NE1	
NE1	
NE3	
NE4	
NI	The reasons were addressed in satisfactory manner, as evidenced in fund implementation and take up, with positive signs that returns to the fund are nearing achievement, which will be above the individual investment made related to the return.
SC1	Each of the reasons mentioned above has been achieved
SC2	Very well
SC3	The reasons identified above were met
WA	Overall pretty well
WA1	

Source: own elaboration, based on surveys.

Additionally, a number of questions were posed that linked some of the key characteristics of FI with their actual presence in the implementation stage. The questions concerned the extent to which FI:

a. financed viable businesses that the private market would not finance
b. contributed to business growth without using grants
c. enabled high-risk projects to be financed that the private market would not support
d. addressed needs previously targeted by traditional forms of aid (e.g. grants, tax incentives)
e. enabled a larger investment in firms compared to grants
f. facilitated experimentation with new forms of public support
g. resulted in better quality projects than using grants.

The data presented in Table 5-24 shows, in general, a relatively high degree of agreement (strongly agree and agree) with the proposed statements. None of the managing authorities reported strong disagreement with the statements, and there was limited disagreement with the options given in general. Managing authorities agreed most with the statements that FI contributed to business growth without using grants (44 managing authorities strongly agree and agree); that FI financed viable businesses that the private market would not finance (33); and that FI enabled high-risk projects to be financed that the private market would not support (26).

Table 5-24 | Degree of agreement with statements measuring FI added value

Statements	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
FI financed viable businesses that the private market would not finance	16	17	5	0	0
FI contributed to business growth without using grants	23	21	3	1	0
FI enabled high-risk projects to be financed that the private market would not support	4	22	2	6	0
FI addressed needs previously targeted by traditional forms of aid (grants, tax incentives, etc.)	11	12	12	3	0
FI enabled a larger investment in firms compared to grants	6	17	13	2	0
FI facilitated experimentation with new forms of public support	12	10	12	4	0
Using FI resulted in better quality projects than using grants	12	9	15	1	0

Source: own elaboration, based on survey frequencies | self-assessment on Likert scale.

5.3 Exploring FI governance

The second part of the survey, on the variation in the governance of FI implementation, used four main indicators to explore governance patterns: the appointment mode, the investment selection criteria, the distribution of responsibilities over the definition of such selection criteria, and the frequency of monitoring practices. The data collected in this section were mostly qualitative. Where information from other studies was found to be an appropriate reference point for the data collected, this will be presented before the survey data. The section refers mainly to the provisions in the regulatory framework for FI in 2007–13.

5.3.1 Appointment mode

As noted in section (a) on p.36, art. 44 of the Common Provisions Regulation provided for a basic choice between direct appointment and public procurement (European Council, 2006). The *ex post* evaluation of FI for enterprise support distinguished between a competitive process (public procurement or call for applications) for selecting fund managers and direct appointment. It found that in only two out of nine case studies had fund managers been directly appointed. In four cases, a public procurement procedure was followed and in two instances selection followed a call or application (Wishlade et al., 2016a). The choice of the indicator 'appointment mode' in this survey was determined by the assumption that direct appointment would be linked with stronger control over the selection process on the part of the managing authority, whereas keeping the selection process open would more likely be based on the idea of attracting the best service provider.

The data gathered through the survey had no precedent in the literature. It shows variation in the practices adopted by various funds and countries (Table 5-25). In Germany, direct appointment was the selection mode that was most used, followed by an in-house award. This reflects the widespread involvement of regional development banks in the management of EU funds in general and FI in particular, and national law. The Common Provisions Regulation provided for direct appointment to financial institutions other than the EIB in accordance with national law, as compatible with the treaties. Among the other modes of appointment, in-house award was mentioned in three cases (TH1, TH2 and RP). In Italy, the selection of fund managers followed a mixed pattern. The funds surveyed selected fund managers through direct appointment or public procurement almost equally, with other appointment modes including the use

of an existing framework and a subsequent open call (PI3), a shareholders' loan (TO5) and an in-house award (SA). The United Kingdom presented a more marked orientation towards public procurement, with the majority of fund managers being procured. Two fund managers in Scotland were selected through a different procedure: SC2 was delivered by a public sector non-departmental body; for SC3, the managing authority specified that the fund manager was to be the fund itself, i.e. the West of Scotland loan fund.

Table 5-25 | How was the fund manager for the specific fund chosen?

Country	Direct appointment	Public procurement	Other
Germany	7	1	3
Italy	6	7	3
United Kingdom	3	6	2

Source: own elaboration, based on survey frequencies.

5.3.2 Selection criteria

Project selection criteria for FI – also referred to as investment selection criteria – and the terms under which FI were offered varied widely across countries and funds. Project selection criteria were typically similar to the commercial criteria used by banks. However, the criteria used for ERDF co-financed FI differed from those applied to commercial funds in several respects. For instance, the geographical location of the recipient was an important item common to all OPs, which required projects to be funded in the region where the FI operates. Compliance with the definition of SME, in terms of the number of employees and upper limits on revenue, was also regularly used in selecting investments (Wishlade et al., 2016a). Beyond these qualitative findings, no precedents were available for mapping out the applicable criteria for comparison. Thus, the survey findings provided a first insight into the criteria applied across various countries.

In this thesis, selection criteria were used as a proxy to understand the balance in the distribution of responsibilities. The survey asked respondents to tick all the criteria that applied to project selection among:

a. size of recipient
b. size of investment
c. expected returns
d. viability of the recipient
e. ability to leverage private finance

f. business sector
g. stage in life-cycle of the company
h. other.

The answer was meant to give an overview of the criteria most commonly adopted and the aggregate number of criteria used. Most of the criteria suggested in the survey appeared to be applicable in the UK context, but this was less so in the German and Italian contexts (Table 5-26). However, it might also be the case that some of the criteria did not apply to the type of financial product offered. For instance, expected returns is certainly more important for equity and venture capital investments than for debt finance. Furthermore, some of the funds may not target a specific business sector, whereas others do (e.g. technology businesses in Germany or handicraft in Italy). Therefore, the data should be treated as descriptive, given the limited scope for comparisons across funds. The data provided preliminary insights, to be further researched in the following question on responsibilities. The open answers provided an indication of relevant additional criteria applicable in some contexts.

Table 5-26 | What criteria were used to select specific investments?

FI	Recipient size	Investment size	Expected returns	Viability of recipient	Ability to leverage private finance	Business sector	Stage in life-cycle of the company	Other
BE1								●[1]
BE2								●
BE3								●
BE4								●
BE5								●
HH	●			●	●	●	●	
RP	●	●	●	●	●	●	●	
SH1	●	●		●	●	●	●	
SH2	●	●			●	●	●	
TH1	●			●				
TH2	●	●		●				
AB				●				
ER1	●							
ER2	●							
LA								●[2]
MO			●					
PI1	●		●	●		●		
PI2	●	●		●	●	●		
PI3	●			●	●		●	
PI4	●			●	●		●	
SA							●	
UM				●				
NE	●	●	●	●			●	
NE1	●	●	●		●		●	
NE1	●	●	●	●	●		●	
NE3	●	●	●	●	●		●	
NE4	●	●	●	●	●		●	
NI	●	●		●	●		●	
SC1	●	●		●	●		●	
SC2	●	●	●	●			●	
SC3	●	●		●	●	●	●	
WA	●	●	●	●	●	●	●	
WA1	●	●	●	●	●	●	●	

Source: own elaboration, based on surveys.

Notes: all applicable criteria. TO1–TO5 data not provided.

[1] BE1–BE5: the viability of the project, the economic viability of the SME, the contribution of the project to structural policy.

[2] The investment decision on the single transaction is based on a number of factors, including business growth (scalability) and model innovation, as well as financial metrics.

5.3.3 Responsibilities

The general (European Council, 2006) and implementing (European Commission, 2006) regulations did not set out specific responsibilities in relation to FI implementation in 2007–13. Essentially, the responsibilities for CP fund management applied in the same way to grants and FI. The survey used the process of defining the selection criteria to explore the actual distribution of responsibilities in FI implementation. It first asked about the actor deciding on investment criteria and for a description of the process, namely whether the managing authority decided on its own or a cooperative process was established with other actors.

The data presented in Table 5-27 provide interesting comparative insights on the process of deciding selection criteria for investments. Germany distributed responsibility across a number of actors, Italy almost entirely relied on managing authorities, and the UK funds delegated such responsibility to the fund managers or holding fund managers where applicable. In Germany, most of the managing authorities reported that 'other' options applied in their case: for SH1 and SH2 a Department at the Ministry chose the criteria, and in Berlin (BE1–BE5) the ERDF managing authority, the intermediate body and the fund managers jointly defined the investment selection criteria. In one other case (marked under 'none of these'), the intermediate body set out the criteria in consultation with the fund manager and an innovation committee (HH). Italy is an interesting case in which the managing authorities almost exclusively retained the function of fixing the selection criteria. In one instance, the managing authorities reported that none of the above options applied, as the investment decisions are taken by three experts selected through public notice and remunerated according to fund performance (LA). The Sardinian (SA) managing authority argued that a mix of the actors mentioned was involved. In the United Kingdom, it is interesting to note that the decision on investment selection criteria was entirely taken by fund managers at various levels (holding fund or specific fund) for all the funds.

Table 5-27 | Who decided on the criteria used to select specific investments?

Country	Managing Authority	Fund manager of a specific FI	Holding Fund manager	None of these	Other
Germany	2	3	0	1	7
Italy	13	0	0	1	2
United Kingdom	0	4	7	0	0

Source: own elaboration, based on survey frequencies.

An additional question explored the process of defining the selection criteria. It examined in particular the role that managing authorities as primary decision-makers had vis-à-vis fund managers. The data shows (Table 5-28) that a cooperative process took place in Germany, where managing authorities and fund managers decided jointly on selection criteria. For one fund (RP), for instance, the process was described as starting with the fund manager compiling fund guidelines for eligibility, in coordination with the managing authority and intermediate body. In a second stage, the fund manager alone took the investment decisions on the basis of these guidelines and offered equity participation to final recipients. Only in two instances did the managing authorities decide on their own; in the majority of cases, a decision followed a cooperative process.

In most cases in Italy, the managing authority set out the criteria at the outset, but fund managers could also propose such criteria. A combination of these options is reported twice. In the United Kingdom, the managing authority did not hold a primary role in the process of defining the selection criteria, which was the role of fund managers or holding fund managers. In Wales, the role of the managing authority was recognized in a process that mixed various actors in choosing investment selection criteria.The holding fund manager proposed the criteria and their compatibility with the OP was checked by the managing authority (WA and WA1).

Table 5-28 | Which statement best describes how selection criteria were chosen?

Country	The managing authority decided on the selection criteria at the outset	The fund manager proposed investment selection criteria	The holding fund manager proposed investment selection criteria	None of the above	A mix of the above
Germany	2	0	0	0	9
Italy	9	5	0	0	2
United Kingdom	0	4	5	0	2

Source: own elaboration, based on survey frequencies.

5.3.4 Monitoring

Internal monitoring and reporting might be required by various actors at different levels of frequency in the reporting system, so it is important to set out a clear monitoring plan to avoid excessive administrative burden and information overlaps (Michie et al., 2014). As observed in Section 2.3.5, the frequency of monitoring, reporting and control procedures was only specified in relation to the annual implementation and audit reports in 2007–13. The survey explored the frequency of

reporting and meetings held by the managing authority or holding fund manager with fund managers to discuss FI performance. The data shows that most required quarterly reporting (Table 5-29), with meetings held on an annual or quarterly basis (Table 5-30). There was no unambiguous pattern in FI monitoring and reporting, and various managing authorities appeared to operate different systems.

Table 5-29 | How often were fund managers asked to report on the performance of the FI?

Country	Annually	Quarterly	Monthly
Germany	4	6	1
Italy	4	9	2
United Kingdom	0	10	1
Total	**7**	**26**	**4**

Source: own elaboration, based on survey frequencies.

Note: PI3 data not provided.

Table 5-30 | How often were fund managers asked to meet the managing authority (or holding fund manager) to discuss FI performance?

Country	Annually	Quarterly	Monthly
Germany	8	2	0
Italy	5	4	2
United Kingdom	2	9	0
Total	**15**	**15**	**2**

Source: own elaboration, based on survey frequencies.

Note: RP and TO1–TO5 data not provided.

5.4 Key survey findings

Among the original findings uncovered in the survey, the following relate to FI implementation. One interesting observation relates to the location of returns to the FI. The analysis shows diverse practices: in Germany resources repaid to the FI always returned to the same specific fund, while in Italy various practices were observed. In particular, the details provided show that, in some cases, resources returned to the managing authority, the region or a different fund for further redistribution. In this case, the link between fund performance and legacy might actually get diluted, as resources might be redistributed through other channels. In the United Kingdom, one important element to take into account was that managing authorities often made use of loans from financial institutions (e.g. the EIB in the North East of England and Wales). Therefore, before there was any consideration of location of legacy resources, the repayment of the debt had to be considered.

On MC&F, the practices adopted were highly diverse. MC&F were often part of a framework agreement with the fund manager or set by a private-sector equivalent. In practice, however, a range of other practices were evident. These range from specification through tender, to the reimbursement of actual costs incurred or different forms of payment (e.g. from domestic resources, bank interests accrued). In general, the process of setting out the costs and fees was usually contractual (e.g. a framework agreement, tender, funding agreement, contract).

There were various practices for attracting private funding. Private funding might be added at OP/axis level, at fund level and often at investment level. This resulted in difficulties in mapping out the actual scale of private funding levered in by FI (Wishlade et al., 2016a). The data collected mirrors this variation. Private funding providers ranged from capital holding companies, to other public institutions/investors, to credit institutions, mutual guarantee institutions, banks, and other private investors. In the UK, the funding provided by banks often came in the form of a loan, including from the EIB.

Some comparative insights can also be drawn from the analysis of perceptions on contributions to OP objectives and the added value from interventions through FI. In general, managing authorities were highly satisfied with FI matching OP objectives. Over 70% of the funds were reported as having achieved each of the specific objectives listed in the survey almost in full. The UK managing authorities were the most satisfied with the objectives achieved (average values of 9.4), followed by the Italian (8.9) and German (8.2) managing authorities. Among the potential explanatory factors for investments not meeting OP objectives, the UK managing authorities mainly listed the economic crisis, while other recurrent factors among all managing authorities were an insufficient definition of target values, objectives and targets.

The survey mapped out the most frequent reasons for FI use. The data shows that improving the cost-effectiveness of public spending, attracting private funding and moving away from a grant-based culture were crucial, in particular, sustainability/cost-effectiveness concerns and levering in private funding support FI use. These findings are relatively new, compared to previous research (2.3.2). In particular, the change in behaviour was often not well captured, and levering in private resources, although it was always mentioned, was never reported to matter to such a high extent. As observed in Wishlade et al. (2016a), other motivations for using FI played a strong role,

including the benefits for SMEs, the high efficiency achieved through professional project selection and the low crowding out effects. Three types of benefit mattered for SMEs: the 100% financing function of FI, the limited administrative burden, and the creation of a tailor-made financing option. On the additionality of FI investments, the data referred to the contribution to business growth and the financing of viable businesses and high-risk projects that the private market would not finance.

On the governance of FI, the survey uncovered the variation in appointment modes for fund managers, selection criteria for investments, responsibilities in defining and applying the selection criteria and the frequency of monitoring and reporting. In Germany, the most common mode of selection of fund managers was through direct appointment, in Italy both selection modes were used, while in the UK the majority of fund managers were openly procured. Among the other options, in a number of instances, an in-house award was made.

On the selection criteria, the study first mapped out the criteria for investment selection and then asked about the process of defining those criteria. In half of the cases, several of the selection criteria (size of recipient/investment, expected returns, viability of the recipient, ability to leverage private finance, business sector, stage in life-cycle of the company) applied. Some managing authorities also listed the viability of the project (investment), and the contribution of the project to structural policy objectives and business growth. There were differences in the definition of criteria, with Germany distributing responsibility across a number of actors, Italy almost entirely relying on managing authorities and the United Kingdom delegating the responsibility to the fund managers or holding fund managers where applicable. The role of managing authorities in defining the criteria varied widely. In Germany, a cooperative process between managing authorities and fund managers was in place in most cases. In Italy, most managing authorities set out the criteria at the outset, but fund managers could also be primarily in charge, by proposing the criteria. In the United Kingdom, it was the holding fund managers/fund managers rather than the managing authorities who held primary responsibility for defining the criteria.

Very limited information was available so far on the practices of monitoring FI. The data shows that most of the reporting requirements for FI were quarterly, and meetings to discuss implementation performance were organized ever year or quarter. The evidence summarized in this section shows the wide variation of practices across

Germany, Italy and the United Kingdom. Some of the findings are in line with previous research, but the survey mainly touched on issues that were underexplored in previous studies.

5.5 Chapter summary

This chapter presented the key findings of the exploratory survey. It first outlined how the preliminary data analysis and identification of delegation modes informed the selection of the target countries and the way in which the selection was validated (5.1). The second part of the chapter (5.2) presented the analysis of the data on FI implementation. It defined the various indicators used and provided relevant information on trends and emerging issues. The survey findings were then presented and interpreted comparatively. In the same way, section 5.3 presented the exploratory findings on the governance of FI implementation. The key findings of the survey were then summarised in 5.4.

The survey had an important role in the research plan, that of exploring patterns in an under–researched area of studies where limited information was available. The survey did not achieve an important response rate. Therefore, the observations collected could not be used for a more advanced statistical analysis. Some of the findings were only descriptive and could not be compared with other data. This is a limitation of the findings. However, it raises an important point for research in this policy area, to be addressed further by the Commission: the need for more and better data on FI implementation. The survey has several strengths. It uncovered implementation patterns across various funds in Germany, Italy and the UK. It also provided some important messages for policy evaluation. First, the analysis of the quantitative data shows that some of the crucial indicators for assessing FI performance were not collected nor analysed by the Commission. This is the case for the revolving factor and default rates. Second, this chapter finds that other indicators should be refined or expanded. For instance, there is little information available for MC&F paid outside the OP resources and for private funding contributed at priority axis and transaction level. This gives a partial or uncorrect picture of FI performance.

The survey provided original insights, for which no precedent has been identified in previous research. The key new findings relate to the location of the returned resources, the process of setting MC&F, the actors involved as private funding providers, the variation in practice for appointing fund managers, and the investment

selection criteria used and how they were defined. These elements provided a precious initial source of information on the various approaches adopted in the three countries, to be subsequently examined through case–study research. Policy evaluation would benefit from an expansion and refinement of the set of qualitative indicators collected to measure FI performance and from focusing on some of the qualitative indicators on their governance.

6 Context and key governance features of the case studies

This chapter examines the key governance features in the cases considered. This and the following chapter address both the primary aim of the thesis (to explore the implications of new modes of delegated governance in CP) and the intermediate aim (to examine how the implementation of FI was organized). This chapter describes the case studies. It first outlines the process of case study selection (6.1) and then presents the results of the analysis of the variation in FI implementation within each case study (6.2 to 6.4). Each case study is presented independently: section 6.2 covers Berlin, section 6.3 Tuscany and section 6.4 North East England. Each of the sections presents the evidence from the analysis of the economic context of the case study, as well as the rationale for and use of ERDF-co-funded FI before and during 2007–13. Thereafter, the comparative evidence on the variation in the actors involved, structures chosen and instruments offered is presented (section 6.5).

6.1 The process of case selection

The most important criterion for the selection of case studies was the identification of typical cases for each delegation mode. In addition, cases were selected on the basis of the response rate, geographic coverage and type of region, scale of funding, variation of financial products and structures. The various factors were combined in stages. First, an assessment was made of the completeness of the data collected. Regions that had completed questionnaires on fewer than half of the number of FI in their OPs were excluded. Subsequently, the funds set up in a region were ranked on the basis of their size. The regions with the biggest funds in single and aggregate terms were selected. Next, there was an assessment of the funds offering a comprehensive range of products and structures. Last, the characteristics of each region and their potential fitness into the category of typical cases were assessed.

The first and very practical criterion derived from the sequential mixed–methods design, whereby the selection of cases studies was made on the basis of the survey findings. Case studies were identified from regions that had the highest proportion of returned survey questionnaires (i.e. the highest response rate). Regions where managing authorities returned at least half of the questionnaires for all the funds set up under the OP were considered. Three additional factors were then combined to make a first selection of the regional case studies, namely:

a. the scale of funding

b. the geographic coverage and region type
c. the variation in product/instrument.

Funds of significant size were selected as this allowed choosing regions in which FI had critical mass and represented relevant policy instruments for delivering Cohesion policy. The survey used information gathered from the summary reports (European Commission, 2014b, European Commission, 2015, European Commission, 2016, European Commission, 2017b) as a reference point for categorizing funds. The reports indicated that the average size of holding funds was €100 million and of specific FI was €20 million. The regions that had made the highest contributions to FI were identified among the survey respondents. When there were several FI for the same region, the total funding paid into FI and also the individual allocation to each FI were considered.

Regarding the geographic coverage and the type of region, it was decided to identify regions with broadly similar macro-economic conditions and with an homogeneous thematic orientation of the funds. Therefore only the regions eligible under the 'regional competitiveness and employment' (RCE) objective were selected, while those eligible under the 'convergence' (CONV) objective were excluded.

The variation in products offered (equity, loans and guarantees) within the region was taken into account next. This was an important control factor, as it avoided outcomes being attributed to the type of instrument and allowed exploration of the various governance and accountability arrangements for each type of instrument. In the same way, case study selection aimed to take into account the variation in structures, with the choice intended to include at least one holding fund. Since Germany did not operate through holding funds, a region with a holding fund had to be selected from among those reported in Italy or the United Kingdom.

The single most important criterion used for the selection of cases was the identification of typical cases. These had to exemplify the three delegation modes on the basis of the preliminary research. In Germany, the case study had to typify delegation to public entities, most likely regional development banks. In Italy, it had to show the heterogeneity of the actors involved as fund managers and their hybrid nature. In the United Kingdom, the case study had to represent the involvement of private actors in the management of FI, which occurs in the majority of UK, especially English, funds. In practical terms, when there were multiple FI for a region, the

prevailing delegation mode was considered. Table 6-1 summarises the steps for the selection of the case study regions.

Table 6-1 | Criteria for selecting case studies

Region	FI	Survey returns / total FI set-up	Fund size (OP contributions paid to FI) (€m)	Size of fund - assessment	Type of region	Variation in type of product[1]	Delegation mode
Berlin	BE1	5/5	3.20	Very small	Y, RCE	Y, L and E	Y, public
	BE2	5/5	5.00	Very small	Y, RCE		Y, public
	BE3	5/5	135.65	Big	Y, RCE		Y, public
	BE4	5/5	32.00	Medium	Y, RCE		Y, public
	BE5	5/5	47.00	Medium	Y, RCE		Y, public
			Total 222.85	**Big**			
Hamburg	HH	1/1	13.40	Small	Y, RCE	N, E only	N, private
Rheinland-Pfalz	RP	1/1	28.66	Average/Med.	Y, RCE	N, E only	N, private
Schleswig-Holstein	SH1	2/3	48.00	Medium	Y, RCE	Y, E and L	Y, public
	SH2	2/3	6.00	Very small	Y, RCE		Y, public
			Total 54.00	Medium			
Thüringen	TH1	2/2	134.00	Big	N, CONV	Y, M and L	Y, public
	TH2	2/2	25.00	Average	N, CONV		Y, public
			Total 159	**Big**			
Abruzzo	AB	1/1	39.57	Medium	Y, RCE	Y, M	Y, mixed
Emilia-Romagna	ER1	2/5	23.76	Average	Y, RCE	N, L only	N, private only
	ER2	2/5	24.86	Average	Y, RCE		N, private only
			Total 48.62	**Average**			
Lazio	LA	1/11	24.00	Average	Y, RCE	Y, L, G and E	Y, mixed
Molise	MO	1/4	-	N/a	Y, RCE	Y, L and G	N, public only
Piemonte	PI1	4/4	2.55	Very small	Y, RCE	N, G only	Y, mixed
	PI2	4/4	30.00	Medium	Y, RCE		Y, mixed
	PI3	4/4	11.50	Small	Y, RCE		Y, mixed
	PI4	4/4	17.90	Small-average	Y, RCE		Y, mixed
			Total 61.95	**Medium**			

Region	FI	Survey returns / total FI set-up	Fund size (OP contributions paid to FI) (€m)	Size of fund - assessment	Type of region	Variation in type of product[1]	Delegation mode
Sardegna	SA	1/3	233.20	Very big	Y, RCE	Y, G, L, E, M	Y, mixed
Toscana	TO1	5/5	4.01	Very small	Y, RCE	Y, G, L and E	Y, mixed
	TO2	5/5	62.09	Medium-high	Y, RCE		Y, mixed
	TO3	5/5	23.99	Average	Y, RCE		Y, mixed
	TO4	5/5	12.60	Small	Y, RCE		Y, mixed
	TO5	5/5	33.00	Medium	Y, RCE		Y, mixed
			Total 135.69	**Big**			
Umbria	UM	1/1	44.28	Medium	Y, RCE	Y, M	Y, mixed
North East England	NE	5/9	164.73	Big	Y, RCE	-	Y, private
	NE1	5/9	41.06	Medium	Y, RCE	Y, E primarily and L	Y, private
	NE1	5/9	13.37	Small	Y, RCE		Y, private
	NE3	5/9	34.23	Medium	Y, RCE		Y, private
	NE4	5/9	24.91	Average	Y, RCE		Y, private
			Total 278.30	**Big**			
Northern Ireland	NI	1/1	10.98	Small	Y, RCE	N, E only	Y, private
Scotland	SC1	3/8	7.10	Very small	Y, RCE	Y, E, L and M	N, mixed
	SC2	3/8	94.48	Big	Y, RCE		N, mixed
	SC3	3/8	21.30	Average	Y, RCE		N, mixed
			Total 122.88	**Big**			
Wales	WA	2/2	170.45	Big	N, CONV+RCE	N/a	N, mixed
	WA1	2/2	170.45	Big	N, CONV+RCE	N/a	N, mixed
			Total 340.90	**Big**			

Source: Author, based on survey data, preliminary desk research, summary data as of 31st December 2015 (European Commission, 2015) and at closure (European Commission, 2017b).

Note: [1] Loan (L), guarantee (G), equity/ VC (E), mixed (M).

Based on all these criteria combined, Berlin was chosen as a typical case for the public delegation mode in Germany, excluding Thüringen due to its geographic coverage (CONV) and Schleswig-Holstein because the funds did not have sufficient critical mass. Among the regions showing characteristics of the mixed delegation mode in Italy, Tuscany was chosen in lieu of regions with smaller funds (Abruzzo, Lazio, Umbria) and with less diversity in the offer of financial products (Piedmont). North East England was selected as a typical case of private delegation in the United Kingdom instead of Northern Ireland, because of the bigger fund size. This choices were further reinforced by the opportunity to research a holding fund structure (in North East England), as well as the specific financial instruments set up in Berlin and Tuscany. The following table provides an indication of OP size (total and ERDF), and of OP and ERDF contributions paid into the FI. The regions chosen are among the top users of FI in their countries.

Table 6-2 | OP and FI commitments – case studies

<table>
<tr><th>Key data</th><th>Berlin</th><th>Tuscany</th><th>North East England</th></tr>
<tr><td>Total OP budget commitments (€ billion)</td><td>1.75</td><td>1.10</td><td>0.75</td></tr>
<tr><td>OP budget commitments – ERDF (€million)</td><td>875.59</td><td>338.46</td><td>375.70</td></tr>
<tr><td rowspan="2">OP contributions paid to FI – Total (€million)</td><td rowspan="2">222.85</td><td rowspan="2">135.69</td><td>HF: 164.73</td></tr>
<tr><td>specific funds: 187.86[1]</td></tr>
<tr><td rowspan="2">OP contributions paid to FI – ERDF (€million)</td><td rowspan="2">111.43</td><td rowspan="2">36.31</td><td>HF: 61.45</td></tr>
<tr><td>specific funds: 70.08</td></tr>
</table>

Source: Commission data on ERDF OPs 2007–13 budget commitments[2] and summary of data on FI implementation at closure (European Commission, 2017b).

Notes

[1] North East Creative Content Fund excluded. See 6.4.2.
[2] Available to download:
http://ec.europa.eu/regional_policy/sources/docgener/evaluation/data/funds_obj_year_2007_2013.xls
and OP data from Inforegio https://ec.europa.eu/regional_policy/en/atlas/programmes. Last accessed 29/04/2019.

6.2 Case 1 – Berlin

The *Land* Berlin[42] is one of the three city states of Germany and the capital of the country. The federal nature of Germany requires strong coordination and complementarity between federal and regional policies. In economic terms, Berlin has had a rapid evolution over the last two decades. After the fall of the Berlin wall, there were few active industries in Berlin, the government budget was in default and the economy was in difficulty. Nowadays, Berlin is characterized by a marked start-up climate, with start-up creation above the level of that in the other German *Länder* (Senatsverwaltung für Wirtschaft Technologie und Forschung, 2014). It now attracts venture capital from all over Germany, as well as international investors (BE1, 2017, BE2, 2017, BE5, 2017).

6.2.1 Rationale for and use of financial instruments before 2007–13

The lack of industrial activity and, more importantly, the deficit in public finances provided the rationale for setting up the first FI with ERDF OP 2000–06 resources (BE1, 2017, BE2, 2017). A mixed FI, combining grants with loans (*ProFIT Darlehen*) was established to support SMEs. This was a special type of mixed (financial) instrument offering grants or subsidized loans, based on the most suitable form of funding at the given stage of the innovation process. The programme was directly managed by the managing authority. The *Investitionsbank Berlin* (*IBB*) acted *de facto* as an intermediate body, but the relevant specialist department had a strong role in the implementation of the projects. The programme ran into 2007–13, but, due to its particular nature, was not included in the list of funds analysed in this thesis, nor was it mentioned among the FI in Kovalis (2013) or in the expert interviews conducted. In 2000–06, a pioneer venture capital (VC) fund was set up late in the programming period to foster start-up creation.

The rationale for the use of FI in Berlin was linked to the historical evolution of the *Land* and the consequent approach in terms of sustainability of public finance. According to the managing authority, the scarcity of public resources available created an imperative for the state to use revolving finance in order to rationalize resources and create a legacy for future investments. As a result, Berlin is now perceived to have

[42] Berlin is a NUTS1 geographical unit, otherwise referred to as state or *Land.* All these terms are used throughout the study.

more experience than any other German *Länder* in the use of repayable assistance (BE1, 2017).

The evaluations of the 2000–06 programmes identified the promotion of individual investments with a focus on innovation as a key criterion for the selection of projects. They recommended a more systematic and improved coordination between ERDF and ESF measures in support of start-ups. Furthermore, they advised that attention should be paid to the pre-start-up phase, the proof of concept and the training offered to start-ups (Senatsverwaltung für Wirtschaft Technologie und Forschung, 2014). These recommendations have been taken up in 2007–13.

6.2.2 Financial instruments in the 2007–13 OP: objectives, measures, resources

By agreement between the German federal government and the *Länder*, the national strategic reference framework defined six priorities for the regional competitiveness and employment objective in 2007–13. In particular, the following four of the six priorities were relevant for the Berlin ERDF OP:

a. Developing a knowledge-based society
b. Improving the business environment
c. Using environmental innovation as a competitive advantage
d. Aligning the labour market to new challenges and addressing demographic changes.

The framework and the ERDF OP in Berlin planned for:

e. the promotion of R&D
f. the intensification of technology transfer
g. the promotion of productive investment to accelerate structural change
h. the improvement of the start-up climate and funding
i. the promotion of innovative services, products and production processes
j. the promotion of integrated strategies for cluster development.

The use of FI was envisaged under the first two priority axes of the 2007–13 regional OP. Table 6-3 summarizes the relevant OP objectives, priority axes and actions to which FI contribute.

Table 6-3 | OP objectives, priority axes and actions – ERDF Berlin OP

Overall OP objective			
Improve the international competitiveness of companies and the *Land*			
OP strategic objectives			
Strengthen SME innovation, adaptability and productivity		Use knowledge and creativity as engines of economic and social development	
Priority axes			
1. Promotion of business competitiveness and start-ups		2. Innovation and knowledge-based economy	
OP specific objective	**Action**	**OP specific objective**	**Action**
More investments for innovation and employment	Investments and productivity	More R&D in businesses	Promotion of innovation and technology
Facilitate business start-ups	Start-up support	Support structural change to a knowledge society	Promotion of an innovation and knowledge-based society
Facilitate access to new markets	Market development and international orientation	Facilitate technology transfer through better networking	Promotion of technology transfer
Reduce infrastructure development bottlenecks for SMEs	Business-oriented infrastructures		

Source: own elaboration, based on Senatsverwaltung für Wirtschaft Technologie und Forschung (2014).

The first strategic objective of the OP – strengthening SME innovation and adaptability – focused on the development of SMEs and start-ups. Thus, the first priority axis served the purpose of improving the economic position of the *Land*, through the growth of existing SMEs and through start-up formation. The overall aim of this form of support was the creation of permanent jobs and additional income in the region and to trigger product and process innovations through business investments. The second strategic objective of the OP was realized through the enhancement of existing knowledge and innovation potential. Priority axis n.2 targeted regional innovation and regional innovation processes. This priority axis sought the expansion of research and development activities in companies. To this end, R&D projects in companies and collaborative projects between companies and research facilities were promoted.

Revolving funds (FI) under the first priority axis were meant to finance investment and growth in SMEs through guarantees, loans, participations and consultancy services. Under the second priority axis, the provision of risk capital and consulting services targeted technology-oriented start-ups and young technology companies (Senatsverwaltung für Wirtschaft Technologie und Forschung, 2014). In addition to the formal justification provided in the 2007–13 ERDF OP of creating growth, jobs,

innovation and R&D, the German version of the survey for the thesis provided additional insights on the rationale for FI set-up. The managing authority reported some specific reasons for using FI rather than grants. These were:

a. the high efficiency of FI, determined by a professional project selection
b. the low take-up (crowding out) effects
c. the financing function for SMEs, as FI provided 100% funding, whereas grants had lower thresholds for support
d. the administrative relief for SMEs.

As per the scale of allocations through FI, almost half of the resources in the priority axis n.1 were provided through repayable loans (*KMU-fonds*) and grants, half of the ERDF funding allocated to priority axis n.2 was implemented through the *ProFIT Darlehen* programme and 6% went to the venture capital fund operating in the technology sector (*VC-Technologie*). The *KMU-fonds, VC-Fonds Technologie* and the *VC-Fonds Kreativwirtschaft* were analysed in this study (Senatsverwaltung für Wirtschaft Technologie und Forschung, 2014, Senatsverwaltung für Wirtschaft Energie und Betriebe, 2017). As Table 6-2 shows, the ERDF contributions paid into the funds analysed in Berlin were about 12% of the total ERDF contributions to the OP.

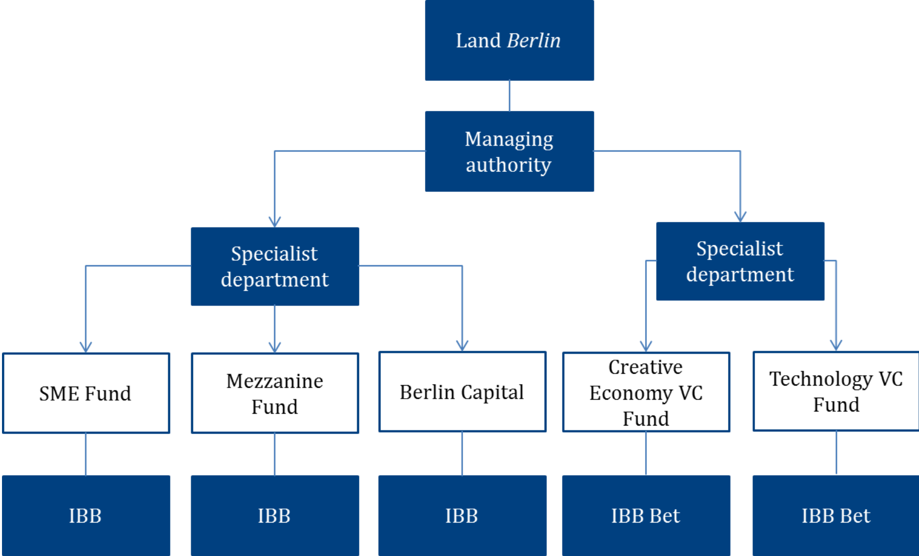
6.2.3 Actors

The actors primarily involved in the management of the funds were distributed across three levels. These are:

a. the managing authority
b. the intermediate bodies
c. the fund managers.

Actors and funds set up with ERDF OP 2007–13 resources in Berlin are illustrated in Figure 6-1.

Figure 6-1 | Actors and funds – Berlin



Source: own elaboration.

(a) Berlin managing authority and intermediate bodies

The managing authority is identified in the Unit IV C 'European structural funds promotion' within the Senate Administration for Economics, Technology and Research (*Senatsverwaltung für Wirtschaft, Technologie und Forschung*). The managing authority had responsibility for programme implementation, monitoring and evaluation, controls, information and publicity. The OP allowed for the managing authority to make use of external service providers for the fulfilment of individual tasks, for instance the preparation of annual reports or to carry out on-the-spot checks (Senatsverwaltung für Wirtschaft Technologie und Forschung, 2014). The Berlin managing authority delegated implementation of the measures where FI were planned to a specialist department (*Fachressort/Fachreferat*).

Within the *Land* administration, specialist departments were identified as intermediate bodies. The two administrative units appointed by the managing authority to carry out implementation tasks in relation to financial instruments were:

a. Unit IV D - Regional structural policy, economic development

b. Unit II C 2 - Innovation and cluster financing, cluster optics.[43]

The first was responsible for the SME funds, and the second was in charge of the VC funds.[44] The specialist departments used the support of external service providers for the organizational and administrative implementation of the ERDF co-financed FI. The most important service provider was the *Investitionsbank Berlin* (*IBB*), which was responsible for a wide range of subsidies, using domestic and EU resources (Senatsverwaltung für Wirtschaft Technologie und Forschung, 2014).

(b) Berlin fund managers

The fund managers for the two sets of funds were the *Investitionsbank Berlin* (*IBB*) and the *IBB Beteiligungsgesellschaft* (*IBB Bet*). The companies were both public institutions. In Germany, development banks active at *Land* level operated on behalf of the *Land*. Since the liabilities were guaranteed by the *Land*, the banks benefitted from better financing conditions in comparison to operators in the private market (Schmit et al., 2011, BE4, 2017). The *IBB* is the regional development bank (*Landesförderinstitut*) and is 100% owned by the *Land* of Berlin. It was founded as an independent public institution in 2004 and is supervized by the German Federal Financial Supervisory Authority. The *IBB* was first established in the 1920s as a reconstruction credit institution to finance real estate investments. From 1994, the economic promotion aspect took over (Hüttich, 2017). Originally, the *IBB* managed programmes financing enterprises on behalf of the *Land*, mostly via grants. In 2000, the bank started offering its own development programme and lending money in the capital market on favourable terms. For all the products offered, the bank had to be commissioned by the *Land* as a prerequisite (BE4, 2017). Importantly, in 2000–06 and 2007–13, the regional development bank provided the private co-funding necessary for setting up the OP.

The *IBB Bet* is a subsidiary company, 100% owned by the *IBB*. It was established in 1997 to provide equity and VC funding. Since its foundation, *IBB Bet* has been actively involved in early stage investments (silent or open participations) in young companies. In 2004 the *IBB Bet* was involved in the management of the first VC-fund incorporating ERDF OP allocations from the 2000–06 programming period.

[43] According to the latest internal reorganization of the *Land* administration.
[44] Throughout the case study, the terms 'intermediate bodies' and 'intermediate body representatives' will be used to identify the structure and the officials in the posts.

(c) Other actors involved in Berlin

Although not formally part of the governance structure for the funds, other actors were mentioned by interviewees as having involvement in FI implementation. Commercial banks (*Hausbanken*), also called relationship banks, were involved in the delivery of start-up and growth loans up to €250,000 under the SME funds, and there were private co-investors, who had to provide additional resources of an equal amount to the investment provided by the VC funds and 'Berlin Capital' (Kovalis, 2013, BE5, 2017).

Finally, both the *IBB* and *IBB Bet* involved their own governance arrangements in the management of the funds and investment selection: the *IBB* has a supervisory board and the *IBB Bet* has an investment committee.

6.2.4 Structures

All the funds were set up as specific FI. However the way in which the financial contribution to the FI was made differed. The SME funds were created by means of a financial contribution to a separate block of finance within the *IBB*, whereas the VC funds were set up as independent legal entities (limited companies). The reason for this difference lies in the type of instruments offered. As authorization is needed for lending transactions, the instruments managed by the *IBB* had to be set up as a self-contained block of finance within the financial institution. Authorization was not necessary to carry out equity investments, however, given the different characteristics of the product. Therefore, in the case of the VC funds, two limited companies (*VC Fondstechnologie GmbH* and *VC Fonds Kreativwirtschaft GmbH*) were set up to be independent legal entities responsible for the funds. These were purely financial vehicles, with no staff or employees. Their function was to hold the resources and the equity participations. The *IBB Bet* provided the business management and was the sole shareholder of the companies (BE3, 2017, BE5, 2017, Kovalis, 2013).

6.2.5 Products

A total of six FI were set up under the 2007–13 ERDF OP. One of the instruments – the ERDF Guarantee fund – was set up in response to the economic and financial crisis. Lack of demand resulted in its being wound up (Senatsverwaltung für Wirtschaft Energie und Betriebe, 2017). The funds were divided into two sets of instruments: the SME funds offered loans and the VC funds offered risk capital. Although there were five financial entities (three loan funds and two VC funds), they were usually described

according to this broad differentiation. A summary of key information on the FI set up in 2007–13 is provided in the Table 6-4.

Table 6-4 | Berlin funds – type and allocations

Name of fund	Type of fund	Total allocation (€m)
SME Fund *(KMU-Fonds)*	Loans	151.17[1]
Mezzanine Fund *(Mezzanine-Fonds)*	Loans	5.00
Berlin Capital *(Berlin Kapital)*	Loans	3.20
Creative Economy VC Fund *(VC-Fonds Kreativwirtschaft)*	Equity	32.00
Tech VC Fund *(VC-Fonds Technologie)*	Equity	47.00

Source: own elaboration, based on Senatsverwaltung für Wirtschaft Energie und Betriebe (2017).

Note: [1] €135.65m reported in Commission summary report at closure.

(a) SME funds

Operationally, the SME fund (*KMU-Fonds*) was sub-divided into four specific financing options:

a. the SME microloans (*Mikrodarlehen*)
b. Berlin start
c. the SME Growth Loans (*Wachstumsdarlehen*)
d. the Consortium Loans (*Konsortialdarlehen*)

The SME fund supported business start-up and growth projects, independent of the economic sector. The target group were start-ups, self-employed workers and SMEs in the manufacturing industry, craft, trade and other services. The fund could finance growth projects, relocations, rationalization and business acquisitions. The SME Microcredit fund programme and the Berlin Start mainly invested in start-ups through subsidized loans, whereas the Growth Loans and Consortium Loans supported general growth processes in existing SMEs. Microcredits were directly granted by the *IBB*. For the other instruments, the *IBB* could provide finance through or together with a *Hausbank*. Different thresholds applied, as shown in Table 6-5.

Table 6-5 | Berlin SME funds – investment thresholds

Funds	Investment range (€k unless specified)	
SME FUND	Minimum	Maximum
SME microloans	5	25
Berlin start	5	250
SME Growth Loans		250
Consortium Loans	250	10 (€m)

Source: own elaboration,, based on Senatsverwaltung für Wirtschaft Energie und Betriebe (2017).

Berlin Capital and Berlin Mezzanine were two complementary instruments targeting companies active in the State of Berlin. The instruments provided shareholding (silent participations) and mezzanine financing (subordinated loans). The two funds were managed by the *IBB* and were jointly advertised under the name Berlin Capital. The division was purely for administrative reasons. For both instruments, additional private funding of at least equal value was sought.

Table 6-6 | Berlin Capital and Mezzanine – investment thresholds

Fund	Investment range (€m)	
	Min	Max
Berlin Capital		1.5 /year
Berlin Mezzanine	1	5

Source: own elaboration, based on Senatsverwaltung für Wirtschaft Energie und Betriebe (2017).

(b) VC funds

In addition to the SME funds, two risk capital vehicles to promote innovation and innovative companies were set up. The *VC-Kreativwirtschaft* and *VC-Technologie* awarded open or silent participations and shareholder loans to SMEs in the creative industry (music, film, fashion and gaming) and the technology sector. As a rule, participation took place only where other stakeholders were involved, predominantly private investors. The participation of the fund in the specific deal took place *pari passu* – that is on the same terms as the participation of the private co-investors (Senatsverwaltung für Wirtschaft Energie und Betriebe, 2017, Kovalis, 2013).

Table 6-7 | Berlin VC Funds – characteristics

VC Funds	Investment range		Notes
	Min (€k)	Max (€m)	
Creative economy (*VC-Kreativwirtschaft*)	100	1.5	per year
Technology (*VC-Technologie*)	100	3	per recipient

Source: own elaboration, based on Senatsverwaltung für Wirtschaft Energie und Betriebe (2017).

6.2.6 Case study conclusions

Berlin used FI since 2000–06. The sustainability of public finance was reported as the key rationale for using repayable finance throughout the years. The main aims for using FI are summarized below.

Table 6-8 | Rationale and key objectives for using FI – Berlin

Rationale	Key objectives in 2007–13
Sustainability of public finances	a) Capitalize on high efficiency of FI due to professional project selection and low take–up (crowding out) effects b) Offer 100% financing function for SMEs c) Provide administrative relief for SMEs
	Strengthen the economic position of companies (SMEs)
	Foster research and innovation

Source: own elaboration.

The actors (Table 6-9) involved in FI implementation in Berlin were the managing authority, identified in a department within the *Land*, two specialist departments and two fund managers. The specialist departments operated within the *Land* administration in Berlin and acted as intermediate actors in FI implementation. The two financial institutions selected as fund managers were public companies, operating on behalf of the *Land*.

Table 6-9 | Actors – Berlin

Managing authority	Intermediate actors	Fund managers
Unit IV of Senate administration	Specialist departments: Units IV D and II C 2 of Senate administration	*IBB* and *IBB Bet*

Source: own elaboration.

Table 6-10 summarises the structures chosen and type of products offered. The Berlin funds all took the form of specific FI. The resources were contributed to the SME funds as separate blocks of finance, while for the VC funds independent legal entities were set up. Last, in terms of financial products, only equity and loan funds were used In Berlin.

Table 6-10 | Structures and financial products – Berlin

Structure	n. FI
Specific financial instrument	5
Holding fund	0
Contribution to structure	
Independent legal entity	2
Separate blocks of finance	3
Direct management	0
Type of financial product	
Equity	2
Loans	3
Guarantees	0

Source: own elaboration.

FI implementation in Berlin is managed by various public actors. As shown in 5.2.1, the resources paid into FI go back into the same funds and are managed by the *Land* and its regional development bank to boost SME growth in a sustainable way. The survey (5.3.3) also showed that a cooperative process applies. This suggests that the accountability for FI implementation is local and shared by various actors in the public sector. This is unsurprising, given that it fits the categorisation of Germany as a coordinated market economy (5.1.2), for which Berlin was selected as a typical case.

6.3 Case 2 – Tuscany

Tuscany is a region in the centre-north of Italy. Its productive capacity is based on a network of micro, small and medium-sized enterprises, active especially in the tourism, culture, fashion and furniture sectors. The production system is organized in industrial districts, with specialized production of goods. In the last two decades, the economy has faced challenges in terms of production capacity and the capability to innovate (Giunta regionale toscana, 2015d) Historically, mutual guarantee institutions in the form of cooperatives (*Confidi*) have played a major role in the provision of finance. In Tuscany, they have been active since the mid-1960s. The creation of other financial institutions in the mid-1990s was sponsored by the Region to widen the offer of guarantee providers (IRPET, 2005, TU4, 2017).

6.3.1 Rationale and use of financial instruments before 2007–13

Tuscany has a long history of using revolving finance as a policy instrument. The first FI were co-financed with European structural funds under the SPD in the 1994–96 and 1997–99 periods (Regione Toscana, 1998). First, a revolving fund acquired minority shares in the capital of SMEs, so as to foster business creation, growth, expansion and technological development. Its management was entrusted to *Artigiancredito toscano* (TU5, 2017), an actor also involved in future funds. Second, a guarantee fund provided subsidiary guarantees on mid-term loans (Regione Toscana, 1997). In the following round of programming (2000–06 SPD) a specific axis was devoted to FI, with plans for:

a. a fund for the acquisition of minority shares from the share capital of SMEs
b. a guarantee fund
c. a shareholders' loan fund
d. a seed capital fund.

According to programming documents, all the FI were revolving funds (Regione Toscana, 2002). However, a fund for the acquisition of minority shares and the seed capital fund were never set up (Regione Toscana, 2010, Regione Toscana, 2004). In the programming period 2007–13, three guarantee funds, an equity and a loan fund were set up.

Based on interviews with experts, it could be argued that FI were used over the years primarily to finance productive investments. The approach of the Region to the use of FI differed somewhat from the classical rationale that linked public intervention to a

gap in the provision of finance, a market failure or a sub-optimal allocation of funding. As claimed by the managing authority, repayable assistance was mainly used to finance investments and to provide an alternative to grants (TU1, 2017). This approach explained why revolving funds were widely used to implement measures ranging from support to the R&D sector to assisting large companies. In practice, repayable assistance was one of the delivery tools available to carry out policy measures.

6.3.2 Financial instruments in the 2007–13 OP: objectives, measures, resources

The ERDF regional OP strategy for 2007–13 underpinned the objectives laid down in several regional programming documents in Tuscany (*'Piano Regionale di Sviluppo 2006–2010'*[45], *'Piano di Indirizzo Territoriale'*[46] and *'Documento Strategico Regionale Preliminare* 2007-2013'[47]). The analysis of strengths and weaknesses provided the rationale for the selection of OP measures. The main weakness listed in the 2007–13 OP strategy was low private sector expenditure on innovation. Among the key strengths was a lively eco-system of universities, incubators, and public and private research centres. On these grounds, the support of research, technological transfer and innovation was a cornerstone of the strategy. This was incorporated in priority axis n.1. A second priority was to foster business growth and development. To this end, the use of innovative FI was promoted (Giunta regionale toscana, 2015d).

The OP envisaged the use of FI mainly under priority axis n.1. Detailed information on the actual set-up and implementation of financial instruments was in the annual implementation reports. These listed two activities implemented through FI:

a. Action 1.4 'Support to spin offs, creation, growth and development of businesses through financial engineering tools, including support activities for strategic services aimed at innovation'.
b. Action 1.6 (part of) 'Business support for research and technology development in key enabling technologies and high technology sectors'.

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[45] http://www.regione.toscana.it/documents/10180/70264/Il%20Programma%20Regionale%20di%20Sviluppo%202006-2010%20(PRS)/a4d654ab-701b-4a7d-a865-b18ac256a3c9. Last accessed 29/04/2019.

[46] http://www.regione.toscana.it/-/pit-il-piano-di-indirizzo-territoriale-della-toscana-2005-2010-. Last accessed 29/04/2019.

[47] http://www.regione.toscana.it/documents/10180/278752/Documento%20strategico%20regionale%20preliminare%20per%20la%20politica%20di%20coesione%202007%202013/1f05c545-8f84-41bb-9bf4-4d0157165532. Last accessed 29/04/2019.

Table 6-11 outlines the goal of the OP and the strategic and operational objectives under which FI were set up.

Table 6-11 | Objectives, priority axes and activities – ERDF Tuscany OP

Overall OP objective
Strengthen the competitiveness of the territory and the regional production capacity, so that the region can compete internationally, create high-skilled employment opportunities and ensure sustainable development.
OP strategic objectives
Reinforce the competitiveness of the regional productive system by supporting research and technology transfer and by strengthening innovation processes and entrepreneurship.
Priority axis
1. R&D and technology transfer, innovation and entrepreneurship
OP specific objective
Consolidate the competitiveness of the production system by promoting research and technology transfer and by strengthening innovation processes and entrepreneurship in the region
Actions
support the implementation of joint industrial research projects among groups of companies, universities and research centres
support the transfer system aimed at encouraging innovation processes in businesses
support companies' investment programmes for innovation, including for services and service sectors, including investment incentives for the acquisition of qualified services
support spin-offs, the creation, growth and development of companies, through financial engineering tools, and support activities for strategic services aimed at innovation
support integrated investment programmes for industrial research and innovation, aimed at encouraging business aggregation processes, through forms of strategic alliance on specific projects, the creation of networks and other forms of cooperation
business support for research and technology development in key enabling technologies and in high-tech sectors

Source: own elaboration, adapted from Giunta regionale toscana (2015d).

Priority axis 1, gathering more than half of OP allocations, was by far the biggest in the OP with €172.81 million ERDF resources allocated. As reported in Table 6-2, ERDF resources of €33.72 million were paid into FI. About 12.5% of the ERDF contributions to the OP was delivered through repayable assistance.

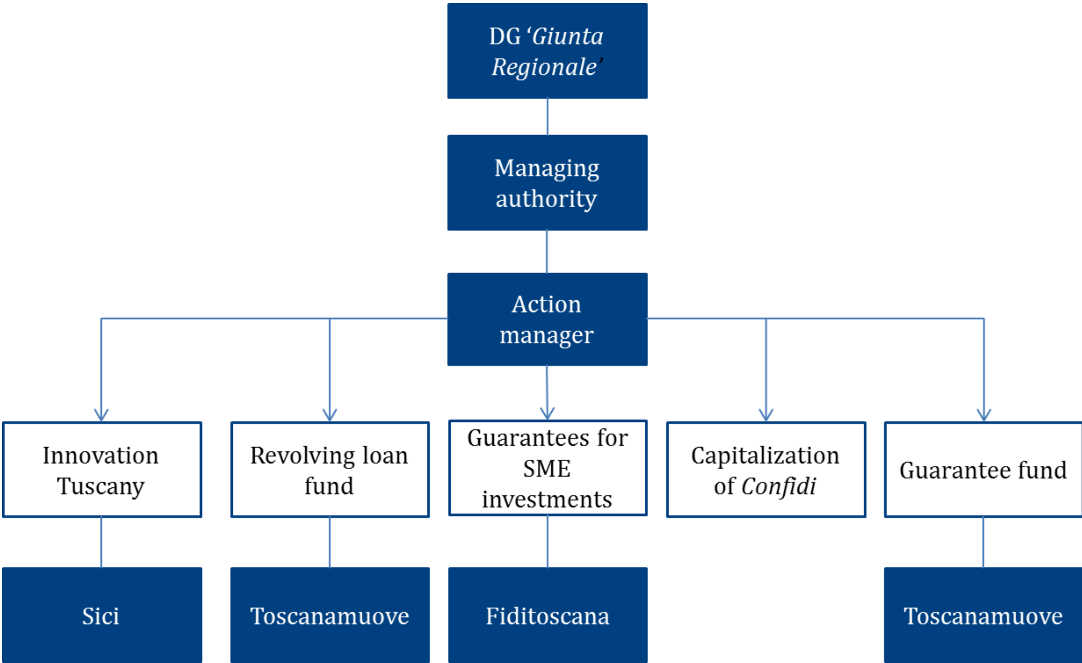
6.3.3 Actors

The following actors took part in the governance of the Tuscan FI:

a. the managing authority
b. the action manager(s)
c. the fund managers, identified as intermediate bodies in the OP.

Actors and funds set up with ERDF OP 2007–13 resources in Tuscany are illustrated in Figure 6-2.

Figure 6-2 | Actors and funds – Tuscany



Source: own elaboration.

(a) Tuscany managing authority and action managers

Up to the end of 2015, the managing authority of the ERDF 2007–13 OP was based in the DG Economic development (*Sviluppo economico*). It was then reorganized into the DG Regional competitiveness and skills development (*Competitività regionale e sviluppo delle competenze*). The managing authority formed a separate section under the heading 'ERDF OP managing authority', and was directly accountable to the DG of the Regional council (*Giunta Regionale*).[48] The managing authority coordinateed implementation activities for the OP and monitored their execution.

For almost all the measures, the action manager was a director general within the directorate general 'Productive activities' (*Attività produttive*) – in the section 'Policies for business support' (*Politiche orizzontali di sostegno alle imprese*). The action manager of the measure supporting the tourism, culture and trade sectors was the director general of the section 'Industrial research, innovation and technology transfer' (*Ricerca industriale, innovazione e trasferimento tecnologico*). This was a rather small

[48] Decreto del Presidente della Giunta Regionale n.119 del 24 Luglio 2015.

sub-section of the guarantee fund, set up late in the OP, that was not considered for further analysis in the thesis.

(b) Fund managers

The fund managers of the five funds set up by the Region were categorized as *mixed.* The majority have mixed public–private ownership, with a few being entirely private. *Sviluppo Imprese Centro Italia* (*Sici*) was a joint stock company, mostly privately owned by Tuscan banks, with one third of its capital belonging to Regione Toscana. *Fiditoscana* was almost equally owned by *Regione Toscana* and private Tuscan banks. Finally, the temporary grouping of enterprises (*Toscanamuove*) had a mixed composition of Fiditoscana, Artigiancredito toscano – a private mutual guarantee society – and Artigiancassa – a private bank.

Sici was established in April 1998 and authorized to manage closed-end investment funds offered to qualified investors. The remit of the company was to operate in the private equity sector, offering a range of different risk capital products. At the time of writing, the investment management company operated four alternative investment funds, altogether forming a portfolio of €140 million. Alongside private equity, the company also offered mini-bonds, mezzanine financing and other financial products (Sici, 2016, TU6, 2017).

Fiditoscana is a registered credit financial intermediary, approved by the Bank of Italy. The company was established in 1975 to support credit access in Tuscany. This provided an alternative to mutual guarantee societies, which offered their services to members. Over the decades, it has specialized in the provision of guarantees, both as a private operator and as a fund manager on behalf of the region. In the past, the company also worked together with the national guarantee fund (*Fondo Centrale di Garanzia*) and the EIF. The shareholding was distributed between *Regione Toscana* (46.30% shares), banks, local authorities and other stakeholders. The company started managing measures on behalf of the region in 1993. In 2007–13, it played a primary role in the management of ERDF-funded FI, alone (*Interventi di garanzia per gli investimenti delle PMI*) and in cooperation with other actors (managing *Fondo di garanzia* and *Fondo unico rotativo prestiti). Fiditoscana* (lead partner), *Artigiancredito toscano* and *Artigiancassa* formed a temporary grouping of businesses which won the tender to manage the guarantee and loan fund, under the name *Toscanamuove*. The

temporary grouping has since been delegated the management of the revolving loan fund and the guarantee fund, coming to manage a sizeable amount of financial instruments with ERDF resources.

Artigiancredito toscano is a registered financial intermediary, approved by the Bank of Italy. In 1984 it was established as a consortium by two craft associations. In 1995, Regione Toscana identified *Artigiancredito toscano* as a functional body for intervening in the field of handicraft policies. In 2006, *Artigiancredito toscano* became the leading mutual guarantee society consortium in Tuscany, after several incorporations of local consortia at province level (IRPET, 2005). Since the early 1990s, it has been a fund manager for public measures targeting crafts on behalf of the region, especially revolving loan funds and public guarantees. Up until 2005–06, the region held shares in the consortium and participated in the losses of the company accordingly. Until 2009, two regional members sat on the *Artigiancredito toscano* board of directors and participated in the election of the president. Since 2009, the company has been independent of the influence of *Regione Toscana* (TU5, 2017).

Artigiancassa is a private bank, with a focus on the craft sector. The rationale for the involvement of this last actor in the temporary grouping was that it could provide and manage the online platform for applications. Additionally, thanks to its network of branches in the territory, it made it possible for the grouping to expand contacts in Tuscany (TU4, 2017, TU5, 2017).

(c) Other actors involved in Tuscany

There were two other key roles in the management and control of the funds, in addition to the managing authority and the action manager:

a. the delegated manager (*Responsabile di Gestione*)
b. the control and payment manager (*Responsabile del controllo e del pagamento*).

For four out of five funds, the delegated manager and the control and payment manager were two different representatives of the fund management company. In one fund directly managed by the region, the posts were located within the regional administration. The recipients (*Confidi)* of the fund directly managed by the managing authority should also be mentioned among the actors involved to some extent in FI implementation. The FI that was set up was meant to increase the capital of these

institutions, so that they would offer more guarantees to their affiliates. The mutual guarantee societies receiving capital through this fund were reported as fund managers in the Commission summary report (European Commission, 2016, European Commission, 2017b). However, they are actually the recipients of the fund, with fund management duties performed by the regional administration.

6.3.4 Structures

Among the options provided for in the Common Provisions Regulation (2.3.5), all of the funds were set-up as specific financial instruments. Two of the funds were set up as separate legal entities (*Toscana Innovazione* and *Interventi di garanzia per le PMI*). The loan and guarantee funds, however, were set up as separate blocks of finance within a financial institution. One of the funds was directly managed by the managing authority (through an action manager). In compliance with the provisions laid down in the regulations and subsequent Committee of the Coordination of Funds notes, separate current accounts were opened for each fund. This had the purpose of monitoring all new resources, especially ERDF-related resources, and setting them apart from internal resources owned by fund managers (Regione Toscana, 2014a, Regione Toscana, 2014c).

The Tuscan model structures included a variant of those currently set out in the regulations (European Parliament and Council, 2013) in that the FI *Interventi a sostegno della patrimonializzazione dei Confidi* was directly managed by Regione Toscana.

6.3.5 Products

Regione Toscana set up five different FI with allocations from the 2007–13 OP: three guarantee instruments, one equity fund and a loan fund. A guarantee fund had erroneously been reported as a separate fund to the Commission in 2016 (European Commission, 2017b); however, it actually contributed to the already established guarantee fund (*Fondo di Garanzia*). Given the distinctive characteristics of the funds, each is presented separately.

Table 6-12 | Tuscany funds - type and allocations

Name of fund	Type of fund	Total allocation (€m)
Innovation Tuscany fund (*Fondo Toscana Innovazione*)	Equity	9.10
Revolving loan fund – Sections industry, cooperatives, craft, microcredit and R&D&I (*Fondo Unico Rotativo per prestiti - FURP*)	Loans	149.80
Guarantees for SME investments (*Interventi di garanzia per gli investimenti delle PMI*)	Guarantee	33.00
Support to capitalization of mutual guarantee societies (*Interventi a sostegno della patrimonializzazione dei Confidi*)	Guarantee	12.60
Guarantee fund (*Fondo di Garanzia*)	Guarantee	4.00

Source: own elaboration, based on Giunta regionale toscana (2017).

(a) Innovation Tuscany fund

Innovation Tuscany fund was a closed-end investment fund set up in October 2007 by *Sici*. The company subsequently started a campaign to offer the fund's shares to potential funding partners, and *Regione Toscana* decided to contribute 39.86% of the fund shares. Tuscan bank foundations (54.09%) and other institutions (*Fiditoscana* 3.38% and *Sici* 2.7%) took out the remaining shares. The fund started investing in June 2008 and ceased investing in May 2013, with ERDF resources being claimed by the region until the end of September 2013.

The equity fund had the remit of investing in SMEs in the start-up, early or growth stages. The goal is to pull skills to the territory, retain existing skills and attract co-investors. Operationally, the fund could invest up to 100% of its capital in shares, convertible and non-convertible bonds and any FI provided for in civil law.

(b) Revolving loan fund

The revolving loan fund is divided into sections:

a. industry
b. craft
c. cooperatives
d. Research, Development & Innovation
e. young people (investments in manufacturing).

Within the same revolving fund, but under the supervision of a different action manager, a new section offering microloans for young people was opened in 2014

(Microcredit – Young people). The contributions to the fund varied for each section. The fund served several objectives. For the industry, craft and cooperative sectors, the aim was to support growth and development opportunities for enterprises, increase their ability to generate innovation and support business transfer processes. Section d. supported strategic business activities to increase SME competitiveness, strengthen their assets, promote their growth and improve the terms they must meet to access credit lines (Giunta regionale toscana, 2015e). Section e. offered subsidized loans in the form of microcredit to young people who wanted to start businesses and more generally fostering youth employment. The last section activated in the fund had similar characteristics to Section e. (microcredit for young people), with the difference that it targeted businesses active in the tourism, culture and trade sectors.

Operationally, sections a. to c. provided interest-free loans of up to 70% of the eligible investment. Alternatively they offered subsidized shareholders' loans, which provided the resources needed to capitalize a limited company in advance (100% of the capital invested). Section d. offered subsidized loans within the state aid thresholds applicable to R&D&I. The last two sections took the form of interest-free microcredit for investments, ranging from €5,000 to €15,000 (Giunta regionale toscana, 2015e, Regione Toscana, 2014b, Regione Toscana, 2014a).

(c) Guarantees for SME investments

One of the first funds set up at the start of the 2007–13 programming period, the Guarantees for SME investments fund, was also called 'Economic emergency'. The fund was meant to address the shortage in access to credit and tackle the impending financial crisis (Giunta regionale toscana, 2015a). Operationally, the FI provided guarantees on loans, leasing transactions and shareholder loans linked to investments made by SMEs operating in Tuscany (Giunta regionale toscana, 2015e).

(d) Support to the capitalization of mutual guarantee societies

The FI supporting the capitalization of mutual guarantee societies (*Confidi*) was activated in three subsequent calls for proposals (in the period 2009-11). These identified a number of mutual guarantee societies as recipients of the measure. Through their capital expansion, the selected *Confidi* had to provide new guarantees to affiliates – in the first and third call, these were SMEs, whereas in the second they were specifically cooperatives.

(e) Guarantee fund

The guarantee fund, structured in three sub-sections, completed the offer made available by *Regione Toscana* through the ERDF OP 2007–13. The headings assigned to each section also specified the target beneficiaries:

a. Section 1 supported SME investments in industry, craft and the cooperative sectors.
b. Section 3 fostered entrepreneurship of young people, women and recipients of social security benefits.
c. Section 4 financed investments in the tourism and trade sectors[49].

The Guarantee fund supported strategic business activities to increase business competitiveness. It also strengthened assets to promote growth and improved the conditions for credit access. Operationally, a guarantee was issued to the fund managers of the Guarantee fund for each underlying selected investment. Investment activities eligible for Section 1 and 4 were loans, finance lease and the issue of mini-bonds. For Section 3, investments could take the form of loans or leasing. Different thresholds applied to each section. The guarantee covered up to 80% of the investment of an SME and was issued without fees or charges for the applicant (Regione Toscana, 2014d, Regione Toscana, 2014c).

6.3.6 Case study conclusions

Tuscany set up financial instruments as early as the 1997–99 period. Financing productive investments was reported as the key rationale, while the main aims for using FI were strengthening SMEs and fostering research and innovation (Table 6-13).

Table 6-13 | Rationale and key objectives for using FI – Tuscany

Rationale	Key objectives in 2007–13
Finance productive investments	Strengthen the economic position of companies (SMEs)
	Foster research and innovation

Source: own elaboration.

In Tuscany the managing authority (Table 6-14) was identified in a department within the sub-national authority in which the OP was implemented. The action manager for a

[49] Although the fund was intended to comprise 4 sections, only sections 1, 3 and 4 were activated under the ERDF OP.

specific OP measure acted as intermediate actor in FI implementation. Various financial institutions with mixed ownership (public-private) were selected as fund managers.

Table 6-14 | Actors – Tuscany

Managing authority	Intermediate actors	Fund managers
ERDF OP managing authority	Action manager: Departments in Productive activities Directorate	*Sici, Fiditoscana* and *Toscanamuove*

Source: own elaboration.

All the Tuscan funds took the form of specific FI (Table 6-15), but the way in which resources were contributed to such funds varied substantially. Two funds were set up as as independent legal entities, two as separate blocks of finance and one fund was directly managed, which is now explicitly provided for in the 2014–20 regulations (art. 38 European Parliament and Council, 2013). Tuscany offered all the three types of financial products available, one equity, one loan and three guarantee funds.

Table 6-15 | Structures and financial products – Tuscany

Structure	N. FI
Specific financial instrument	5
Holding fund	0
Contribution to structure	
Independent legal entity	2
Separate blocks of finance	2
Direct management	1
Type of financial product	
Equity	1
Loans	1
Guarantees	3

Source: own elaboration.

FI governance in Tuscany is characterised by the variety of actors involved and practices used. Three fund managers, with mixed legal status, were involved and various types of financial products and ways to contribute resources into FI were chosen. All actors were local and their legal status somewhat related to the regional administration. It is perhaps unsurprising that this heterogeneity was accompanied by the strong role performed by the managing authority. The survey results show that the managing authority had the power to decide how to use the resources revolved from the FI (5.2.1) and to specifiy the selection criteria (5.3.3) for financing productive investments.

6.4 Case 3 – North East England

North East England had long been one of the weaker regions in the UK, in terms of both economic development and employment. The region was affected by long-term decline in traditional industries such as mining and shipbuilding and a limited market potential for the knowledge-based industries. This resulted in low rates of growth, productivity and levels of employment (Charles and Michie, 2013). In the last two decades, the region had performed comparatively better than a number of other regions in terms of economic growth (measured by the gross value added per head (Harari, 2016), even though unemployment rates were still among the highest across the UK.[50] The region had historically been one of the main recipients of EU regional development funding in the UK. As observed by Charles and Michie (2013), the analysis of the region's problems was consistent throughout the years, while different policy solutions have been tested over time.

6.4.1 Rationale and use of financial instruments before 2007–13

North East England was eligible for structural funds' expenditure since 1989, first as part of the objective 2 and objective 5b territories and, finally, as a single regional competitiveness programme (Charles and Michie, 2013). As in the evolution in use of FI, the first fund was set up in 1997 under measure 1.2 (Access to finance), priority one: small business start-up, SME growth and development. The fund was intended to provide loan, equity and grant support, but eventually provided support mainly through grants, due to ongoing administration problems with loan schemes (Government Office for the North East, 1997, EKOS, 1999). Interviews with the legacy fund manager demonstrated that the instrument was meant to be a holding fund. However, as ERDF regulations did not provide for such structures at that time, it had to be formally divided into separate, standalone funds. This first fund incorporated resources lent from a private commercial bank and did not create a cash legacy (NE3, 2017).

From 2000 to 2006, several financial engineering instruments were set up, differing in size and structure. Measure 1.2 'Providing access to finance for entrepreneurs' in the Objective 2 programme 2000–06 was mainly delivered through two large loan funds:

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[50] Latest figures on: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest. Last accessed: 29/04/2019.

the proof of concept fund; and the North East regional investment fund (*NERIF*). These two funds alone accounted for almost 57% of ERDF allocated, documenting a shift from grant schemes to repayable assistance. Additionally, measure 2.2 'Providing access to finance for SMEs' envisaged a mix of three instruments: grants, loans and equity/VC funds. Emphasis was put on repayable assistance in the second half of the programme, therefore a North East co-investment fund (*COIF*) and two North East regional investment funds (*NEIF 3, NEIF 3b*), providing loan and equity, were set up under this measure (Government Office for the North East, 2009). According to the legacy fund manager, these funds performed better than their predecessors and created enough revenue to repay the loan resources borrowed from the private sector and create some legacy (NE3, 2017). Sustainability and the aim of creating a legacy in the region were long-standing rationales supporting the use of repayable assistance in North East England. Since the 2000–06 programming period, the sustainability of repayable funds was the basis of support through equity and loan FI, rather than grants (Deloitte & Touche, 2002).

6.4.2 Financial instruments in the 2007–13 OP: objectives, measures, resources

The strategy developed in the ERDF OP for 2007–13 was closely linked to the 2006–16 regional development strategy (One North East, 2006). The 2006–16 regional development strategy identified the need to enhance productivity and participation in the job market as the two main challenges faced by North East England. A global strategy was fine-tuned to regional needs, in which ERDF and other resources had to be complemented and used as efficiently as possible. The strategy aimed in particular at raising the gross value added per head (from 80% to 90% of the UK average), to increase the number of people at work by an average of 67,000 units and to create about 20,000 new businesses. The regional development strategy thus focused on business creation and development and on innovation. Each of the key priorities (business, people and place) identified areas of intervention. The ERDF OP priority axes were defined on this basis.

The OP set out two investment priorities that addressed two of the key themes of the 2006–16 regional development strategy (Government Office for the North East, 2007): 'Enhancing and exploiting innovation' and 'Business growth and enterprise'. Although most of the ERDF resources were assigned to the first priority, the second also contributed to the attainment of ERDF strategic objectives (NE1, 2016). The use of FI was set out under both OP priorities. FI were meant to improve the access to finance

for technology-led businesses and existing SMEs, as well as fostering an entrepreneurial culture and enhancing the capacity of SMEs to understand financial opportunities. A triangulation of OP information with data gathered from the UK version of the survey showed that addressing a gap in the provision of finance was the most important factor determining the choice of using FI, according to the managing authority.

The holding fund was reported under priority 1 in the annual implementation reports (Government Office for the North East, 2007, NE1, 2016, Department for Communities and Local Government, 2015). Table 6-16 summarizes the key OP goals and priorities that envisaged the use of FI.

Table 6-16 | Objectives, priority axes and actions – ERDF North East England OP

Overall OP objective (global)	
To increase the GVA per head to 90% of the UK average in a sustainable way.	
OP strategic actions	
- increase business density by creating 3000 new businesses, 15% of which are in disadvantaged areas. - creating/safeguarding 28,500 gross jobs of which at least 10% are in disadvantaged areas. - raise R&D expenditure by 0.2 percentage points as a percentage of regional GVA - improve environmental management and energy efficiency in 2.850 assisted businesses. - increase productivity in businesses, triggering an increase in £1.1bn in regional GVA per year	
Priority axes	
1. Enhancing and exploiting innovation	2. Business Growth and Enterprise
Actions	
Investment in innovation connectors	Foster and sustain enterprise (including social/community based enterprise) in particular, but not exclusively, in disadvantaged areas.
Support for innovation and technology-led sectors	Enhance the competitiveness and growth of existing SMEs (including social/community based enterprises)
Exploit science base	

Source: own elaboration, based on Government Office for the North East (2007).

A substantial part of the OP ERDF resources (about 35%) was delivered through FI. The biggest part of these resources (€61.45 million) was paid through the North East England holding fund, as reported in the Commission summary report at closure (European Commission, 2017b). Another fund (the North East Creative Content Fund) had also been set up under the OP. This, however, fell outside the holding fund structure and was launched as a small (£2.4m) pilot project to assess the need for a co-investment fund in the creative industry. On this basis, it was excluded from the analysis.

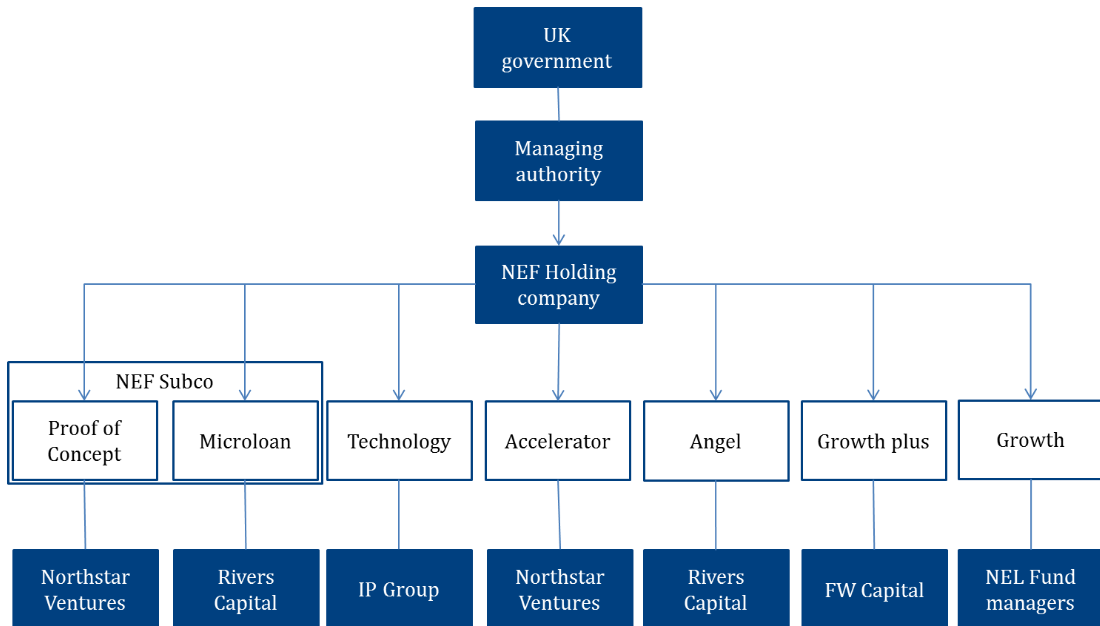
6.4.3 Actors

The main actors involved in the management and implementation of the funds in North East England were:

a. the managing authority
b. the holding fund manager
c. the fund managers.

Actors and funds are summarized in Figure 6-3.

Figure 6-3 | Actors and funds - North East England



Source: own elaboration.

(a) North East England managing authority and holding fund manager

The Department for Communities and Local Government (DCLG)[51] was the managing authority for the ERDF programmes in England. DCLG set out the framework for the delivery of ERDF programmes, reported to ministers and was the primary point of interface with the European Commission. The Department had locally based teams responsible for delivering ERDF funds. In this case, it was the North East, Yorkshire and Humber growth delivery team, based in Newcastle upon Tyne. Each ERDF programme

[51] Then Ministry of Housing, Communities and Local Government.

also had a local management committee, formed of members of government departments and local partners from local enterprise partnerships, local authorities, higher and further education institutions, environmental bodies, voluntary bodies and the business community. The remit of the local management committee was to monitor ERDF investment progress and steer the programme.[52]

The actors responsible for managing the holding fund were the holding fund company and the fund managers. North East Finance was a private limited company, with six members of staff including a chief executive. The company was created as a legal entity in 2009 and directly appointed as holding fund manager. Direct appointment was used, because an organization with the required characteristics was not available in the market (NE1, 2016). Another reason was to retain and build up expertise in North East England.

(b) North East England fund managers

Each sub-fund is managed by fund managers approved by the Financial Conduct Authority. These are:

a. Northstar Ventures, a VC firm managing the Proof of Concept and Accelerator funds
b. Rivers Capital, an independent early stage fund manager, investing from the Microloan and Angel funds.
c. IP Group Ltd, a VC company focusing on intellectual property commercialization. It manages the Technology fund.
d. FW Capital Ltd, an investment company that is part of the Finance Wales Group, investing from the North East Growth Plus fund
e. NEL Fund Managers, an independent fund manager specializing in early and later stage investments. It manages the North East growth fund.

All of the fund managers are private limited companies. These private fund managers had a track record of managing publicly backed funds, with involvement in previous FI co-financed with ERDF resources.

[52] https://www.gov.uk/guidance/erdf-programmes-and-resources. Last accessed: 29/04/2019.

(c) Other actors involved in North East England

Other actors involved in the governance of the North East England funds were mentioned in interviews with experts. These were:

a. the legacy fund manager - North East access to Finance
b. the holding fund funding providers/partners – UK Government (BBB)
c. the holding fund statutory and investment advisory boards.

North East Access to Finance (NEA2F), the legacy fund manager, was established by the Regional Development Agency (RDA) One North East and became operational in 2011. The main remit of NEA2F was to manage the North East FI legacies. All the returns generated by the funds set up since 1997 were owned by NEA2F, which coordinated and managed their reuse. NEA2F was the only shareholder of the 2007–13 holding company, although the legacy company and the holding company were operationally independent. NEA2F had a board of directors that guided strategic decisions, and an executive team. The decision to set up an independent legacy management company was a distinctive one for North East England. It was done to safeguard the legacies of previous investments in a context of significant governance changes and to anchor the use of the funds to the territory (NE3, 2017).

Apart from the DCLG, the British Business Bank (BBB) and EIB also contributed resources to the holding fund. The BBB was a national economic development bank. It is a public limited company, 100% owned by the Department for Business, Energy and Industrial Strategy of the UK government. Operationally, however, it is independent. The bank was established in November 2014, with a remit to design, deliver and manage programmes in support of access to finance for UK smaller business on behalf of the UK government (British Business Bank, 2016).

The EIB was involved in setting up several funds under the JEREMIE initiative in the northern English regions. A feature of the JEREMIE funds is the use of a mix of ERDF and other public sector grants that are matched with a loan from the EIB. A minimum fund size was a pre-condition for the loan (NE1, 2016). In North East England, the EIB granted an initial £62.5m loan to set up the holding fund.

The holding fund had two separate boards: a statutory board and an advisory board. The statutory board was formed of non-executive directors and some appointed

members of the North East Finance executive team. The EIB took part in the statutory board meetings, and the other funding partners (DCLG and the BBB) were invited as observers. The statutory board oversaw the management of the holding company. The advisory board was formed of experienced practitioners in the VC industry and acted as an investment committee, providing advice on portfolio management (fund allocations, exit planning and solutions to potential conflicts). The statutory board and advisory board members were appointed for a period of up to nine years.

6.4.4 Structures

The design and governance structure for the ERDF-funded FI set up in 2009 were affected by the forecast outcome of the 2010 general election. All the funds set up since 1997 were owned by the RDA, One North East. The abolition of RDAs had been an electoral pledge of the incoming government (NE2, 2016, NE3, 2017). The demise of One North East affected the design of FI and resulted in the reorganization of structures and responsibilities (Charles and Michie, 2013). In terms of design, the effect was that all the FI set up under the ERDF 2007–13 programme in all the Northern English regions were organized under the JEREMIE initiative. This was supported by the European Commission in co-operation with the EIB. The legacy fund (NEA2F) was set up at the same time as the JEREMIE fund in the North East. This was the consequence of the demise of the RDA, which owned the forerunners of the holding fund. The legacy fund incorporated all the realizations and returns from previous rounds of investments and returns on the 2007–13 FIs once the EIB loan was repaid (NE2, 2016, NE3, 2017).

The North East England managing authority decided to operate through a holding fund structure, a company limited by shares. The holding fund structure (see Figure 6-3) is formed by the holding fund Finance for Business North East (*FBNE*) and a suite of seven sub-funds, six offering equity products and one offering loans. The name *FBNE* was rarely used to indicate the holding fund in discussions with the interviewees. Generally, the fund was identified as North East Finance (*NEF*) Holding company (Holdco), which is the name of the fund management company.

The holding fund is 100% owned by the parent company NEA2F – the legacy fund. While being set up as a private entity for accounting classification, the resources managed are entirely public. Among the seven sub-funds, two (Proof of Concept and Microloan) took the form of subsidiary companies and the rest were limited partnerships. In the operational structure, there was separation between the holding

company and the parent company. The shareholder was not involved in the implementation of the holding fund, as its only remit was the realization of the legacies at the end of the investment period after the EIB loan was fully repaid.

6.4.5 Products

The North East England holding fund offered a total of seven sub-funds: six were set up in 2010, and the microloan fund was set up in 2011. The sub-funds chiefly offered equity products. The focuses of the funds were decided on the basis of a gap assessment and experience gained from previous rounds of funding (NE2, 2016, NE1, 2016). The funds were conceived to offer an all-round offer to North Eastern SMEs, based on their stage of development and funding needs. A lack of alternative sources of finance in previous years was one of the elements that justified the breadth of instruments offered through the holding fund (Charles and Michie, 2013). A broad distinction was made between funds investing in the early stages of business creation and those which funded growth (NE2, 2016).

The resources paid into the holding fund were gathered from five different sources:

a. ERDF OP 2007–13 and the legacy from 2000–06
b. the EIB loan
c. Regional growth funding
d. NE local enterprise partnership funding
e. Single Programme, administered by the BBB (One North East, 2010, NE1, 2016).

An initial £62.5 million EIB loan was negotiated and obtained to start up the fund, to which £44.25 million ERDF grant and 2000–06 ERDF legacy, and £18.25 million UK government funding from the national Single Programme were added. Support was secured through the regional growth fund after the abolition of the RDA (One North East, 2009, NE1, 2016, NE2, 2016). The total initial fund endowment was £125 million. In 2013, the fund was enhanced with £10 million ERDF resources and its investment period extended to December 2015 (Department for Communities and Local Government, 2015). The final endowment of the fund of funds was £159.5 million.

Table 6-17 and Table 6-18 summarize the key characteristics of the funds offered.

Table 6-17 | NEE funds – type and allocations

Name of fund	Type of fund	Initial allocations (£m)	Final allocations (£m)
Proof of Concept	Convertible loans, equity	15.00	25.00
Microloan	Unsecured loans	5.00	8.00
Technology	Equity, quasi-equity	25.00	38.00
Accelerator	Equity, quasi-equity	20.00	41.00
Angel	Equity, convertible loans	7.50	13.00
Growth Plus	Equity, quasi-equity	20.00	27.00
Growth	Equity and quasi-equity (significant part)	20.00	34.00

Source: own elaboration, partly based and adapted from Charles and Michie (2013) and Regeneris (2013). Initial allocations from One North East (2010), final allocations from (European Commission, 2017b).

Although the holding fund was reported as an equity fund to the Commission, the type of investments made varied. The first annual implementation report on performance in the implementation of FI (One North East, 2010) showed that about two thirds of investments had taken the form of pure loans (29%) or pure equity (29%), with quasi equity (24%) and convertible loans (18%) next.

Charles and Michie (2013) noted that, in contrast to a pure VC-funded model, some of the equity fund managers had to offer a combination of various types of funding, including loans. They also had to invest in later stage cash-generative investment. The key motivation for this varied approach is to be found in the need to meet the repayment targets for the EIB loan. This precluded some fund managers from carrying out only one type of investment (e.g. to early-stage companies). It also lowered the risk profile, since it was the holding fund as a whole which had to achieve significant commercial returns, not the individual funds.

Table 6-18 | NEE funds – characteristics and investment thresholds

Fund	Focus	Investment range (£k unless specified)		Notes
		Min	Max	
Proof of Concept	Early stage technology and innovation projects in start-ups. Activities: preparation for further investment; fund commercial viability studies	50	150	Generally between £20k and £100k
Technology	Equity investments to technology and innovation businesses at any stage of business cycle (seed to development)	50	£1.25m	Anything over £750k must have *pari passu* co-investment by a private investor for at least 15% of fund's aggregate investment
Accelerator	Predominantly early-stage funding to businesses with growth prospects, across all eligible sectors	50	750	
Angel	Investments in growth businesses, predominantly at the early stage of development, alongside business angels	50	150	per company 70% of value to be matched by co-investors on *pari passu* basis.
Growth Plus	Larger funding than Growth fund, to relatively mature companies for development and growth	350	£1.25m	Expected average is £0.5 million for each company
Growth	Assist mature companies at the development and growth stages	50	400	Expected average investment £150k per company
Microloan	Unsecured loans to early and late stage investments in new and existing businesses, operating within all eligible sectors which struggle to secure mainstream finance	1	25	

Source: own elaboration, based on and adapted from (Charles and Michie, 2013) and Regeneris (2013).

6.4.6 Case study conclusions

North East England set up the first financial instruments with regional development funds in the 1997–99 period. Sustainability for public finance was the long-standing rationale for FI use in North East England while in 2007–13 FI were used for several aims (Table 6-19).

Table 6-19 | Rationale and key objectives for using FI – NEE

Rationale	Key objectives in 2007–13
Sustainability of public finance / creating legacy	Address funding gaps
	Foster business creation and development
	Create and safeguard jobs
	Foster research and innovation

Source: own elaboration.

The actors involved in FI implementation were the managing authority, the holding fund managers and the fund managers (Table 6-20). In North East England the managing authority was identified in a local branch of the relevant department within the national authority. The holding fund manager in North East England acted as intermediate actor. The financial institutions operating as fund managers were selected private companies, with complementary areas of expertise.

Table 6-20 | Actors – NEE

Managing authority	Intermediate actors	Fund managers
Department for Communities and Local Government	Holding fund manager: North East Finance limited company	Northstar Ventures, Rivers Capital, IP Group Ltd, FW Capital Ltd and NEL fund managers

Source: own elaboration.

North East England set up a holding fund. The resources were contributed by setting up independent legal entities for the holding fund and the sub-funds. In North East England, the holding fund predominantly offered equity products. However the analysis of the fund activities showed that the funds offered a mix of products, blending equity with loans (Table 6-21).

Table 6-21 | Structures and financial products – NEE

Structure	N. FI
Specific financial instrument	0
Holding fund	1 with 7 specific FI beneath
Contribution to structure	
Independent legal entity	1 (HF) + 7 (specific FI)
Separate blocks of finance	0
Direct management	0
Type of financial product	
Equity	6
Loans	1
Guarantees	0

Source: own elaboration.

FI implementation in North East of England needs to be considered within the wider UK government context. The managing authority was a local branch of the national administration, while the holding fund manager and fund managers were all private companies. Among the fund managers, most operated locally, and two were attracted from elsewhere in the UK. The holding fund manager was set up on purpose. Within this context, the accountabilities were anyway local. The resources returned to the regional holding fund (5.2.1) for the benefit of the territory. Also, the managing authority, representing the national government, did not play a role in defining

investment criteria (5.1.2). The private holding fund manager had the central role in this task. The rest of the thesis will show that FI governance was fine-tuned over the years to achieve a balance among implementing actors and ensure their accountability.

6.5 Comparing context and key governance features in the case studies

This final section analyses the formal governance arrangements across the cases and makes some assumptions on the relationships between actors, on the basis of the p–a framework. These will be validated in the next chapter.

6.5.1 Comparative findings

The key comparative findings that emerged in this chapter relate to the rationale, actors involved, structures chosen and instruments offered. At this stage of the research, the findings related mostly to the formal governance arrangements in FI implementation. The full implications of such arrangements will be analysed in the next chapters.

(a) Rationale for FI use

In Berlin, FI were first used in the context of an exhausted *Land* budget, which pushed the administration to opt for a sustainable use of public resources. FI were particularly important for transforming Berlin into a start-up capital which attracted international investors, especially in innovative, high-tech and creative sectors. FI accompanied the economic growth and specialization in Berlin through distinct stages of development, the current one being focused on innovation. In Tuscany, the revolving funds co-funded with the ERDF were used for more than two decades to finance productive investments, as an alternative to grants. Credit access constraints were, therefore, not the primary public policy target. North East England had a long tradition of incorporating ERDF resources into revolving funds too. In the mid-1990s, the sustainability of public finance became the primary reason for favouring equity and loan revolving funds rather than grants. The creation of economic growth and jobs in the area was also a central objective. The first objective was ensured, not only by using repayable assistance, but also by creating a legacy fund which had to be used in the original territory and by the attainment of a regional economic strategy. The second objective was addressed in several ways. The holding fund analysed in this thesis had

decisively contributed to producing economic activity and stimulating an entrepreneurial attitude.

(b) Actors

The analysis of the data presented shows that a similar set of actors was involved in the three cases. The regulations only formalized the role of managing authorities and of financial institutions (as fund managers) in FI implementation. This thesis has taken the variation in legal status and ownership of fund managers as a starting point.Until the stage of advanced data collection and analysis, the potential role of other actors in FI implementation remained unexplored.

Based on the evidence presented in this chapter, this thesis finds that:

a. actors were distributed on three levels
b. an intermediate actor was always present between managing authority and fund managers
c. the legal status and characteristics of this intermediate actor varied.

In North East England, the holding fund manager was the intermediate actor between the managing authority and fund managers. However, an intermediate actor was present in the other cases too, even though they did not have a holding fund structure. This suggests that a three-layered governance structure might be typical in FI implementation.

A separate finding is that the legal status and features of these intermediate actors varied. In Berlin and Tuscany, this was a specialist department within the public sector. Intermediate actors were 100% public institutions in these two cases. In Berlin, it was granted intermediate body status – the terms used to identify these intermediate actors were either specialist departments (*Fachreferate*) or intermediate bodies. In Tuscany, emphasis was put on the role of the action manager identified in a department within the public sector. In North East England, the intermediate actor was the holding fund manager, given that a holding fund structure was in place. The peculiarity was that the holding fund manager was a 100% private entity. Due to the heterogeneity of the actors involved in such a position, it was decided to group these under an umbrella category. The term 'intermediate level actors' (ILA) will from now on mean the intermediate bodies in Berlin, the action manager in Tuscany and the holding fund manager in North

East England. Although similar, the status of the ILA in Berlin and Tuscany differed in one key respect. In Berlin, the specialist departments competent in the subject matter were identified as intermediate bodies, whereas in Tuscany the intermediate bodies were the fund managers. In the North East of England no intermediate body was appointed.

Among the other actors mapped out, the role of advisory boards and investment committees should be acknowledged. Often, and especially for equity instruments, a board or committee, independent from political influence, was part of the operational structure.

6.5.2 Interpreting the actors through the p–a literature

The actors identified operate in a vertical hierarchical structure of delegation. The delegated relationship took place between actors located on three levels: the managing authority was at the top, the fund managers at the bottom and 'intermediate level' actors between. Initially, this thesis assumed the principal to be the managing authority and the fund managers to be the agents in this delegated relationship. The presence of an intermediate actor, however, introduced the concept of multiple chains of p–a relations in delegated governance. On this reasoning, the ILA could be considered a partial agent to the managing authority and a partial principal to the fund managers. Formally, two sets of p–a relations can be identified. One links the managing authority with the ILA and the second connects the ILA with the fund managers. The empirical validation of these assumptions is described in section 7.3.

(a) Structures

The use of specific FI outside holding fund structures predominated in the cases considered. This reflected actual practices in FI implementation across the cases (see 2.5.2). The cases used both options explicitly envisaged in the regulations ((b)on p.37). In addition, one Tuscan fund was directly managed by the managing authority. One finding that should be stressed from the analysis of the key governance arrangements is the importance of the often-less-appreciated distinction between fund and fund manager. Technically, if the fund is set up as an independent legal entity, it has its own contractual power. Although the fund management companies represented the interests of the fund and invested from it, the legal entity was autonomous. This was less evident when the fund was set up as a separate block of finance within an existing

financial institution. As will be shown in the next chapter, the way in which the funds contributed to the FI (either as an independent legal entity or a separate block of finance) had implications for the extent of the discretionary authority of fund managers (7.2.3).

(b) Instruments

A final remark relates to the type of instruments that the managing authorities decided to offer. At the outset of the research, the data included in the annual summary reports on FI implementation was used to map out the type of funds. The report broadly asked respondents to distinguish between equity, loan and guarantee products. This study followed that categorization. During the data collection and analysis, however, it was found that, while funds may be categorized on the basis of the predominant product offered (e.g. equity), they could also offer other types of product (e.g. loans). This was not well captured by the Commission summary reports. This emerged especially in the analysis of the North East England holding fund. The fund was reported as an equity type of fund; however, evidence showed that other non-equity products were also offered, even when the funds had a primarily 'equity' orientation. This was not only the result of the mix of funds in the holding fund structure, but also for contextual reasons, such as the need to meet capital generation targets to repay an EIB loan. In Berlin also, Berlin Capital was reported as a loan fund in the Commission summary reports; however, participations and mezzanine finance were offered under the fund – that is, products with some characteristics of equity and loans.

6.6 Chapter summary

This chapter introduced the case studies. It first discussed the selection of cases. Section 6.1 outlined the motivations for choosing Berlin, Tuscany and North East England as typical cases. This chapter presented the rationale and context for the use of FI in CP over the years. It then presented the variation in terms of actors involved, structures selected and instruments offered. Having summarized the main features of each case after each case study, the last section presented the comparative findings drawn from the evidence presented at this stage.

Beyond setting the scene for the following ones, this chapter had an important function within the thesis. Until the stage of advanced data collection and analysis, the role of other actors beyond the managing authorities and fund managers in FI implementation

had remained unexplored. This thesis discovered that a specialist department/intermediate body in Berlin, an action manager in Tuscany and a holding fund manager in North East England acted as intermediate–level actors in FI implementation. This was a key feature of the formal governance structure for FI implementation. At a formal level, the three cases adopted similar governance structures, hinging on three actors (managing authorities, ILA and fund managers) and two levels of delegation. The case study conclusions hinted as some preliminary findings on the relationships between implementing actors and their accountabilities. These results are now validated through the advanced analysis of the institutional design for FI, the formal and informal distribution of responsibilities and the application of control mechanisms presented in Chapter 7 and Chapter 8.

7 Delegated governance of FI implementation in Cohesion policy

This chapter examines the governance of FI implementation. In particular, it aims to address the first intermediate aim (*to explore the variation in the governance of FI implementation)* and, consequently, the primary question of this study: *What implications do the new modes of governance in CP have for the relationships between actors?* Section 7.1 describes the formal distribution of responsibilities and the p–a relations in the governance of FI implementation. The responsibilities of each actor, as set out in the regulations and in practice, are analysed in turn (7.1.1–7.1.3). The following sections focus on the actual exercise of responsibilities, by examining the definition and application of investment selection criteria in the selection process by fund managers (7.2.1), which provide a direct measure of the degree of discretionary authority that they were granted (7.2.3). Section 7.3 analyses the p–a relationships in FI implementation, concluding with an assessment of both the distribution of responsibilities and the relationships in the governance of FI implementation (7.4). This chapter's evidence draws on the analysis of primary data from interviews. Whenever possible, the material was triangulated with evidence from other studies.

7.1 Formal distribution of responsibilities

The 2007–13 regulations did not set out the specific responsibilities of managing authorities in FI implementation (see 2.3.5). The comparative evidence presented in this section shows that most functions identified in the regulations were formally delegated 'intermediate level actors' namely to a department within the public sector (Berlin and Tuscany) or a private entity (North East England). These ILA in turn delegated a substantial amount of their implementation responsibilities to the fund managers. Responsibilities were distributed on three levels, with the ILA firmly in charge of FI implementation (Figure 7-1). Formally, the responsibilities of fund managers did not differ much in the three case studies. There was variation, however, in how investment decisions were taken, where there was real scope for exercising discretionary authority (7.2).

7.1.1 Managing authorities

Art. 60 of the Common Provisions Regulation (European Council, 2006) set out the key functions of the managing authorities. These essentially covered the areas of:

a. programme implementation
b. monitoring and evaluation
c. controls and verifications
d. information and publicity.

The functions of managing authorities included:

a) Ensuring that the selection of projects complied with the relevant OP criteria and with EU and national rules.
b) Verifying that goods and services were actually delivered, that the expenditure declared by beneficiaries had actually occurred to co-finance the goods and services and that spend complied with EU and national rules.
c) Carrying out on-the-spot checks on individual projects on a sample basis, in accordance with the detailed rules adopted by the Commission.
d) Ensuring, for each project, that a system for recording and digitally storing accounting records was in place.
e) Ensuring that the necessary data on implementation was collected for financial management, monitoring, verification, audit and evaluation purposes.
f) Ensuring that beneficiaries and other bodies involved in implementation kept a separate accounting system or an adequate accounting code for the transactions relating to each project.
g) Providing for *ex ante*, ongoing and *ex post* evaluations to be carried out.
h) Setting out procedures to guarantee that all documents on expenditure and audits were retained for three years after programme closure, to ensure an adequate audit trail.
i) Ensuring that the certifying authority received all information needed on the procedures and checks carried out in relation to money spent.
j) Assisting and advising the monitoring committee in its work and providing the documents necessary for monitoring the quality of the implementation of the OP.
k) Drawing up the annual and final implementation reports and submitting them to the Commission, after approval by the monitoring committee.
l) Ensuring that information and publicity requirements were respected.
m) Providing the information necessary to allow the Commission to appraise major projects.

These duties were identified for the whole OP, and therefore apply to FI. Some of these tasks could be performed by intermediate bodies, in accordance with art. 59 of the CPR (European Council, 2006).

The qualitative data analysis identified marked similarities in governance in the case studies. In the three cases, the managing authority was the main actor involved in the programming of the OP, with implementation delegated to a series of actors at various levels. In all the three cases, the strategic coordination of all activities in the OP emerged as the central responsibility of the managing authority (BE1, 2017, TU1, 2017, NE1, 2016). This was one of the few functions that was not delegated to other actors. The tasks performed by the managing authority were primarily aimed at ensuring that the interests of the political account-holder (i.e. the Berlin *Land*, the Tuscan regional council, the UK government) were safeguarded, that the objectives set out in the ERDF OP were fulfilled, and that all activities complied with applicable law, including the provisions on state aid and public procurement (NE1, 2016). Managing authorities provided guidance to all involved in OP implementation on meeting these obligations (TU1, 2017). Ultimately, the managing authority ensured that the OP was implemented in accordance with the principles of sound financial management (BE1, 2017).

Another central function of the managing authorities across the three cases was the monitoring and control of activities at all levels of FI implementation (TU2, 2017, BE1, 2017, NE1, 2016). This activity was shared with the ILA. ILA had the duty of informing the managing authority about all the implementation activities and the progress made. ILA were in charge of the basic monitoring and control activities, but the managing authorities retained the power to assess whether the activities were in line with the OP objectives. Managing authorities could perform additional checks on ILA and fund managers, such as system checks (BE1, 2017, TU1, 2017, NE1, 2016). In particular, managing authorities oversaw spending targets (TU1, 2017), reviewed the overall performance of FI against indicators and monitored legacy funds (NE1, 2016). If a fund performed poorly and the underperformance could not be rectified, the managing authorities might recover ERDF resources from ILA (BE1, 2017, NE1, 2016). Finally, the managing authority managed the ERDF returns and the fund legacy (TU1, 2017, NE1, 2016).

7.1.2 Intermediate level actors

The evidence in this thesis points to two levels of analysis for investigating the responsibilities of ILA. The first requires asking who held the formal responsibility for a task and the second examines who performed the task. The evidence points to a clear distinction between formal and operational responsibility. From a formal point of view, the ILA was firmly in charge of FI implementation, but operationally the fund managers performed most of the underlying duties. The first set of responsibilities of ILA related to the implementation of the measures defined in the OP, in particular the implementation of projects (TU1, 2017; TU2, 2017). The ILA were in charge of:

a. the preliminary administrative checks on project applications
b. the examination and approval of those applications
c. the payments and monitoring of the applicant's performance up to the completion of projects.

The ILA were responsible for the administrative, technical and financial management of activities, guaranteeing any changes and updates to the planned technical, procedural and financial content of the project, i.e. managing the revocations, variations and renounces (Giunta regionale toscana, 2015a, TU2, 2017).

The ILA supervized the use of ERDF funds and ensured that suitable accounting and reporting procedures were in place (BE2, 2017). They established their own control systems, carrying out appropriate *ex post* controls over the use of funds and were in charge of payments (BE3, 2017, TU2, 2017). A representative of the ILA in Berlin summarized its role and responsibilities as follows: *"The [ILA] are almost like 'a small managing authority'. They ensure that the programme makes sense from a technical point of view (BE2, 2017)"*. Similarly, in Tuscany, the ILA coordinated the activities of the delegated manager and the control and payment manager (6.3.3), while carrying out the planned OP interventions. In addition, the management and control system entrusted the ILA with the task of identifying the fund managers responsible for the implementation of the FI. In doing this, the ILA had to ensure the smooth operation of programme, technical, administrative and financial relations with the fund managers (Giunta regionale toscana, 2015a).

The role of the ILA in North East England differed somewhat from what has just been described. Its responsibilities were less focused on the implementation of OP measures

and more on holding fund management. This may be explained by the involvement of multiple funding providers in the holding fund, which resulted in the holding fund manager being the primary interface with the various stakeholders. The key responsibility of the holding fund manager was to mediate between the interests of the various actors: the commercially driven interests of the EIB, the ERDF public policy targets of the managing authority and the operational needs of the private investment companies who were the ultimate interface with final recipients (NE2, 2016). In particular, in North East England, the holding fund management company had the contractual obligation to the EIB and the other funding providers.

Among the specific responsibilities listed by interview respondents in the UK case study, only two were closely related to ERDF obligations, namely:

a. to ensure overall compliance with procurement and state aid rules
b. to 'performance manage' the fund managers.

In addition, the holding fund manager had strategic responsibility for the overall investment strategy, including setting out the parameters for investments carried out by the fund managers. The investment strategy was proposed by the holding fund manager, checked by the managing authority against ERDF and EU obligations and approved by the monitoring committee. Closely related to the management of the holding fund and how it was designed, were two other duties:

c. holding the fund managers accountable for their contractual commitments
d. managing the conflicts between and within fund managers (NE1, 2016).

7.1.3 Fund managers

Art. 43 of the implementing regulation (European Commission, 2006) identifies one type of contract – the funding agreement – signed by a representative of the fund and the managing authority (see (d) on p.38). Funding agreements set out the terms and conditions for the contributions from the OP to the FI, but did not make specific provisions on the responsibilities of fund managers.

Based on the evidence in this thesis, the formal responsibilities of fund managers were similar across the case studies. Essentially, the selected financial institutions had two responsibilities: investment selection and fund management. Selecting the investments for funding involved:

a. screening the applications for funding from final recipients and performing the preliminary administrative checks
b. assessing the submitted applications against the selection criteria and investment strategy, which may result in a merit-based ranking
c. granting the funding.

After the investment decision was taken, the duties of the fund managers essentially related to managing the funding. In doing this, fund managers took over several ERDF obligations. In particular, they made payments, monitored and reported on their activities, carried out checks on implementation and managed the returns to the fund (TU2, 2017). In Berlin and Tuscany, these functions are the same. In North East England, the fund managers' responsibilities in relation to ERDF implementation were worded in a slightly different way. Fund managers were responsible for:

a. ensuring the existence of a compliance system and track record of activities
b. collecting output data
c. in general, ensuring that all investments were undertaken in accordance with applicable standards (NE1, 2016).

Complementary to these two primary responsibilities were more practical support activities such as managing the application pack and supporting the applicants in using the IT system (NE1, 2016, TU2, 2017). Ensuring a constant deal flow and engaging with potential investees were also among the key responsibilities of fund managers (NE1, 2016). For equity investments in particular, the creating of interest in the territory was fundamental to ensuring a flow of deals. Fund managers also took over communication and publicity duties (BE3, 2017, BE4, 2017, NE1, 2016). Within the Tuscan governance structure, the delegated managers and the control and payment managers were assigned specific supervisory roles. The control and payment managers had essential verification, control and monitoring duties (Giunta regionale toscana, 2015a). The delegated managers presided over the preliminary administrative checks and the assessment of the technical, economic, and financial viability of the projects. They also paid the loans or capital contributions and ensured the oversight of projects (Giunta regionale toscana, 2015b).

Only in North East England were the management of disputes inside the fund and the provision of cash generation targets listed among the responsibilities of the fund

managers by interview respondents (NE1, 2016). These duties could be better understood by looking at the context and specific characteristics under which the holding fund was set up, in particular the need to repay the EIB loan (section 6.4). The holding fund manager stressed that the administrative burden of ERDF management was kept away from fund managers as much as possible (NE2, 2016), and that was confirmed in interviews with fund managers (NE5, 2017).

7.1.4 Conclusions on the formal distribution of responsibilities

This thesis finds marked similarities among the three case studies. The evidence gathered shows that responsibilities for FI implementation were not distinct from those applicable to the entire OP. Managing authorities carried out a general coordination role and were primarily in charge of monitoring and control. These activities were targeted at the actions carried out by ILA to ensure compliance with the OP (ERDF) obligations and objectives, and at fund managers. The bulk of responsibilities of managing authorities as set out in the regulations were, however, delegated to ILA.

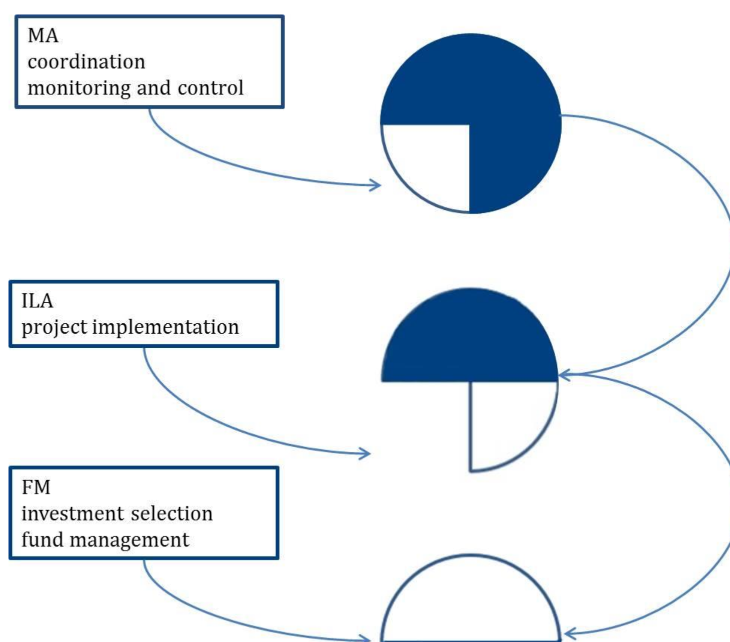
This thesis also identifies commonalities among the responsibilities of the ILA in the regions. The ILA are primarily in charge of project implementation. In Berlin and Tuscany, the duties were broadly the same, namely project selection and the implementation of relevant OP action. ILA had responsibility for receiving and assessing the applications for funding, granting the funding and managing the payments. They had to ensure that ERDF and EU obligations were respected. In North East England, the duties were those of a (holding) fund manager. The ILA in that case study was responsible for a few of the ERDF OP obligations, but not as many as the ILA in the other cases. The holding fund structure influenced the type of responsibilities of the ILA. The range of responsibilities reflected that the holding fund was outside the public sector. The managing authority was only one of the shareholders (through ERDF funding). Because the holding fund manager had the primary function of mediating among the various public and private interests, it was categorized as an ILA.

In practice, it appears that the role had characteristics of both ILA and fund manager, which makes the North East England model different from the others. The evidence shows no substantial differentiation in the responsibilities among the fund managers across the three case studies, with North East England being slightly different. The responsibilities of fund managers by and large derived from the formal set of duties of

the managing authority. These were mostly delegated to ILA, who in turn delegated a substantial part of the implementation duties to fund managers. In all three cases, it is evident that the fund managers carried out the most operational of the project implementation duties. These were of two types: 1. applying the investment selection criteria in taking decisions on funding applications; and 2. managing the resources held in the fund. In this scenario, there was a slight difference in North East England, where the fund managers' responsibilities were bound to concrete objectives in terms of cash generation. Formally, there was little differentiation in the responsibilities of fund managers among the cases. The extent of actual variation emerged from the analysis of the selection process (7.2).

In sum, the governance structures for FI implementation were broadly similar across the three cases. A crucial role in such structures was performed by ILA, with distinctive characteristics across the three cases. The comparative evidence shows that a substantial number of the tasks described in art. 60 of the Common Provisions Regulation (European Council, 2006) were delegated to the ILA in Berlin and Tuscany. In North East England, the holding fund manager as ILA took on some of these duties, but their primary responsibilities were less confined to ERDF OP implementation and more related to specific holding fund management duties (Figure 7-1).

Figure 7-1| Formal distribution of responsibilities in FI implementation



Source: own elaboration.

7.2 Actual distribution of responsibilities

The variation in the discretionary authority of fund managers can be inferred from examination of the responsibilities exercised by each actor in FI implementation. There were two approaches to the definition of selection criteria. In Tuscany and North East England, the ILA proposed the criteria and the managing authority checked and approved them. In Berlin, the managing authority, intermediate bodies and fund managers defined the selection criteria together when designing the fund. In the application of selection criteria, a completely different picture emerges. Berlin and North East England entrusted fund managers with full authority over their investment decisions. In Tuscany, fund managers had limited autonomy in the application of selection criteria. The autonomy of fund managers was more marked in Berlin and North East England than in Tuscany. FI set up as independent legal entities and those offering equity products were found to involve more discretion on the part of fund managers.

7.2.1 Defining the selection criteria

The definition of selection criteria and their application were the two key factors used to assess the degree of discretionary authority of fund managers. The results from the survey carried out in Germany, Italy and the UK gave preliminary insights on the process of defining the selection criteria. These have been corroborated in the interviews with experts.

In Berlin, the ERDF managing authority decided the selection criteria for specific investments together with the ILA and the fund managers. The fund managers then applied those criteria in project selection (BE2 2017). Berlin differed from the other cases, in that the process of defining the investment criteria was a joint endeavour among all stakeholders, fund managers included. This is explained by the specific governance arrangements (6.2). Only public sector actors were involved in both the programming and the implementation of activities. Also, the *IBB*'s role was not limited to fund management: the *IBB* carried out regional development measures on behalf of the *Land* and provided co-funding for the OP, which counted as private funding. In the Italian version of the survey, the Tuscan managing authority was reported to be in charge of setting out the selection criteria at the outset. Criteria were proposed by the ILA and then approved by the monitoring committee. In North East England, the holding fund manager was reported to be the actor in charge of setting out the criteria.

Specifically, the holding fund manager proposed the investment selection criteria and set out the investment strategy in the business plan. This is considered as part of the application for ERDF from the outset. Fund managers used these documents to decide on individual investments.

The data gathered through interviews confirmed these insights. In Berlin, the investment criteria were defined at fund conception on the basis of ERDF regulations and the regional development and smart specialization strategies in cooperation between the managing authority, the specialist departments and the IBB (BE3, 2017, BE4, 2017). In Tuscany, selection criteria were proposed by the relevant ILA to the managing authority. The suggested list of parameters was transposed into the fund by-laws and eventually ratified by the regional council (*Giunta regionale*) by decree. These decrees provided the macro-level guidelines, which were then implemented through an administrative order signed by the ILA (TU4, 2017). The regional implementation document for the OP (*Documento di attuazione regionale* – DAR) listed the specific selection criteria for each activity (Giunta regionale toscana, 2015b). Specific provisions for assessing the financial viability of the applicant were usually included in the calls for proposals. For example, for an investment to be eligible, the ratio between the shareholders' equity and shareholders' assets had to correspond to an exact value defined in the call for proposals (TU2, 2017). For the assessment of 'creditworthiness', however, the fund manager defined and applied its own methodology, in accordance with the current practice set by the Bank of Italy and Basel II agreements (TU2, 2017). In North East England, an investment strategy and the related financial model were drafted by the holding fund manager, which set out the strategic and operational plan for the implementation of the fund of funds (NE1, 2016, NE2, 2016, NE4, 2016, NE5, 2017).

7.2.2 Applying selection criteria for investments

The type of instrument influenced the application of selection criteria for investments. Equity investments and debt funding had two distinct objectives, which determined differences in the way the companies were selected for funding.

a. With equity, the key objective of the investments was to increase the value of a company, whose business plans were judged to have good return prospects. Therefore, shares or participations were acquired and held until the

investment had grown enough to make a good profit. At that point, the shares/participations in the company could be sold.

b. With loans, the objective of making the company grow was more implicit. The companies were not managed to make their value increase. The financial viability of the company and its funding needs made a case for funding per se.

In Berlin, the fund managers followed different procedures, depending on the product offered. The SME fund, managed by the *IBB*, had three types of customer applications and selection procedures:

a. direct financing of the *IBB* for microcredit
b. the provision of finance through commercial banks for Berlin Start and the SME fund
c. parallel financing (*IBB* and *Hausbank*) for consortium loans (*Konsortial Darlehen*).

Although commercial banks were involved in the delivery of the SME funds, they did not influence the application of the investment criteria. The *IBB* prepared programme and product sheets in which all applicable parameters were listed. The *Hausbank* performed its own credit controls and risk assessment. The *IBB* relied on these checks, while performing additional separate checks and further considerations, that influenced the investment decision (BE4, 2017). Overall, the commercial banks were only marginally involved in the funding (Kovalis, 2013, BE4, 2017). The fund manager for the SME funds argued that the practice applied in the selection of investments by the *IBB* as a regional development bank differed from the practices of commercial banks. Decisions on investments were made on the basis of procedures similar to those applied by banks in the private sector. However, the *IBB* not only took a more liberal approach towards risk, but also avoided a mechanical selection process. Companies had to present their business plan and meet a representative of the *IBB* in person (BE4, 2017). The *IBB* also had a supervisory board that oversaw FI implementation (BE1, 2017).

The *IBB Bet* applied a different selection process for equity investments. The preparation of investment decisions was based on commercial decision-making criteria in a formalized process. The procedures used to select the companies followed the customary market practice for VC companies and were akin to those of private VC

investors, according to the fund manager. The investment decisions were taken by an investment committee, with the responsible investment manager performing checks and a risk assessment together with the team manager. Decisions were taken internally within the *IBB Bet*, as no representative from the state or industrial associations took part in the committee (BE3, 2017, BE5, 2017, Kovalis, 2013). Public or private co-investors entered individual deals. These actors had essentially the same business model as the *IBB Bet*. According to the intermediate body for VC funds, VC investors and business angels had no influence over the investment strategy, nor was the concrete decision-making subject to the interests of the state or the business interests of the *IBB*. However it was influenced to some extent by the specific (profit) expectations of the co-investors entering a deal. Importantly, the decision on the consortium to co-invest alongside the VC fund was taken by the company invested in, not by the fund managers (BE5, 2017).

In Tuscany, the fund managers selected investments within the boundaries laid down in the calls for proposals, fund by-laws and the '*Documento di attuazione regionale* – DAR'. The fund managers of the loan and guarantee funds said that the selection criteria were akin to those applied by financial intermediaries in the private market. In essence, technical and financial viability and the capitalization index were appraised. According to the ILA, however, since these measures often targeted sectors characterized by market failures, *'there is undoubtedly a relaxation of these requirements compared to the practices used by commercial banks'* (TU3, 2017, TU4, 2017). Similarly to Berlin, in Tuscany there were distinct procedures for equity and debt products. Specifically for the equity fund, an economic and financial assessment was carried out by the fund manager (*Sici*), at various levels.

First, the management team, assisted by advisors and stakeholders, carried out market and budget analyses, screened the investment programmes, contacted the potential investees, performed the economic, asset and financial analyses and drafted an information memorandum. Second, the general manager and management team submitted a proposal to the scientific committee and, in parallel, to the technical committee (advisory bodies), each giving a non-binding opinion about the investment proposal. Third, the board of directors approved or rejected the investment proposal on the basis of the committees' opinions and signed the contract for successful projects (TU6, 2017, Sici, 2008). Although a representative of the region sat on the technical investment committee (TU6, 2017), the final investment decisions were taken by the

board of directors, which was independent from *Regione Toscana* (TU1, 2017, TU2, 2017, TU3, 2017).

The application of selection criteria for loan and guarantee instruments came down to two tasks – the verification of the creditworthiness of the company; and the assessment of risk through checking the financial viability of the applicant. Two different, selection procedures were in place, which, according to the ILA, did not mean a different degree of autonomy for the fund managers (TU3, 2017). Nonetheless, different degrees of involvement of the ILA and managing authority were evident in the approval of investment decisions. For the loan instruments, the ILA approved the ranking after being informed that preliminary checks, a proposal assessment and relative ranking had been carried out by the fund manager. In the case of the revolving loan fund, the decision to give a loan was formally made by the managing authority. For some of the other funds managed, an eligibility proposal was made to the ILA, who took the final decision (TU4, 2017). For the guarantee fund, the fund manager approved the ranking itself after a series of internal procedures. These included a rapporteur making the initial analysis, a proposer verifying that the eligibility criteria and the creditworthiness assessment were correctly applied and, finally, the deliberative body signing the act approving the selection. The bigger extent of autonomy in the management of guarantees might be explained by the expertise of the fund manager, a specialist in the delivery of guarantees, and its long–standing involvement in the management of public funds on behalf of the regional authority.

In North East England, the fund managers took the specific investment decision and also decided under what terms to invest. Fund managers received applications from potential investees. If the application met the formal requirements, due diligence checks were carried out, after which a meeting was arranged with the company. In the first meeting, the company presented their investment idea together with an investment proposal and provided an overview of the company profile and investment outlook. In order to take the investment decision, additional documentation might be requested (NE4, 2016). The fund manager fine tuned the appropriate mix of funding – pure equity, quasi-equity and loans – to be offered and decided on the amount of funding to be granted (NE4, 2016, Wishlade et al., 2016a, NE5, 2017).

Fund managers performed a qualitative assessment of the applications for funding. In the case of the microloan fund only, the managing authority noted that the qualitative

function performed by fund managers when making investment decisions was absent. In that one case, the fund manager had primarily a transactional function as a manager of multiple low value defaults (NE1, 2016). Based on investment decisions of the fund managers, the holding fund sub-funds then invested in SMEs, either providing a loan or making an equity investment. To this end, the funders' grants and *EIB* loan originally paid into the holding fund (One North East, 2010) were loaned down to the 'product-specific' investment funds, based on a request drawn by the fund managers. When the loan granted to a business was repaid or the equity share invested in a company was sold, capital returns flowed back into the sub-fund. These sums were used to repay the loan made by the holding company, which then paid back the resources borrowed from the EIB.

7.2.3 Extent of discretionary authority of fund managers

The extent of discretionary authority granted to fund managers was used to assess 'agency drift'. The autonomy of fund managers was argued to depend on how strictly the investment selection criteria were worded and the extent to which fund managers were constrained in their application. This thesis finds that the various arrangements made in the case studies do not allow situations of 'agency drift'. Any potential deviation from the originally intended policy objectives was prevented through effective institutional design. The scope of fund managers' action was defined by strategic and operational documents, issued by institutional actors. In all three cases, interview respondents maintained that fund managers operated within the boundaries set out in the investment strategy for the fund and the investment principles, which derived from the ERDF OP. The autonomy of the fund managers was exercised within these boundaries, which could be more (Berlin and North East England) or less (Tuscany) extensive.

In Berlin, the ERDF regulations and the regional development and smart specialization strategies provided the basis for the operational criteria applied by fund managers. The *IBB* then specified the individual parameters for each fund in programme and product sheets. In Tuscany, the scope of action of the fund managers was defined in various legal and policy documents which the fund managers did not participate in drafting (TU2, 2017). Similarly, in North East England, a strategy and a financial model were drafted by the holding fund manager and then approved by the managing authority (NE1, 2016, NE2, 2016, NE4, 2016, NE5, 2017). The participation of fund managers in

the definition of selection criteria was not necessarily linked to more autonomy in taking investment decisions, as the following evidence shows.

In Berlin, provided that the OP objectives were anchored to the FI strategy at the programming stage, the *IBB* and *IBB Bet* acted as independent financial operators. There was no interference in the day-to-day management activities and investment decisions either from the administrative or the political level (BE1, 2017, BE2, 2017, BE3, 2017, BE4, 2017, BE5, 2017). All interview respondents agreed that the fund management companies operated autonomously, since investment decisions could only be taken by independent professional fund managers. On no occasion were the managing authority and intermediate bodies supposed to interfere with individual investment decisions (BE4, 2017). The independence of fund management was crucially linked to the professional expertise of the regional development bank and its subsidiary, and also to the high degree of professionalism within the public sector, which allowed the fund managers to focus on investment decisions (BE4, 2017, BE5, 2017). Administrative capacity allowed for the smooth implementation of FI, in a context in which fund managers acted independently from the *Land*.

The independence of the VC fund managers appeared to be somewhat more pronounced than that of the *IBB* in managing the SME funds, according to Kovalis (2013). This was confirmed by the VC fund manager, who claimed that this main difference was linked to the fund structure. The SME funds, as separate blocks of finance within a financial institution (the *IBB*), were subject to strict regulations on lending activities via the banking system. The VC funds, however, were set up as separate companies (legal entities), and therefore had more autonomy. The *IBB Bet* itself, as a subsidiary of the regional development bank, was independent in terms of accounting, IT systems, personnel management and even office spaces from the *IBB* (BE5, 2017). The distinction between fund and fund manager observed in section 6.5 was found to be more pertinent when FI were set up as separate legal entities. In practice, the fund was a company to all intents and purposes. The FI (through its representative) could sign a contract with the fund management company that invested the money stored in it.

In Tuscany, the managing authority and ILA maintained that the degree of autonomy of fund managers was nil (TU1, 2017, TU2, 2017, TU3, 2017). Parameters for project selection were only applied, and not defined, by fund managers. The ILA stressed that

the independence of the fund manager was bound up in the implementation of eligibility checks over the applicants. *Regione Toscana* does not intervene in this assessment. '*This is the essence of the delegated relationship between the managing authority and the fund manager*' (TU3, 2017). The managing authority affirmed that, among the fund managers, the equity fund management company (*Sici*) had the highest degree of autonomy in the selection of target companies. This was confirmed in the interview held with the representative of the company, who affirmed that *Sici* had maximum independence in selecting investments (TU6, 2017). On the degree of autonomy of the grouping of enterprises in *Toscanamuove*, the lead partner confirmed that it was nil, whereas the other partner (*Artigiancredito toscano*) maintained that there was maximum independence, provided that the criteria included in the call for proposals were respected (TU4, 2017, TU5, 2017). This statement confirmed the view that minimum autonomy of fund managers in investment decisions had been envisaged and that fund managers merely applied the selection criteria decided by the ILA and managing authority.

In North East England, all the interviewees agreed that fund managers were the actors in charge of investment decisions, on the basis of their specialized knowledge and expertise. No other actor involved in the implementation of the holding fund had a direct say in investment decisions. The holding fund manager provided advice on state aid and eligibility criteria, but there was no interference in fund management activities. The fund management companies had wide discretion on investment activities within operational guidelines and the investment strategy set out by the holding fund manager. From the perspective of the holding fund manager, a balance was struck between ensuring that fund managers delivered against key targets and ensuring there was as little interference as possible in their investment decisions (NE2, 2016, see also Regeneris, 2013).

7.2.4 Conclusions on the actual distribution of responsibilities

Two approaches can be identified in the definition of selection criteria: a horizontal one that hinged on the cooperation of various implementing actors, and a vertical one, that was based on the specialist knowledge of the ILA. In Berlin, a cooperative process was in place: the representatives of the state – managing authority and intermediate bodies – and the fund managers jointly set out the selection criteria and the rules for the operation of the funds. The fund managers had an equal say to that of the managing authority and intermediate bodies. An explanation for the bigger involvement of fund

managers in defining the selection criteria is the role of the IBB as private co-funding provider to the OP. In Tuscany and North East England, the ILA proposed the investment selection criteria, on the basis of their knowledge of the subject matter. These criteria were checked by the managing authority against ERDF, state aid and other legal provisions and then approved by the monitoring committee, as provided for in the regulations. The fund managers were excluded from this process. In sum, two of the ILA appeared to play a primary role in the definition of selection criteria (TU and NEE), whereas the third shared responsibility with other implementing actors (BE).

Berlin and North East England had a similar approach towards applying selection criteria. They entrusted the fund managers with the full responsibility for their investment decisions. In Tuscany, fund managers had limited autonomy over the application of selection criteria. The type of financial product offered explains the different extent of fund managers' autonomy. Different procedures were used for the SME and the equity funds in Berlin. The equity fund managers had more of a role in decisions than was the case for the SME funds. North East England gave fund managers a strong decisional role. The holding fund offered equity products primarily, therefore the investment selection procedures were tailored for equity funds. In Tuscany too, investments for the equity fund were made by the fund management company independently, but the procedures applied to the loan and guarantee products appeared to be substantially different to both the German and the English models. The procedures even allowed for direct involvement of the ILA and the managing authority in the ultimate approval. This definitely confined the experience in Tuscany within the boundaries of limited fund management authority, whereas the Berlin and North East English experiences, despite the differences between them and between fund types, ensured the autonomy of the fund managers.

All fund managers said that they operated according to selection criteria that were aligned to the practice of private operators. In Berlin and Tuscany, a soft–touch approach was mentioned by interviewees over the application of selection criteria. In North East England, the criteria applied were private market principles. However, public policy motivations emerged in a different way, i.e. at the point of setting the guidelines for investment selection.

On the basis of the evidence collected, similarities and differences on the extent of authority of actors were identified across the case studies. Investment decisions were based on a wide range of parameters. Most of these criteria were set out by institutional actors – ILA and managing authorities – and were largely determined by ERDF and public policy targets. The Berlin and North East England cases showed strong commonalities, in that fund managers appeared to be autonomous in taking investment decisions. In Berlin, the autonomy was more marked for equity funds than for loan funds, probably on the basis of the structure chosen (separate legal entity) and, potentially, the type of product (equity). Tuscany was clearly a divergent case, where fund managers were only required to apply various sets of selection criteria in formally defined administrative procedures, with no or extremely limited scope for autonomy. For some of the final decisions on granting the funding, the managing authority/ILA was still involved.

The key rationale for granting more discretion to an agent was the degree of professionalism and technical knowledge involved in fund implementation. Delegation therefore mirrored the distinct specialist competences of the various actors involved. Each actor involved in FI implementation operated on the basis of a separation of functions. In addition, two factors may explain higher degrees of authority being granted to an agent, according to the research findings: the structure (whether the recipient was an independent legal entity) and the type of financial product (e.g. equity) offered.

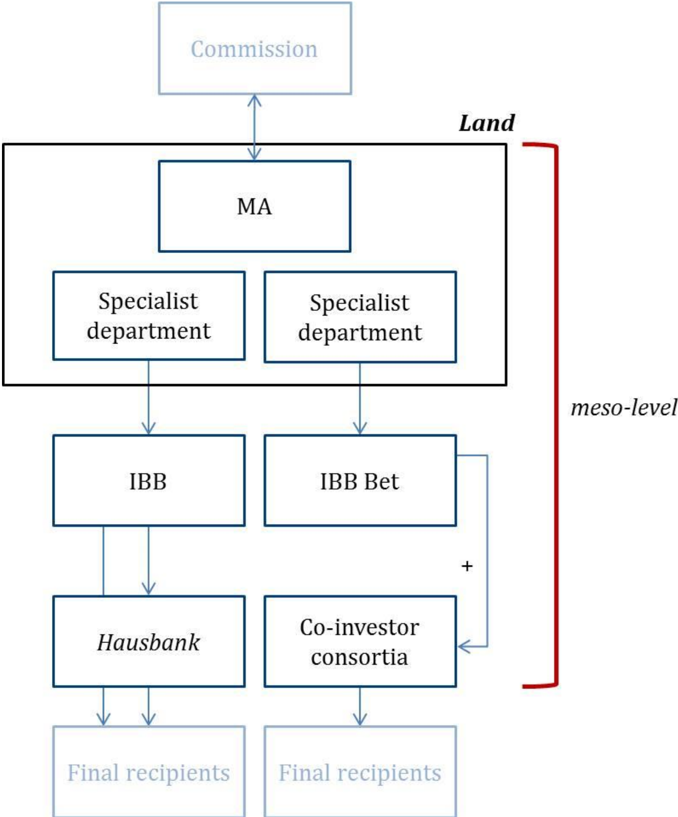
7.3 Principal–agent relations in FI implementation

This section examines the vertical and horizontal relations in FI implementation. It finds that the classic p–a assumption of vertical hierarchical relations holds true. Horizontal relations are limited to those between fund managers, and are, for different reasons, very limited. Multiple p–a relationships are in place. Managing authorities do not have a fully fledged 'principal' role in the meso-level relations of FI implementation, in that the crucial p–a relationship is between the ILA and the fund managers. The ILA is the 'lead principal' for the fund managers, while being a 'partial agent' to the managing authority.

Based on the formal distribution of functions among the three actors (7.1) and the evidence presented on the actual exercise of responsibilities (7.2), this section presents further evidence on how relationships were structured. In Berlin, p–a relations in FI

implementation operated as shown in Figure 7-2. The essential relationship occurred between the *IBB* as OP co-funding provider and the *Land.* The *Land* was represented by the managing authority and the intermediate body (Senate administration). Relations between the managing authority and the specialist departments were based on a written agreement (see also 8.1.1), which set out the responsibilities that the managing authority delegated to specialist departments, in their role as intermediate bodies (BE3, 2017).

Figure 7-2 | P–a relations – FI Berlin



Source: own elaboration.

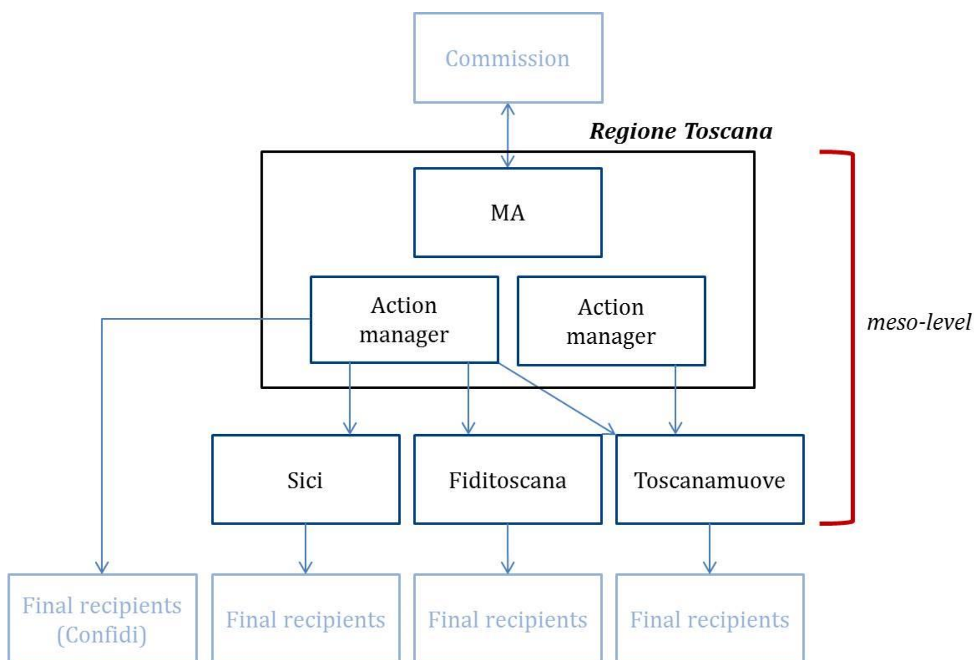
A vertical structure of relations is identified. The intermediate bodies were primarily in touch with the fund managers. All official communications and contacts between the managing authority and the fund management teams took place via the relevant specialist department. No formal meeting was regularly held between the fund managers and the managing authority (BE1, 2017, BE5, 2017). Unofficially, interactions might occur between the managing authority and the *IBB*, as confirmed by the SME fund manager (BE4, 2017), but these were not the norm. The intermediate bodies therefore played a pivotal role in the management of the funds: they channelled

inquiries and communications from the managing authority to the fund managers and back.

Horizontal relations between the two fund management companies were shaped by the legal status of subsidiary company of *IBB Bet*. However, even though *IBB Bet* was 100% owned by the *Investitionsbank* and took the form of a specialist office of the bank, it was run as an independent division, with its own employees and office space (BE5, 2017). Relations with the other external actors mapped out in Figure 7-2, only ran between the *IBB* and the commercial banks (SME funds) and between the *IBB Bet* and the private co-investors (VC funds). The managing authority and intermediate bodies did not have any relationship with the commercial banks. In a similar fashion, the consortia engaged as co-investors in the VC funds entered into a relationship with the funded company via the *IBB Bet* only (BE1, 2017).

In Tuscany, the following sets of relationships were identified in FI implementation (Figure 7-3). The primary relationship was that between the ILA and the fund managers as subscribers to the contracts. The relationship between ILA and managing authority and between the managing authority and fund managers were secondary.

Figure 7-3 | P–a relations – FI Tuscany



Source: own elaboration.

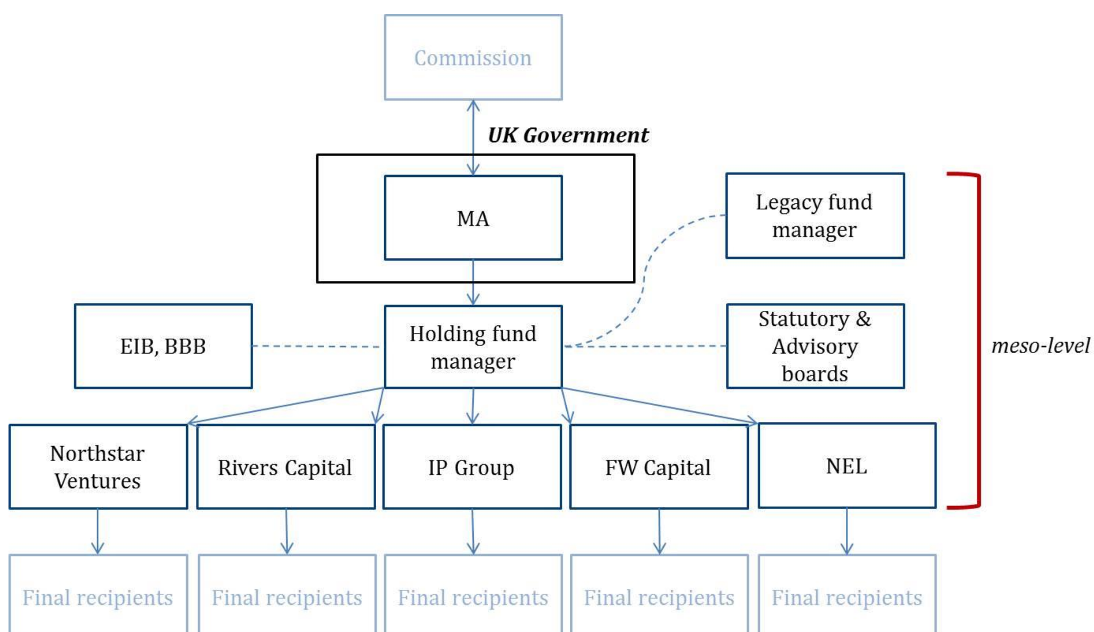
Vertical relations within the public sector were governed by communication procedures between sectors (departments): in this case, between the department of

the ERDF OP managing authority and the department where the ILA was located. There was no written document delegating responsibilities and governing their distribution between these two actors (TU3, 2017). Contractual obligations existed between the ILA and the fund managers in their capacity as subscribers to the contracts. Only the ILA had direct relations with the fund managers. In fact, according to the fund managers interviewed, the main contact with the managing authority was limited to the monitoring and control of activities (TU4, 2017, TU5, 2017, TU6, 2017). Relations between the ILA and the fund managers followed the obligations and requirements laid out in the contract and funding agreement for the FI (TU2, 2017). Horizontal relations within the temporary grouping of enterprises (*Toscanamuove*) followed the agreement included in the fund by-laws (TU4, 2017, TU5, 2017). Internal relations, workloads and revenues were distributed according to participation shares.[53] The coordination of activities was carried out by a steering committee, formed of business delegates of the three companies. This committee gave directives, but there was also a steering group that addressed most operational topics (TU4, 2017, TU5, 2017). Relations between this set of fund managers and the fund manager of the VC fund (*Sici*) were practically non-existent (TU6, 2017).

The implementation of the North East England holding fund showed an articulated set of relations (Figure 7-4) based on legal and operational aspects. Legally, the holding fund required a partnership agreement, contracts and funding agreements. Operationally, the presence of a legacy fund manager as the sole shareholder of the holding company created a peculiar structure. Also, the involvement of other actors (EIB, BBB) in the holding fund, determined the involvement of such actors in the fund operations. The two main p–a relationships were those between the managing authority and the holding fund manager and between the holding fund manager and fund managers.

[53] 44% Fiditoscana, 39% Artigiancredito toscano, 17% Artigiancassa.

Figure 7-4 | P–a relations – FI North East England



Source: own elaboration.

The relationship between the managing authority and the holding fund manager was based on contractual obligations. In practical terms, two points were important: the deadlines for reporting and the statutory and advisory boards meetings, both of which were quarterly. Interactions with the holding fund manager between meetings might take the form of questions whenever a need arose. It should be noted that the holding fund management also had contractual obligations towards the other funding partners: the EIB as the loan provider and the British Business Bank as grant provider on behalf of the UK government.

The second essential p–a relationship was that between the holding fund manager and the fund managers of the sub-funds. This was regulated by a partnership agreement which established a limited partnership to the holding fund (see also 8.1.1). It was signed by the holding fund management company and by the fund managers and set out the allocation of resources, the objectives of the partnership and how it operated. Separately, management contracts (funding agreements) set out how the day-to-day operations were delegated to fund managers. These contracts regulated the relationship between the fund and the fund managers (NE2, 2016). The managing authority had no direct interaction with the fund managers, except when they met at the board meetings at which they acted as observers. The relationship between the holding fund manager and the fund managers was perceived to be a customer–client

relationship by fund managers (NE4, 2016, NE5, 2017). However, it was also emphasized that the relationships were collaborative at all levels. Beyond the content of the contract, every party to it had an interest in preserving good working relationships, therefore requests made *'in the spirit of the contract'* (NE5, 2017) would be met (NE2, 2016, NE4, 2016).

The relationship between the legacy fund manager and the holding fund manager, two independent companies, was distinctive. The legacy fund as the sole shareholder of the holding fund only came into play when the holding fund was fully invested and all the funds and outstanding duties (e.g. EIB loan) were repaid. There was almost no involvement of the legacy fund manager with the holding fund manager during fund implementation in 2007–13. However, the legacy fund management team had been involved in setting up a follow-on fund (with 2014–20 ERDF funding) (NE3, 2017).

The competition between fund managers largely determined horizontal relations in FI implementation in North East England. At the time of designing the holding fund, the creation of overlapping areas of the investment activity of the sub-funds and the set-up of numerous sub-funds introduced an element of competition between fund managers (see 8.1.4 for the logic behind this choice). The horizontal relationships between fund managers were competitive, because the same business proposition would be attractive for several fund managers in such an environment (NE2, 2016, NE4, 2016, NE5, 2017).

7.4 Summary of key findings on the distribution of responsibilities and p–a relations

As pointed to at the end of the previous chapter (6.5), the governance structure for FI implementation was formed mainly of two sets of p–a relations between:

a. The managing authority (p) and the ILA (a)
b. The ILA (p) and the fund managers (a).

The findings presented in this section show that interactions were almost entirely confined within these dyadic relations. There was no relationship between managing authorities and fund managers. The managing authorities were formally identified as the entities delegating fund management functions to fund managers in the regulations (p.36). However, they were not the main principals for funds managers, because ILA took over this role instead. Since the managing authority and the ILA operated at different levels, there was no competition between principals to establish their influence over the agents. They did in fact operate on the basis of a separation of functions that was crucially based on the expertise of each actor.

Across the case studies, the role of the ILA was unanimously emphasized by interviewees as essential in structuring relations in FI implementation. In terms of power relations, it would seem appropriate to conclude that the ILA were the gatekeepers of FI implementation governance. The specialist knowledge and expertise of the actors involved structured these p–a relationships. The pivotal role of ILA would not be possible without the professionalism of the public administrators (managing authority, intermediate bodies and action managers) and the specialization of the fund managers. Even in the Tuscan case, where the fund managers performed a purely administrative role, the competence of fund managers as investment companies and financial intermediaries was crucial.

The formal functions of the managing authority as set out in the regulations were delegated to an ILA, who in turn delegated part of these responsibilities to fund managers (Figure 7-1). Two levels of analysis will be considered: the formal level of responsibility for a task and the practical implementation of the task. On this basis, the managing authority was formally responsible for the implementation of the FI under the OP (towards the Commission). However the ILA took the primary responsibility for project implementation, which was taken over by fund managers in practice.

In the same way, it is important to distinguish between the process of defining the criteria for investment selection and the actual application of those criteria, which made it possible to identify the degree of discretion fund managers had. In Tuscany and North East England, it was apparent that the ILA played a key role in defining the criteria, whereas in Berlin this was a joint process between all actors involved. The application of selection criteria followed a different pattern: in Berlin and North East England, there was no interference nor intervention in the fund managers investment decisions; in Tuscany, fund managers were constrained by legal and operational rules to such an extent that investment selection appeared to be an administrative task, with fund managers displaying practically no autonomy.

The governance of FI implementation configured itself as a set of vertical hierarchical relationships, where the actor located at the bottom was primarily accountable to the actor immediately above. The extent of horizontal relations was nil or very limited. Among fund managers, the competition, or simply the product-specific separation, between funds meant that horizontal relations were almost completely absent.

A degree of variation was identified across the cases. In Berlin and Tuscany, similar p–a relationships were identified, which differed in two respects:

1. The intermediate bodies were located at two different levels in the relationships. In Berlin, the intermediate bodies were the ILA. As such, they were the principals to the agents in the specific meso-level relationship. In Tuscany, however, the intermediate bodies were the agents (fund managers) themselves. The two sets of p–a relationships are located at different levels.
2. The delegated relationships operated according to a formalized contract in Berlin, where the ILA was the appointed intermediate body, whereas they were regulated only by internal communications procedures in Tuscany.

Even though the p–a relationships were broadly structured in a similar way, North East England had distinctive characteristics embedded in the holding fund structure. The p–a relations mirrored the decentralized structure chosen to implement the FI (holding fund). These relationships were formally regulated by a limited partnership to the holding fund and by fund management (funding) agreements between the funds and the entities providing for their management.

An additional key comparative finding is made in relation to the type of actors involved:

- In Berlin and Tuscany, managing authority and ILA were located in the same bureaucratic structure. As such, they represented respectively the '*Land Berlin'* and '*Regione Toscana'.* Only the fund managers were located outside this structure. These fund managers were in some cases entirely public (*IBB* and *IBB Bet*) and in others partly public and partly private (*Sici, Fiditoscana, Toscana*muove). In these two cases, delegation occured entirely or partly within the public sector.
- In North East England, only the managing authority represented the bureaucratic structure of the UK government. Both the ILA and the fund managers were private entities. Albeit publicly funded, the holding fund manager was set up as a private entity and in any case was not directly accountable to any superior bureaucratic line. The fund managers were fully private companies. In this case, the delegation occured entirely outside the public sector.

As noted above, ultimately the p–a relationships were not substantially different across the funds, as two sets of p–a relations were always found to be in place. However these relationships had specificities which should be acknowledged.

To summarize, all cases similarly have two sets of principal–agent relations in place. The governance of FI implementation hinged upon two p–a relationships: between the managing authority and the ILA; and between the ILA and the fund managers. However, all cases displayed some variants. Berlin and Tuscany were similar, in that delegation occurred mainly in the public sphere, even though intermediate bodies were at different levels. North East England shifted all the delegation outside the public sector, and the holding fund structure largely determined the characteristics of the p–a relationships.

7.5 Chapter summary

This chapter presented the comparative evidence on the distribution of responsibilities and the p–a relations in the delegated governance of FI implementation. The distribution of responsibilities was researched in relation to the actors involved (7.1.1 to 7.1.3) and the activities carried out in practice (7.2), drawing conclusions on the overall discretion of actors (7.2.3). Separately, the vertical and horizontal dimensions of p–a relations in FI implementation were examined (7.3), concluding with a summary of the key comparative findings on both elements of analysis (7.4).

This chapter provides a major contribution to the arguments developed in the thesis. First, it finds that ILA were crucial in the governance of FI implementation, not only from a formal point of view (Chapter 6), but because they took primary responsibility over FI implementation. This chapter also highlights that the governance of FI implementation hinged upon two sets of p–a relationships, in which ILA had a pivotal role. The formal distribution of responsibilities among managing authorities, ILA and fund managers is similar across the cases. However, the private delegation mode stands out as a case where the ILA (holding fund manager) and the fund managers had distinctive tasks, aligned to private market principles. This chapter confirmed the preliminary findings of the survey, namely that a cooperative process of definition of investment selection criteria characterized German arrangements, while, in Italy and the UK, ILA played a primary role in the definition of criteria. The public delegation mode operated in a cooperative way. However, it should be noted that in Berlin the involvement of the fund manager (the *IBB*) in the design of the funds can also be explained by its financial involvement in the OP.

As regards the actual process of investment selection (application of criteria), this chapter uncovered two approaches: one in which fund managers acted independently from their principals in selecting investments and managing the fund resources, the other in which their discretionary authority was minimal. Crucially, this chapter shows that, while the formal governance arrangements might be similar, the cases varied in the actual distribution of responsibilities and the role played by the various actors involved. The key factor explaining such variation is expertise. Where expertise is valued as an essential, yet internally missing, precondition for FI performance, the autonomy of the fund managers is emphasised and they can carry out their qualitative assessments independently. The public and private delegation modes operate according to this similar rationale). Additional explanatory factors are the type of financial product offered and the structure chosen to make the contribution to the FI. Equity funds and those set up as independent legal entities were found to accord more autonomy to the fund managers.

This implies that national and regional authorities deciding to implement Cohesion funds through financial instruments should carefully consider the governance of FI implementation. In particular, delegating FI management on the basis of the fund managers expertise, requires giving away some extent of authority. Various elements have to be balanced in order to maximise the fund management expertise, while

retaining the power to choose the overall policy direction. First, the different financial products require a distinct set of skills and know–how. Based on the case study findings, equity instruments required specific competences to make the qualitative assessment of investment proposals, which usually determines a more marked autonomy of fund managers. With debt instruments, in particular guarantees, the process can be simplified to some extent and the role of fund managers be limited to an operational role. Second, the delivery structures for FI should also be carefully condidered. An independent legal entity, being a company to all intents and purposes with its own contractual power, is more autonomous than a separate block of finance. National and regional authorities deciding to use financial instruments should consider that all these elements shall be combined on the basis of own policy preferences and the rationale for using FI.

8 Public accountability for FI implementation in Cohesion policy

This chapter addresses the second intermediate objective of the research, namely *to assess the public accountability for financial instruments implementation.* In practice, this is done through examining the control mechanisms used when governance is delegated and the performance frameworks for FI implementation. This part of the research integrates the information from the reports with the data from the interviews. It merges the p–a and public accountability definitions. In particular, it incorporates the accountability mechanisms of the 'information' stage (Mulgan, 2003). The first section (8.1) examines the mechanisms used before the act of delegation, and the second (8.2) explores the tools for oversight and remedy activated after the act of delegation, with the overall mix of mechanisms then considered (8.3). The second part of the chapter (8.4) analyses the delegation relationship, by looking at the performance frameworks for FI implementation. In the last section (8.5), the interplay between control mechanisms and performance frameworks is examined.

8.1 Control mechanisms before the act of delegation

A primary tool that was commonly used to ensure compliance over policy implementation is the design of the contract. A broad set of legally binding and other policy documents should be considered in examining contract design. This thesis finds another control mechanism commonly applied was to choose an agent with the necessary expertise, while having an agent with similar policy views mattered much less. The choice of structure for FI delivery (a holding fund or specific FI) mattered to different degrees in the cases considered. In Berlin and Tuscany, it was unimportant, whereas in North East England it was one of the defining elements through which FI implementation was organized.

8.1.1 Contract design

In the regulatory framework for 2007–13, requirements of contract design were set out only in relation to funding agreements (2.4). Funding agreements were the documents in which '*the terms and conditions for contributions from operational programmes to financial engineering instruments*' are spelled out (art. 43 of the implementing regulation). Contract design was used in various ways to ensure compliance. In Berlin, formal contracts were a key tool to shape FI implementation and covered the delegation of responsibilities at various levels. A written agreement – the 'management

contract' (*Verwaltungsvereinbarung*) – between the managing authority and the intermediate body set out the duties and obligations delegated to IBs for specific projects (Senatsverwaltung für Wirtschaft Technologie und Forschung, 2014). The broader remit of the *IBB* as implementer of several regional development programmes on behalf of the *Land* meant that a specific arrangement for the SME fund management duties was required (BE4, 2017). The tasks and obligations of the fund managers were laid down in an implementation agreement (*Durchführungsvreinbarung*) between the intermediate body and the *IBB*. This contract set out the conditions for the grant to the FI. An agreement between the *IBB* and the *IBB Bet* on the specific management tasks related to VC funds was then made. There was no direct contract between the intermediate body for the VC funds and the *IBB Bet* (BE3, 2017). An agency contract (*Geschäftsbesorgungvereinbarung*) was agreed between the *IBB* and the commercial banks that delivered the funds. For the two VC funds, an agency agreement between the *IBB Bet* and the fund limited companies included the essential elements that were part of the funding agreement between the intermediate body and the *IBB* (BE5, 2017).

In Tuscany, 'contract design' had a much broader meaning: formal contracts were only part of the documents setting the boundaries for the agent's action. Contractual obligations existed only between the ILA and the fund managers, in contracts and funding agreements for the FI. More generally, the legislative and operational boundaries within which the fund managers could operate were detailed in the fund by-laws, the criteria through which the fund managers were selected, the terms of reference of the tender documents, and the specific audit trail and responsibilities laid out in the management and control system (TU2, 2017). These documents taken together defined the agent's policy latitude. This horizontal distribution of obligations through contractual and other policy-related documents might explain why fund managers in Tuscany had limited discretionary authority in investment selection and played a purely administrative role.

In North East England, contract design was determined by the delivery structure (holding fund). As set out in art. 44 of the Common Provisions Regulation, the managing authority had a funding agreement with the holding fund, clarifying the funding arrangements and fund objectives. The managing authority decided to have three separate contracts: one for investment capital, one for costs and one for fees. This ensured leverage if the fund managers underperformed (NE1, 2016). Rewards and sanctions were embedded in the contractual relations. At the level below – the day-to-

day activities delegated to fund managers – the framework for what operations were permitted and the remuneration for services provided were part of a fund management agreement between the sub-fund and the fund manager (NE2, 2016). In addition, the holding fund concluded a partnership agreement with the sub-funds which set out the terms and conditions for the contributions from the holding fund to the specific funds.

Five of the seven[54] sub-funds had a partnership agreement with NEF (the holding fund) which set out how the limited partnership worked, the funding was distributed and the objectives pursued (Regeneris, 2013). This vertical contractual arrangement was determined by the holding fund structure, for which specific provisions were made in the regulations. Adjustments to the needs and context were evident in North East case. The principal there decided to incorporate sanctions and provide for rewards to the agents, following a model adopted in private sector contracts.

8.1.2 Control mechanisms to ensure strategic compliance

Having examined the use of contract design, this research examined: a. whether it is a challenge to balance the profit orientation of the funds with the public regional development interests; and b. what tools were used to ensure that OP and regional development objectives were respected (strategic compliance). In the p–a jargon, this thesis examined the institutional design decisions (on structures and processes) that were taken to avoid agency drift (3.1.5). In particular, it examined how the objectives of public policy and the needs of the fund – such as making returns and remaining sustainable in the longer term – were balanced, before the act of delegation. After the act of delegation, strategic compliance was essentially ensured through monitoring and control, as discussed later (8.2.1).

In Berlin, all interview respondents affirmed that there was no conflict whatsoever between the OP objectives and the profit orientation of the funds. It was argued that the objectives pursued through ERDF-funded instruments were similar to the general remit of the fund managers, in this case the *IBB* as a regional development bank. The interests of the senate administration and the fund manager were the same: the funds should remain sustainable in the long term, by generating at least enough income to cover costs and compensate for the risk of financing. The general aim of this form of intervention was for resources to be reused in subsequent rounds of funding (BE2,

[54] Two funds were sub-companies of the holding fund.

2017, BE3, 2017). In particular, the VC funds set up with OP resources explicitly implemented the smart specialization strategy for Berlin (BE1, 2017, BE3, 2017). Therefore they were part of a broader and well-defined strategy. The managing authority further argued that *'by having a public bank as fund manager, it is clear that maximizing profits is not the goal'* (BE1, 2017). Public banks in Germany had a general remit to stimulate investments, strengthen small businesses and support the housing market. Even if FI were just a small part of the measures implemented by the *IBB*, the managing authority argued, they fitted fully into this remit (BE1, 2017). The fund manager also supported this view, stating that the *IBB*'s scope of action was constrained by the *Land*. The senate administration had to give its consent to all development measures that the bank intended to implement, as they had to fit into the wider regional development strategy (BE4, 2017). The managing authority and ILA maintained that the phase of setting up the funds was crucial for anchoring the OP objectives to the fund implementation (BE1, 2017, BE3, 2017). According to the managing authority, the time-window was also crucial. The public sector had to ensure the punctual definition of the fund's scope of action and its governance, since the entire life-cycle of the fund depended on decisions taken early on. In practical terms, should any conflicts arise between the senate administration and the *IBB*, these could be compensated for by the IBB's supervisory board (BE1, 2017).

In Tuscany, the managing authority asserted that strategic compliance was ensured by *'raising the bar'*, – by setting high standards in the fund by-laws, funding agreements and when assessing the viability of the company. The managing authority asserted that selecting fund management companies with high performance ratings was a tool to ensure strategic compliance. The managing authority argued that funds that incorporated public resources were often more efficient than privately managed ones, essentially because higher selection criteria applied. If FI were used to fund productive investments and not necessarily to promote access to credit – i.e. the orientation prevalent in Tuscany – then '*some degree of crowding out of the private market is acceptable*', in the words of the managing authority (TU1, 2017). On the balance between wider policy objectives and profit generation by the FI, the ILA asserted that the eligibility checks carried out by the fund manager followed normal procedures applied by banks and financial intermediaries. However, it was emphasized that the application of those criteria was less stringent than was the case for commercial banks, essentially to ensure that identified market failures were addressed (TU3, 2017). The

VC fund manager *Sici* explicitly addressed the difficulties of balancing public policy needs with FI management requirements. In particular, it argued that the OP timeframe clashed with the long-term investment needs of an equity fund. The investment strategy had to take into account the general orientation of the fund: the choice of the target group (early stage or more structured businesses), for example, influenced the approach towards risk. It also influenced how the fund performed. Interestingly, the investment strategy of the Tuscan VC fund was adjusted while it was under way, to allow for investment in more structured and less risky companies (TU6, 2017), contrary to common expectations of publicly funded FI being more risk prone (Cowling, 2012).

In North East England, strategic compliance was ensured by setting out an investment strategy, operational guidelines and parameters for investments that complied with the ERDF provisions. The holding fund manager argued that there was an inbuilt challenge and tension in having multiple stakeholders contributing to the holding fund. The EIB was focused on financial returns, whereas the managing authority's main aim was that of regenerating the region. Ultimately, this challenge had to be resolved by fund managers by finding companies that could satisfy both objectives (NE2, 2016). Even in North East England, the most privately oriented case among those considered, fund managers had specialized in publicly funded instruments. The fund managers involved had been operating publicly backed funds for decades. This may explain why the fund managers did not perceive a potential mismatch between public and private interests, as long as the rules were clearly set and understood (NE4, 2016, NE5, 2017). A fund manager emphasized that:

> *'As long as you know what the [strings attached] are, you are alright. Some of the rules are a bit crazy, but normally they are good. But I think the main problem has to do with management finance. (...) ERDF funds come with rules and the other funds we manage come with different rules. You never get money just to be invested without constraints.'* (NE4, 2016)

Fund managers had to respond to different stakeholders and achieve certain target objectives. ERDF was not perceived to have any specificity in this respect. More generally, the managing authority emphasized that any potential conflict of interest was prevented through the separation of selection committees and having separate

streams of funding for ERDF-funded investments, to distinguish ERDF and non-ERDF projects (NE1, 2016).

On the potential mismatch between public policy and private fund management objectives, one of the fund managers noted that the key challenge with ERDF was the need to distribute funding among as many companies as possible. The fund manager asserted that:

> *'there is a challenge because ERDF money needs to be spread out. (...) So you end giving people not quite as much money as they would need to grow quickly, giving them just enough to get by, and then they have to ask for more money. (...) If you gave them more money at the start, they might have done better. (...) The companies are undercapitalized'* (NE4, 2016).

The legacy fund manager also pointed out that a key challenge with ERDF-funded FI was the timescale. For the implementation of a fund such as that of North East England, the end dates set out by the OP created an artificial fund life-cycle and did not match well with the private sector funding offer (NE3, 2017).

8.1.3 Choice of agent

As noted in the introduction to FI (p.36), the regulations give managing authorities discretion to choose which FI should be involved in fund management. In accordance with art. 44 of the Common Provisions Regulation, financial institutions could be selected through direct appointment or public procurement.[55] This research examined the motivations underlying the choice of agent to check whether these were aligned to p–a assumptions. The research found that only in Berlin might policy preferences have played a role in the selection of the agent. Other reasons were also important. For all case studies, the key reason for choosing who to delegate to was not that the agent had the same policy interests but the expertise of the agent. However, a combination of various reasons was found in all the case studies.

In Berlin, the fund manager (*IBB*) was directly appointed through an in-house award, in accordance with the law establishing the development bank (BE4, 2017, Investitionsbank Berlin, 2004). The *IBB* being a shareholder of the VC funds implied the

[55] Direct appointment is where the EIB or any other financial institutions are selected on the basis of national law, in a way that is compatible with the treaties, and public procurement applies in all other cases.

involvement of its subsidiary company (*IBB Bet*) as fund manager of such funds (BE3, 2017). As a 100% owned subsidiary company of the bank, the *IBB Bet* could be made fund manager through an internal agreement (BE2, 2017, BE3, 2017). Three motivations were provided for the selection of the fund managers. First, the managing authority asserted that, traditionally, public development banks were strong players in the German context. Given the overall remit of the regional development bank, the political leadership expected it to be involved in the implementation of public policy measures (BE1, 2017). Second, the intermediate body for the VC funds suggested that *IBB* involvement had grown historically, linked to national public-sector co-funding needs, dating back to the set up of the 2000–06 operational programme (BE2, 2017, BE3, 2017). After the first involvement of the *IBB* as co-funding provider, the same governance arrangements were maintained in the following programming periods. Third, the experience gained by the *IBB* and *IBB Bet* in the implementation of previous rounds of funding paved the way for further involvement of the bank and its subsidiary (BE1, 2017). According to the intermediate body, this was the main motivation for the continued involvement of the *IBB Bet* as fund manager in 2007–13. Since its establishment, the *IBB Bet* had developed investment management skills, widened co-investment networks and built a good reputation. Therefore, continuing the cooperation was perceived as a sensible choice (BE3, 2017).

In Tuscany, there were several reasons for the selection of agents, which followed various procedures. For the first FI set up in 2007–13 (Guarantees for SME investment), the fund manager (*Fiditoscana*) was appointed directly. In this case, *Regione Toscana* was able to loan the money to the fund manager in the form of a shareholder loan. Although this procedure was legitimate and provided for by national law, amendments to the EU legal framework (European Parliament and Council, 2014) changed the subsequent selection procedures (TU3, 2017). Fund managers for the loan and guarantee funds were subsequently identified through an open tender procedure, in accordance with public procurement rules (TU4, 2017). The VC fund manager (*Sici*), however, was not publicly procured, as the initiative to set up a fund was taken by the management company itself, before any involvement of the region as a shareholder to the fund. The managing authority emphasized that there was no particular reason for the selection of this mix of fund managers and that the '*selection (…) took place in different ways, at different times and in order to achieve different goals*' (TU2, 2017). In the case of the Guarantees for SME investment, the fund manager was chosen in an

expedited way, because of the need to address the credit shortage in a context of economic crisis. In addition, the fund manager was able to guarantee any amount needed beyond the size of the fund, which reduced the risk for the public sector (TU3, 2017).

In North East England, the selection of fund managers followed an open public procurement process, with a framework (negotiated) model. According to the managing authority, the negotiated procedure was used mainly for flexibility, allowing, among other things, the procurement of additional services and retention of an influence on fee structure (NE1, 2016). The option of operating several different FI associated with various stages in the business cycle or target sectors also influenced the choice of fund managers. Fund managers had to have relevant expertise in early stage, growth investments, and the pre-investment and technology sectors. They bid for lots, in an open and competitive bidding process (NE5, 2017). Alongside expertise, the managing authority emphasized that the attraction of new fund managers to the area was a primary concern which informed the selection of fund managers (NE1, 2016). The choice of agent also had other motivations. For instance, the private fund managers all had a proven track record of managing publicly backed funds. This would suggest that expertise was sought or needed in running funds which were not offered on a purely commercial basis but incorporated EU resources (NE5, 2017). On this point, however, the managing authority suggested that a change might be needed in the future to fully capitalize on the expertise of private operators. The managing authority indicated that the expertise of the fund managers involved in 2007–13 was related to ERDF-funded FI, and that the attraction of purely private market operators should be a goal for future rounds of funding (NE1, 2016).

8.1.4 Choice of structure

Given that structures were a primary innovation in the governance of FI implementation, this research added choice of structure to the classic list of control mechanisms provided by the p–a literature. For this reason, it analysed the choices made in terms of fund structure. The analysis focused primarily on the rationale for choosing a holding fund or a specific FI. In Berlin and Tuscany, the choice was to operate specific FI, while in North East England it was to set up a holding fund. This thesis found that the choice of structure for FI delivery (holding fund or specific FI) mattered to different degrees in the case studies considered. In Berlin and Tuscany, the choice did not play an important role, whereas in North East England it was one of the

defining elements through which p–a relations were organized. Different motivations for choosing a delivery structure were acknowledged. Commonly, the choice of structure was largely determined by the experience accumulated in previous rounds of funding.

In Berlin, the interview respondents argued that the choice of operating outside a holding fund structure was historically motivated. Revolving funds were already in existence in 2000–06 and took the form of specific FI. Different types of product (loans, venture capital) were provided for. The managing authority argued that it would have been difficult to group the already existing instruments with new ones under a holding fund structure (BE1, 2017). Furthermore, the ILA argued that a separate fund could be better advertised to final recipients and, consequently, had greater external impact (BE2, 2017). The intermediate body responsible for the SME funds justified the choice in terms of OP objectives. Since different funds were set up to pursue various goals, a fund covering all OP objectives was considered demanding from a technical point of view and also in relation to the necessary financial limitation of resources. Ultimately, the option did not achieve political consensus. The intermediate body responsible for the VC funds also maintained that historical reasons played a major role. The experience and legal knowledge accumulated in the management of previous instruments reinforced the choice to operate through specific funds. Because no experience was available on holding funds, there was no specific discussion about which of the two structures to opt for (BE3, 2017).

In Tuscany, the decision to opt for specific funds was justified in different ways by interview respondents. Holding funds had never been set up before. *Regione Toscana* had used repayable assistance since 1994–96, but always in the form of direct contributions to revolving funds, separate from each other. Therefore, the managing authority and ILA considered that adding an additional layer to the implementation structure would not be appropriate. They also argued that it would introduce additional costs (TU1, 2017, TU3, 2017). The managing authority offered an explanation based on the high degree of delegated authority that holding funds involved: '*The approach of the Region has been to retain control over the activities carried out by implementing actors*' (TU2, 2017). On this argument, specific funds were preferred.

In North East England, the holding fund structure was one of the main tools through which p–a relationships were structured. Several elements, such as competition between fund managers and the flexibility to move money across sub-funds, were incorporated into the structure. Specific decisions made the North East England holding fund distinctive, and these are now discussed at length. The holding fund structure entailed legal and operational elements, which were partly provided for in the regulations and partly introduced on the basis of previous experience and performance expectations. Experience gained in North East England from the management of previous suites of funds (1997–2006) provided a primary reason for the decisions taken in 2007–13 (NE3, 2017). The following quote from the legacy fund manager is key to understanding the 'good governance' and accountability expectations that resulted in the holding fund configuration:

> *'One of the key learning factors was the presence of the intermediary between the private sector mentality of the fund manager, that has to make commercial investment decisions and DCLG, who had public sector and audit requirements. In the previous funds there wasn't always a middleman and it was very difficult for the government to work with the private sector fund managers. They didn't talk the same language. (...) [Having a] holding company (...) meant not only that you had the flexibility needed from the holding fund model, but also that from a public policy perspective you could actually hold these people to account.' (NE3, 2017)*

Experience influenced the approach towards two other elements incorporated in the holding fund structure: flexibility and operational costs. Flexibility is a trait of holding funds per se, as such structures allow the adjusting of the allocation of resources across sub-funds (NE3, 2017, Regeneris, 2009). All the funds set up as separate entities between 1997 and 2006 had management fees, on top of which intermediary costs had sometimes to be added. However, there was no intermediary vehicle between the public stakeholder and the private fund managers. This resulted in a higher risk of clawback. The costs of having an intermediary structure were balanced with the lower risk of non-compliance, as exemplified in the following quote by the legacy fund managers:

> *'They [the funds] all had management costs and fees and they all had back-office costs, so they weren't particularly cost-effective, because you were tied to a contract*

to deliver one project. You didn't have the opportunity like in the fund of funds to flexibly move money underneath.' (NE3, 2017)

The decision to opt for a 'fund of funds' with seven different sub-funds in 2007–13 had implications for the overall operational costs too. The funding actually reaching final recipients amounted to 80% of the funding paid into the holding fund. In the words of the holding fund manager, that represented the *'political hot potato'*. Leaner governance arrangements would have meant lower operating costs; however, competition between fund managers and the attraction of networks to the area were preferred over other considerations (NE3, 2017).

The competition between fund managers was ensured through the fund structure. At the time of fund set up, a decision was made to create several sub-funds. This provided the appropriate type of finance according to the stage in the life-cycle of the company (early stage and growth) and the particularities of certain business sectors or target groups, e.g. technology, microloans. According to the managing authority and holding fund manager, there was an intentional overlap between the areas of investment activity of the sub-funds. This was meant to attract good-quality investment proposals, close high-quality deals and give SMEs the choice of opting for alternative funding providers. The last point was perceived to be particularly relevant, as *'for too long, companies only had one place to go'* (Charles and Michie, 2013:94). Also, all the fund managers, including the holding fund, operated from their own premises and according to their individual corporate structures (Regeneris, 2013). The competition between fund managers, together with the decision to keep autonomous organizational structures, was meant to generate more credibility for the whole holding fund, according to the managing authority and holding fund manager. The investment strategies for each fund also included this element of competition (NE1, 2016, NE2, 2016).

Finally, attraction of networks to the area was also a consideration. The holding fund manager argued that having several funds and fund managers enhanced the value for money of the holding fund: *'It almost becomes self-perpetuating: the more funds you put in place, the more fund managers you have, more investments, deals, etc.'* (NE2, 2016). Experience gained, as well as the trade-off between costs, flexibility, competition and the attraction of networks altogether, built the rationale for choosing a holding fund in

North East England. In this context, the choice of structure was an important control mechanism for shaping relations between implementing actors.

8.1.5 Conclusions on the control mechanisms before the act of delegation

The evidence presented in this section shows similarities in contract design in Berlin and North East England. In both cases, managing authorities relied on formal contractual arrangements at various levels. The difference between the two was mostly in the rationale behind this choice. In Berlin, the ILA had to enter a written contractual agreement with the managing authority, because they were identified as intermediate bodies. This was necessary even though delegation occurred within the same bureaucratic structure. In North East England, the contractual structure was by and large determined by the fund being a holding fund, with specific contractual obligations set out in the regulations (p.37). In Berlin and North East England, the contractual obligations were structured vertically. In Tuscany, instead, the contractual legal basis was distributed horizontally – this was its primary difference from the German and UK cases. Several documents, some legal, some of a non-binding nature, formed the contract design provisions. Although Berlin and Tuscany adopted broadly similar delegated arrangements, with the first level of delegation being located inside the bureaucratic structure, they chose different types of contractual arrangements. Across all cases, the contractual dimension appeared to matter very much in designing relationships, especially in ensuring the compliance of the fund managers. The principal might decide to incorporate sanctions or offer rewards to the agent, which could be useful tools to ensure that certain objectives were achieved.

The evidence shows no perceived clash between the interest of the funds (to generate profits) and public policy aims. However there was general appreciation that ERDF–funded instruments could not be run as purely commercial funds. If the funds were run according to pure private sector principles, the rationale for public intervention would be missing and regional development objectives would not be achieved to the same extent. Nonetheless, an inbuilt challenge in FI management was perceived from the need to balance the interests of various public and private stakeholders and to abide by ERDF rules. The thesis shows limited scope for agency drift in all case studies. This was essentially due to effective strategic compliance tools. These included various contract design mechanisms (strategies, operational guidelines), agent selection (ratings of fund management companies) and 'institutional' arenas of compensation (boards).

This thesis found that the choice of agent was not primarily driven by policy proximity. A combination of factors was observed: the continued involvement of previous actors in FI implementation (Berlin), their track record/expertise (Berlin, NEE) and their capacity to provide the required services (NEE, Tuscany). In the only case where policy alignment might have played a role (Berlin), the motivation was at the least combined with other reasons. The fact that, in most cases, fund managers were selected through an open tender procedure would suggest that there was no intention to cherry-pick an agent with specific characteristics. The EU regulatory framework, however, also had a strong impact on the selection of the agent. In Berlin, direct appointment of a regional development bank occurred, because the national law allowed for it. In Tuscany, public procurement through an open procedure was introduced only when the legal framework became clearer and more stringent. On a general note, it can be concluded that, in all cases, the fund managers had already operated as fund managers for a long time and had acquired expertise in managing FI incorporating public funding. Therefore expertise stood out as the primary factor influencing the choice of agent.

The evidence presented shows that only in one case (North East England) was a delivery structure chosen with specific rationale and targets in mind. The features that such a fund should have were carefully considered: flexibility, costs, competition between fund managers and attraction of networks to the area were all elements that played a role in deciding on the delivery structure. It is particularly striking that the holding fund structure was fine-tuned over the years to achieve 'good governance' and ensure accountability. In the other two cases, the choice of structure followed from previous experience, and alternative options were not discussed. This points to choice of structure not being the preferred control mechanism in Berlin and Tuscany.

8.2 Control mechanisms after the act of delegation

After the act of delegation, the range of tools available to principals was limited to oversight (monitoring and control) and remedies (sanctions and rewards). This research observes that monitoring and control were used across all the cases. In practice, different emphasis was put on different aspects of oversight in the various cases, ranging from reporting and strategic discussions (Berlin), to formal responsibilities included in the monitoring and control systems (Tuscany) to performance management (North East England). This thesis finds that, while the ordinary monitoring activities were primarily the responsibility of the ILA, the

managing authority in each case retained some power of control, especially over the ILA, but also over fund managers. This was consistent with the other findings on the formal distributions of responsibilities (7.1), whereby the managing authorities retained some core responsibilities. Beyond the strategic sanctioning that applied across all cases, specific rewards and sanctions were provided for only in North East England. These were perceived positively by the managing authority and holding fund manager as tools to ensure strategic compliance, albeit some limitations were identified by fund managers.

8.2.1 Monitoring, reporting and control

In the regulations, the monitoring of implementation was a compulsory provision of funding agreements. Arrangements for the monitoring of the investment policy should be specifically made in contracts (Articles 43-44 of European Commission, 2006). Reporting on the progress made in financing and implementing FI was made compulsory in 2011 (European Parliament and Council, 2011). Since then, the summary reports published by the Commission of the data reported in the annual implementation reports were the main data-sets available to assess the state of FI implementation. The general rules applicable to controls were those set out for the OP. The frequency of monitoring, reporting and control procedures was not provided for in the regulations, which only provided that implementation and audit reports should be drafted and submitted to the Commission every year (art. 67 European Council, 2006).

Based on p–a assumptions, the role played by monitoring and control mechanisms was expected to be less strong than the role of *ex ante* mechanisms, such as contract design and choice of agent. While acknowledging different practices, this research found that oversight and control were strong across all cases. It found commonalities in the frequency of monitoring procedures and the extent of control exercised by managing authorities. This is probably due to the harmonization of obligations at EU level. This research compared the practices of monitoring, reporting and controlling FI implementation, with a particular focus on how the obligations set out in the regulations were implemented in the various cases. The research found slight variation in the frequency of monitoring and reporting, and more pronounced variation in specific monitoring practices.

(a) Frequency of monitoring

The data on the obligations for frequency of monitoring (reporting and meetings) collected in the survey was double-checked throughout the interviews. It showed that most of the monitoring occurred quarterly, with some variation. In Berlin, meetings between the fund managers and the managing authority were held on an annual basis for all the funds. Reporting was more frequent for the VC funds (quarterly) than for the debt funds (annually). In Tuscany, reporting to the managing authority took place quarterly. Information on meetings was not provided in the survey. Based on the interviews held in Tuscany, the ILA was reported to meet with fund managers every quarter at no set deadline (TU4, 2017, TU3, 2017). In North East England, reporting and monitoring through meetings happened every quarter for all funds. The managing authority monitored the fund managers directly through the advisory and statutory board meetings. Building on these insights, the data collected in the interviews gave a more nuanced picture of how monitoring worked and the role of ILA in the system. Monitoring took place vertically, reporting upwards from the fund managers to the ILA and reporting upwards from the managing authority to the Commission.

(b) Monitoring obligations and individual arrangements

The fund managers provided a report to the relevant specialist department every quarter. The ILA then developed this data into a consolidated report. In Berlin, the fund manager for the VC funds had to provide a standardized report on all potential indicators applicable to the funds, so that the funds' performance and defaults could be closely monitored (BE3, 2017). In Tuscany, the management and control system document assigned specific responsibilities to the management delegate and the control and payment manager, identified within the fund management structure (6.3.3). The delegated manager carried out the physical and procedural monitoring of the activities. The control and payment manager was responsible for the financial monitoring of the interventions. Reports were made to the ministry of economy and finance, ensuring the flow of information from the final recipients. It guaranteed the collection of information on financial indicators at project level and ensured input into the OP information system. This data had to be subsequently forwarded to the national monitoring system unit (Giunta regionale toscana, 2015c).

In North East England, fund managers were asked to report monthly on the main target indicators[56] and every quarter with an extensive report including detailed information on investments. They reported on investment activity, level of applications, rejections, failures, repayments and leverage. Internally, a common data management tool was set up to report to the holding fund manager. For each application to the sub-fund, the fund manager recorded the details on the database with information on all inquiries and the progress and outcome of the due diligence up till the investment decision (NE1, 2016, NE2, 2016). The final recipients were asked to update the online database every six months, with data on performance since the receipt of funding (Wishlade et al., 2016a). The holding fund manager performance-managed the fund managers closely, tailoring the targets to be achieved by each fund and monitoring the progress made towards achieving those targets. The holding fund manager could take appropriate countermeasures such as capital withdrawal, if needed.

In all three cases, reporting to the Commission for the purpose of the annual implementation report was based on a consolidated report, produced by the ILA and submitted to the managing authority annually. This included financial and material data on the implementation of ERDF-funded measures. In Berlin and North East England, reporting tools used for ERDF OP (called *Eureka* and *E-claims* respectively) helped the programme monitoring committee to collect such information (NE1, 2016, NE2, 2016). In addition to this annual obligation, in Berlin and Tuscany the ILA had to send monitoring data in the form of reports once a quarter. In Berlin, the data transmitted were subsequently checked for consistency with the data obtained through other monitoring tools. In Tuscany, periodic (bimonthly) reports to the ministry of economy and finance and the national court of auditors were also mentioned as an additional level of external monitoring at national level (TU1, 2017).

(c) Monitoring meetings

In Berlin and North East England, meetings were described as an important tool for monitoring implementation. In Tuscany, they appeared to be less relevant compared to other tools. In Berlin, the managing authority held strategic discussions with the intermediate bodies once a year. These talks provided the opportunity to assess the performance of FI, and their connection to the OP objectives. They also gave the

[56] Among others: number of companies invested in, amounts invested and returns.

opportunity for adjustment of the fund strategy and to forecast future commitments (BE1, 2017). Scheduled meetings and frequent discussions took place between the intermediate body and the fund managers, on the performance and progress of the funds (BE1, 2017). Meetings between the intermediate body and the VC fund manager occurred at least twice a year and whenever needed (BE2, 2017). In Tuscany, official communications and meetings between the ILA and the implementing bodies were used to track the performance of the funds. However there were no specific provisions in place on the frequency and content of meetings (TU4, 2017, TU3, 2017). In North East England, quarterly statutory and advisory board meetings were the main mechanism for reporting back to the funding providers. The managing authority, EIB and British business bank were invited as observers to these meetings. Fund managers were asked to present on the progress made, while a panel of advisors and stakeholders could challenge their investment decisions. All the fund shareholders, including the managing authority, had the facility to request updates and make observations on performance and attainment of targets (NE1, 2016, NE2, 2016, NE3, 2017).

(d) Controls

Controls existed at various levels and through multiple channels. In Berlin, the managing authority monitored the intermediate bodies closely, checking the attainment of targets and milestones (BE5, 2017). This was essentially linked to the responsibility of the managing authority to ensure the sound financial management of ERDF resources and safeguard the OP objectives. The managing authority carried out administrative checks on the on-the-spot controls of the intermediate body. It verified the checklists used and oversaw the correctness of investment data for the VC funds (BE1, 2017). Strong control was exercised over the fund managers, not only by the senate administration (managing authority and ILA), but also by the financial division in the senate administration. In particular, a committee for controls, formed of administrative staff from different departments, oversaw the *IBB* activities. The managing authority aimed to ensure strengthened scrutiny over the 100% publicly owned fund manager (BE1, 2017). The VC fund company was monitored through the supervisory board of the *IBB Bet*, on which representatives of the *IBB* sat (BE3, 2017). The ILA had a primary role on controls. They sampled the operations to be audited at the level of final recipient and carried out on-the-spot checks and annual on-site inspections on documents related to fund management activities (BE1, 2017). External

auditors were also delegated some control functions, such as checks on administrative costs, fund investment and the use of returns (BE3, 2017).

In Tuscany, the managing authority performed system checks on the action managers, fund managers and a sample of the operations. This had the objective of ensuring that the criteria applied to granting the funding respected the OP provisions (TU2, 2017). At the level of fund manager, controls took the form of on-the-spot checks on accounting irregularities and the progress made in the implementation of the projects. Quarterly checks also took place on identified errors and controls on the statements of expenditure sent to the certifying authority (TU6, 2017). In North East England too, the ILA (holding fund manager) primarily coordinated the audits of fund managers. The holding fund manager carried out on-the-spot visits to each fund manager to undertake administrative checks and cross check the data reported. Audits from the managing authority were also possible. The managing authority considered that greater engagement between audits and prompt resolution of issues that emerged during inspections were points for improvement for the future (NE1, 2016).

8.2.2 Rewards and sanctions

The last control mechanisms provided for by the p–a literature to ensure compliance were sanctions and rewards. These are tools of last resort, applied ex post delegation. For a specific sanctioning structure and reward schedule to be applicable, it must already have been included in the contract design. Therefore, its exercise as an incentive or countermeasure required some forward-thinking. The regulations did not mention rewards and sanctions, but in general, European structural and investment funds have an embedded and implicit sanctioning component: the risk of clawback. If funding were unspent or wrongly spent, the European Commission has the power to curtail the funds. Specific rewards or sanctioning schemes could be incorporated in the individual agreements between managing authority and fund manager. The p–a literature emphasized the role that sanctions and rewards could play to ensure compliance.

In Berlin, the managing authority mentioned the strategic deterrent of fund recovery as the main sanctioning instrument in place to enforce compliance. The managing authority argued that the ultimate interest of all parties involved, especially that of the intermediate body, was that the overall fund and governance structure were compliant and no errors occurred, as errors would block the entire fund (BE1, 2017). In Tuscany,

sanctions and incentives were not specifically mentioned, but the sanctioning role of the managing authority emerged in relation to monitoring. The managing authority could intervene directly to redirect performance, if the activities did not proceed according to plan (TU2, 2017).

North East England is the only case where incentives and sanctions were directly incorporated in the fund structure and funding agreements. In terms of incentives, the managing authority and holding fund manager made a strategic decision to retain a pot of money. About £12.5 million was set aside in reserve for an additional fund or to allocate more resources to the sub-funds with the greatest demand or strongest performance. £7m was earmarked for allocation to funds on a deal-by-deal basis for follow-on investments into the strongest portfolio companies, from mid-2014 to late 2015 (Regeneris, 2013). This was perceived by the managing authority and holding fund manager as a strong incentive for the fund management companies to deliver well. Since the amount of fees they earned depended on the amount of resources that they managed, fund managers had an implicit interest in managing the largest amount of funds possible. Conversely, a clause in the funding agreements established that some of the resources paid into a fund could be withdrawn, if the fund did not achieve the agreed targets. The holding fund manager asserted that both the distribution of additional resources to high performers and the reduction of the fund size for underperformers were used effectively during the life-cycle of the holding fund (NE2, 2016). A partially contrasting opinion was expressed by fund managers. They noted that underperformance by one of the fund managers would generate more pressure for the others to deliver well (NE4, 2016, NE5, 2017), as shown in the following quote:

> *'In theory we do [get incentives on performance], but the incentive says: "when the EIB is repaid" ... so again I could do a brilliant job and still get nothing, because I am highly dependent on how everybody performs'* (NE5, 2017).

Since the output targets were set for the holding fund as a whole and then split down for each of the sub-funds, more pressure would be put on performers to achieve their targets:

> *'You pay as much attention to other people's [funds] as your own, because you need to know who's behind (...), cause they are going to affect your performance bonus (...). The worse players hold back the better ones'* (NE5, 2017).

The opinion of fund managers provided a much more nuanced picture on the effectiveness of incentives than the view reported by managing authority and ILA, which suggests the need to refine the incentives' structure based on context.

8.2.3 Conclusions on the control mechanisms after the act of delegation

The evidence presented in this section shows that various arrangements were in place for monitoring and control. ILA had a central role in practice, but managing authorities retained key monitoring and control rights in all cases. The managing authority steered 'strategic discussions' (Berlin), carried out system checks (Tuscany) and imposed sanctions included in the contracts (function shared with the holding fund manager in North East England). These are the only instances in which the managing authority could establish direct interaction with the fund managers and bypass the tasks delegated to ILA.

Different emphasis was put on the individual monitoring and control obligations. In Berlin, the focal point was on administrative checks and strategic discussions. Administrative checks were made by the managing authority on the ILA; strategic discussions were held by the ILA (intermediate bodies) with the fund managers (BE3, 2017) and by the managing authority with the IB (BE2, 2017). In Tuscany, the management and control system document specified which actors held formal management and control responsibilities in the OP. The system checks planned by the managing authority for the whole OP played a key role (TU2, 2017). In Tuscany, the monitoring, reporting and control procedures on FI were an integral part of the provisions made for the OP. Finally, in North East England, emphasis was put on the holding fund manager, who monitored (performance-managed) the fund managers to ensure the attainment of specific operational targets, for which relevant performance indicators had been set out (NE2, 2016). The key tools used after the act of delegation to ensure accountability were participation in the board meetings which helped monitor performance, the quarterly reports produced by the fund managers to the holding fund manager (and from there to the managing authority) and the internal audits.

Comparative evidence from the case studies shows that, in Berlin and Tuscany, sanctions and rewards were limited to the strategic threat of fund curtailments, whereas in North East England these were specified in the fund management agreements and were actually used during fund implementation. Their effectiveness was judged differently. The first two actors in the delegated structure as well as the evaluation on JEREMIE funds (Regeneris, 2013) commended the decision to set aside resources to be redistributed based on performance. The fund managers, however, noted that this had practical implications, which were not judged unanimously to be positive.

8.3 Overall mix of control mechanisms

These findings show that control mechanisms were combined in various ways and that *ex ante* and *ex post* mechanisms were interchangeable. In Berlin, the governance of FI implementation was primarily shaped through contract design, choice of actor (*ex ante*) and monitoring and control (*ex post*). In Tuscany, it was mainly designed around contract design (*ex ante*) and monitoring and reporting (*ex post*). Overall, the North East England case used almost all available control mechanisms to ensure compliance. This could be linked to the 'private delegation' mode. In North East England, the governance of FI implementation hinged upon contract design (*ex ante*), but specific decisions on structure (holding fund) and agent (expertise) were also taken. *Ex post*, all the mechanisms available were used. Rewards and sanctioning mechanisms, borrowed from the private sector practices, played an important role, as well as monitoring and control mechanisms.

In Berlin, specific contracts were provided for at multiple levels in a vertical structure of delegated governance: between the managing authority and the ILA, between these and the fund managers, and between the fund and the fund manager (VC funds). Contractual obligations were set out in the investment strategy and the fund provisions (BE3, 2017, BE5, 2017). Contractual relations in Tuscany were very tightly defined, through a network of documents and procedures. The key responsibilities and relations between the managing authority and the ILA were regulated by internal communications between departments, instead of being laid down in a contract as in Berlin (TU3, 2017). Fund managers were held accountable through several documents of a contractual nature (contracts, funding agreements), but also through policy implementation, such as the tender documents issued for each FI, audit trails and the

management and control system document (TU2, 2017). In North East England, contractual relations followed the EU obligations in place for holding funds. However, these were tailored to the English context: the decision to opt for three types of contracts (investment capital, costs, fees) and the presence of a partnership agreement were peculiar to the North East England arrangements (NE2, 2016). The managing authority emphasized the importance of contract design to allow the adjustment of requirements if there were sub-optimal performance by fund managers (NE1, 2016, NE2, 2016, see also Regeneris, 2013).

The choice of agent was an important control mechanism too, in some instances. The *Land* Berlin delegated to its regional development bank directly, mainly because it was usual practice in Germany to involve such banks in the implementation of regional development (policy) objectives on behalf of the *Land*. Other motivations related to the historical involvement and expertise gained by this actor (BE1, 2017, BE2, 2017). In Tuscany, the choice of actor did not seem to play an important role, even though agents had been involved for a long time in the management of FI. This suggests that trust (historical involvement) is important. In North East England, the choice of fund managers was based on the services requested by the managing authority and followed an open procurement procedure, based on specific expertise and a track record in the management of public funds. In North East England, some of the fund managers had been involved in previous rounds of ERDF-funded FI. In Berlin and Tuscany, the choice of structure did not seem to play an important role. In North East England, however, the choice of a holding fund structure with specific characteristics (flexibility, competition, attraction of networks) was a powerful tool used to shape p–a relations and was the result of a long learning process.

Ex post, monitoring and control were commonly used to oversee performance and address potential suboptimal situations. In Berlin, reporting and 'strategic discussion' led the way. In Tuscany, an emphasis was put on the role of the management and control system in which monitoring requirements were assigned to different actors. An important control mechanism was the implementation of system controls at all levels of fund implementation by the managing authority. In North East England, close monitoring of the fund managers (performance-management), oversight through the advisory board and audits were the key tools used to ensure compliance. Finally, in Berlin and Tuscany, apart from the strategic sanction of fund curtailment valid for the whole OP, specific rewards and sanctions were not provided for in FI implementation.

In North East England, rewards and sanctions were envisaged in the funding agreements and were applied to steer strategic compliance (achieving certain performance targets).

8.4 Performance frameworks for financial instrument implementation

The empirical analysis presented so far has centred on the meso-level relations in FI implementation. This thesis first analysed the key components of the governance of FI implementation, then examined the distribution of responsibilities, extent of agent discretion and the various p–a interactions. To assess public accountability for FI implementation, the research examined the control mechanisms used in the identified p–a relations. The accountability arrangements, however, were not only determined by the specific control mechanisms chosen, but also affected by the framework for assessing the performance of FI implementation, which incorporated various accountability mechanisms at the 'information' stage (Table 3-8).

Various elements of the management and control system of the entire OP can be considered: the reporting obligations, verifications and controls, and the evaluations carried out. As previously noted no specific provisions were made on verifications and controls. Evaluations of FI implementation were not obligatory in 2007–13, but they had to be carried out as part of the general OP evaluation plan (Michie et al., 2014). It is in particular through reporting to the Commission that the state of FI implementation can be assessed. This represents a broad framework for assessing implementation. The Commission collected data describing the fund, fund manager, and the financial streams from the OP to the fund and from the fund to final recipients. This research analyses the data that the Commission published every year and the data that the managing authorities reported in their annual and final implementation reports. This section refers to performance frameworks (plural) as the distinct interpretations of the various delegation modes (public, private, mixed), while monitoring and assessing implementation performance. By looking at access, content and focus of the performance frameworks for accountability, it will be possible to appraise how public accountability for FI implementation is ensured on the ground.

8.4.1 Public access to documents

The following sections are based primarily on documents related to FI implementation performance, namely the summary reports on the progress made in financing and

implementing FI (European Commission, 2014b, European Commission, 2015, European Commission, 2016, European Commission, 2017b), the annual (AIR) and final implementation reports and the FI-related evaluations carried out under the relevant OP. The summary reports are available in the regional policy section of the Commission website.[57] The other policy documents were easily accessible online, in Berlin and Tuscany. The OP section of the *Land*[58] and Region[59] websites present a comprehensive range of policy documents, including those on FI implementation. In the case of the North East England OP, the information on EU programmes is published on the UK Government website.[60] No OP-specific page is available and the information published is minimal and often dated. For instance, the last annual implementation report available for all English OPs in 2007–13 dates back to 2014. The evaluation of the English *JEREMIE* funds is currently available on the British business bank website.[61]

8.4.2 Content of Commission implementation performance framework

Art. 37 of the Common Provisions Regulation (European Council, 2006) provides for OP to include, among other things, information on priority axes and their specific targets. These should be quantified using a limited number of output and results indicators that allow for an assessment of progress made in relation to a baseline situation and the achievement of the targets. In particular, the annual and final report on implementation should use the indicators for output and results to quantify the progress made in implementing the OP and priority axes in relation to their targets.

The summary reports on the progress made in financing and implementing financial engineering instruments are based on indicators reported by the managing authorities in their annual implementation reports. In 2007–13, the member states and managing authorities were asked to report compulsory and optional data on FI implementation through the SFC2007 system. Data were reported separately for holding funds and

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[57] https://ec.europa.eu/regional_policy/en/funding/financial-instruments/. Last accessed 29/04/2019.
[58] https://www.berlin.de/sen/wirtschaft/gruenden-und-foerdern/europaeische-strukturfonds/efre/programme/2007-13/artikel.109270.php#OPalt5 (FIR) and https://www.berlin.de/sen/wirtschaft/gruenden-und-foerdern/europaeische-strukturfonds/efre/publikationen/vertiefende_bewertung_finanzinstrumente_2012.pdf (FI evaluation). Last accessed 29/04/2019.
[59] http://www.regione.toscana.it/por-creo/monitoraggio (AIR and FIR) and http://www.regione.toscana.it/por-creo/valutazione (FI evaluations). Last accessed 29/04/2019.
[60] https://www.gov.uk/guidance/erdf-programmes-progress-and-achievements (AIR). Last accessed 29/04/2019.
[61] https://british-business-bank.co.uk/wp-content/uploads/2013/10/Northern-JEREMIEs-Review-Summary-Report-Final-07-11-13.pdf. Last accessed 29/04/2019.

specific FI. The information reported for each indicator can be grouped under three categories:

a. the identification of the entities that implement FI
b. the amounts of OP contributions paid to FI (holding or specific fund)
c. the investments made by FI in final recipients.

A simplified version of the indicators used by the Commission is reported in the following table.

Table 8-1 | Information requested by the Commission in annual implementation reports on FI

	Information/data	Nature of requirement	Published in SR
	n. of FI operations implemented with a holding fund (HF)	Compulsory	Yes
	n. of FI operations implemented without a HF	Compulsory	Yes
OP contributions paid to the FI	Name of the fund	Compulsory	Yes
	Type of FI: a) for enterprises; b) urban development funds; c) funds for energy efficiency and use of renewable energy in buildings.	Compulsory	Yes
	Type of financial product offered to final recipients: a) equity, b) loan, c) guarantee, d) other	Compulsory	Yes
	Fund manager name and registered place of business	Compulsory	Yes
	Separate block of finance within a financial institution	Compulsory	No
	Date of signature of funding agreement (FA)with managing authority (MA)	Compulsory	Yes
	Amounts of OP contributions paid to FIs	Compulsory	Yes
	Amounts of OP contributions paid to the fund or set aside in case of guarantees	Compulsory	Yes
	ERDF and ESF amounts of assistance committed in the FA with MA	Optional	No
	ERDF and ESF amounts of assistance paid to the specific fund	Compulsory	No
	Amounts of national co-financing paid to the specific fund	Compulsory	Yes
	National public/private co-financing committed in the FA with MA	Optional	No
	National public and private co-financing paid to the specific fund	Compulsory	Yes
	Other ERDF or ESF OPs providing contributions to the specific fund	Compulsory	No
	Amounts of other assistance paid to the specific fund outside this OP	Optional	No
	Management costs and fees paid to the specific fund	Compulsory	Yes
	OP contributions paid by FI to final recipients (outside holding fund)	Compulsory	Yes
	OP contributions paid to final recipients in loans/other financial product	Compulsory	Yes
	Name of loan, guarantee, equity/VC or other financial product fund	Compulsory	Yes
	n. of final recipients supported	Optional	No
	Out of which: large enterprises; SMEs; micro-enterprises; individuals; urban projects; other recipients supported	Optional	No
	n. of loan contracts signed with final recipients	Optional	No
	n. of equity/venture capital investments made in line with agreements signed between a MA and a specific (equity/venture capital - VC) fund		
	Amounts of OP contributions: a) blocked for guarantee contracts signed with final recipients; b) blocked for guarantee contracts for loans paid to final recipients; c) paid to investments made in line with agreements (equity/VC); d) paid to the final recipients (other financial product)	Compulsory	Yes
	out of which amounts of assistance from the Structural Funds	Compulsory	Yes
	Total value of loans committed in contracts signed with final recipients	Optional	No
	out of which OP contributions	Optional	No
	n. of loans paid to final recipients in relation to guarantees contracts signed	Optional	No
	n. of equity/VC investments made in line with agreements signed between a MA and a specific (equity/VC) fund		
	Number of other financial products provided to final recipients		
	Amount of loans actually paid to final recipients in relation to guarantees contracts signed	Compulsory	Yes
	Amounts of OP contributions paid to: a) final recipients in loans; b) in line with agreements (equity/venture capital)	Compulsory	Yes
	Out of which amounts of assistance from the Structural Funds	Compulsory	Yes
	Date of signature of FA between a MA and a specific fund for this product	Compulsory	Yes
Indicator	Number of jobs created	Optional	No

Source: own elaboration, adapted from SFC 2007 reporting template and data from summary reports. **Note:** specific FI template only.

As shown in the table, the data published by the Commission in the summary reports was a limited part of the data that it collects. Also it was primarily focused on monitoring the flow of resources, with almost no measure, except for the management costs and fees and the number of jobs created, tailored to assess the actual FIperformance.

8.4.3 Content of annual and final implementation reports

The research examined the correspondence between the data summarized by the Commission annually, the annual implementation reports and, where available, the final implementation report at closure (sections focusing on FI and annex). It found that complete compulsory and voluntary data were published by the Commission (except for one Tuscan fund). The analysis of the annual and final implementation reports provides a nuanced picture.

In Berlin the implementation and performance of FI were grouped under the same heading, without specifying which of the data reported referred to implementation and which to performance. A limited qualitative assessment of fund implementation and a limited overall assessment of the performance against key indicators was provided in the report. Detailed data were gathered, mostly quantitative measures with a few qualitative, mainly related to cross-cutting horizontal themes such as the number of jobs held by women. The final implementation report offered a wide range of data, closely linked to implementation indicators. For instance, it showed:

a. resources paid into the fund
b. the disbursements made to final recipients
c. interest generated
d. returns
e. resources still available in the fund.

Absorption was one of the measures reported first. The document acknowledged that all the resources paid into the funds were disbursed to final recipients or used for paying fund management costs. The SME fund was an exception to full absorption. This may be explained by the fund volume having increased several times throughout the fund's lifecycle. Subsequently, data on investments paid back into the funds were presented, specifying that returns had already been reused to fund further investments. Information was then reported on the number of assisted companies, among which the

numbers of new businesses and start-ups and growth projects were given, as well as the average investment size and data on additional non-EU resources levered into the fund (Senatsverwaltung für Wirtschaft Energie und Betriebe, 2017). As with the internal monitoring, the ILA listed a number of indicators collected for the VC funds, such as number of applications, participations made, progress and the default rate (BE3, 2017). The managing authority acknowledged that intense discussions on the opportunity to collect data on the number of jobs created at the level of final recipients occurred. Ultimately, a decision was made to maintain minimal reporting obligations for final recipients (BE1, 2017). A figure on the number of new jobs created by businesses and start-ups was provided in the final implementation report; however it was pointed out that this was unlikely to reflect the employment effects of support, as growth processes in many supported start-ups and SMEs had just begun (Senatsverwaltung für Wirtschaft Energie und Betriebe, 2017).

In Tuscany, a brief assessment of the performance of each fund was provided in the final implementation report. The target and actual values of key indicators were reported, with an indication, in percentage terms, of the implementation rate. Information included the number of projects carried out on venture capital, research and innovation and SME investments. For one fund with a specific group of target recipients (*Confidi*), the number of final recipients was provided. Result indicators provided information on the amount of additional investments generated as a consequence of funding (equity or debt) received and on the number of assisted new businesses. The interest generated by the fund was also reported in the annex. As with the impact of public policy, an indication of the number of jobs created was provided. Often, the number of supported projects in women-led businesses and those contributing to reduction in environmental pressures was shown. Where applicable, the indicators were tailored to assess the results in the research, development and innovation sectors.

For all the funds, FI implementation was judged optimal and/or outstanding. In the case of guarantee instruments, an indication of the multiplier achieved was provided as a measure of effectiveness. For the funds offering venture capital and guarantee products, the report specified that the extremely positive results might be due to conservative targets at the outset. Where the performance was below expectations, a possible explanation for the underperformance was offered. The contribution of each fund to the overall performance of the axis or the whole OP was also provided. In

general, FI were described as high-performing instruments in the OP. This was due to the fact that additional resources were reallocated through repayable assistance, when other projects (operating through grants) had been less successful. Alongside the quantitative assessment of FI implementation, a qualitative assessment of fund performance was also provided. This was, however, limited to describing activities (how FI worked) and reporting on a range of additional measures, without reflection on the quality of the intervention, for instance whether the target objectives had been met. Information was provided on:

a. geographical variation
b. type of investments
c. industry sectors: ICT, renewables (VC fund)
d. how funding varied under each fund section (e.g. industry, craft) and on the basis of company dimension (revolving loan fund)
e. financial performance data, e.g. the multiplier for guarantee funds
f. size and types of recipients (Giunta regionale toscana, 2017).

The appropriateness of the indicators for the VC funds were questioned by the VC fund manager. The fund manager argued that reporting obligations and the IT platform were poorly adapted to the equity context, which often resulted in minimal monitoring obligations, as most indicators were not applicable to the context of equity investments (TU6, 2017).

In North East England, the last annual implementation report publicly available dates back to 2014, and no final report is yet available on programme closure. The data reported in this document was quantitative and specifically aimed at measuring effectiveness in FI implementation. Information was reported on:

a. the number of investments made and the amount
b. the number of assisted companies
c. leverage
d. returns
e. interest and default rate
f. number of applications received
g. geographical distribution of applications received.

The data were compared to the annual forecast targets according to the business plan, and, if applicable, an indication of reasons for underperformance was given. The trends were shown in graphs. Finally, the report presented separate indicators for the number of new jobs created and the number safeguarded.

8.4.4 Evaluations

Various types of evaluation were provided for the OP. Evaluations of FI were usually part of the overall evaluation of the OP (Michie et al., 2014). In 2007–13, the Common Provisions Regulation (European Council, 2006) provided that appraisals of the needs of innovative FI available for micro, small and medium-sized enterprises could be carried out by the EIF (so called *ex ante* evaluations). No specific provisions were made on the compulsory nature of those evaluations or the involvement of other actors apart from the EIF.

At the time of writing, the evaluations available on FI implementation were the mid-term evaluations of the 2007–13 programming period. The *ex ante* evaluations for 2014–20, presenting a summary of the results of the 2007–13 funds, were also available for all the cases. However, the analysis of the documents shows that only in England was an assessment of the experience gained in 2007–13 included in the *ex ante* assessment of the new funds.[62] In this case, the *ex ante* assessment essentially takes over the key findings presented in the mid-term evaluation of the JEREMIE funds.

The core set of evaluations analysed were mid-term evaluations, specifically focusing on FI implementation performance. In all the cases, at least one evaluation was carried out, as provided for in the regulations. Different practices emerged across the cases: Berlin and North East England commissioned FI-specific studies in the 2007–13 round of funding. In England, this covered all the JEREMIE funds, with comparative insights but also separate findings for each fund. Both Berlin and NEE used detailed measures of implementation performance and also covered aspects of FI governance (actors, delivery model). In Tuscany, the evaluation analysed was part of a broader plan of

[62] It should be noted that only a summary of the Berlin *ex ante* assessment was made available on the *Land* website and other platforms (FI-compass), which may explain why the 2007–13 final assessment is not presented. It should also be noted that the FI assessment carried out in the UK is not specific to North East England, as it covers the whole of England.

evaluating business support measures over several programming periods, i.e. since 2000–06.[63]

In Berlin, the mid-term evaluation carried out in 2014 first looked at the financial implementation of the funds, assessed in terms of returns to the funds. At the time of the evaluation, these were only ascribable to the loan funds, as the VC funds were still investing. Default rates were also analysed and judged to be aligned to expectations. The income generated from interest and repayments to the funds and the costs was reported, with an early assessment of the position in preserving the funds. The evaluators judged that, although the administrative costs offset revenues, a balance between costs and income was expected. The potential to spend the funds fully was then considered, with some funds having higher opportunities to invest fully than others. The qualitative part of the evaluation looked at the improvement in financial conditions for companies, and the financing effect was judged high.

From a regional economic perspective, a clear financing effect of the VC funds in the region was ascertained in relation to its target groups (start-ups and technology-oriented firms). The assessment also showed a positive development of new companies. Effects were, above all, identified in strengthening the entrepreneurial basis and a culture of self-employment. The evaluation also found that recipients of the VC funds expanded their R&D activities and developed new products, services or processes, especially for global markets. The SME Fund, however, had small effect on innovation capacity and economic activity in Berlin. Direct, short-term employment effects were considered in the evaluation, with relatively high employment growth being observed, especially for the SME fund and VC funds. Investments and growth, where this was an explicit objective, were positive. An assessment of the general macro-economic effects was also carried out. This focused on:

a. additional regional income
b. increased economic activity
c. adaptation to structural change
d. deadweight and displacement effects

[63] A final evaluation of the 2007-13 financial instruments was made available late in 2016: IRPET 2016. Analisi degli strumenti finanziari attivati dal POR FESR 2007-2013 della Regione Toscana in relazione alle Linee di intervento 1.4.a - "Ingegneria finanziaria"; 1.4.b - "Interventi di garanzia". Rapporto di valutazione finale. Florence.

e. efficiency of the intervention.

The funds were judged particularly efficient in generating additional income in the region. This appeared to be largely driven by the VC funds, and the technology fund in particular. The study observed that competition was mainly stimulated in local markets, and recommended a focus on sectors capable to compete at supra-regional level. Overall, the effects of support on innovation capacity and adaptation to structural change were not very strong. The study did not find any relevant deadweight effects for each individual fund. The assessment, however, judged that, due to the industrial structure, a degree of displacement could not be ruled out from the subsidized start-ups in micro loans and in Berlin Start. Overall, the support was judged efficient, due to low deadweight and the limited burden for final recipients. The overall assessment of process efficiency remained open, because of lack of data on additional administrative costs and benchmark data (Kovalis, 2013).

In Tuscany, two mid-term evaluations were carried out: one investigating the effects of public guarantees on credit access, the other looking at the effects of repayable support on the growth and survival of SMEs. The first of the two studies analysed the guarantee instruments set-up under one specific measure of the SPD 2000–06 and one of the funds of the 2007–13 OP, namely the Guarantees for SME investments. The second evaluation examined the effects of the repayable measures supporting SMEs in the craft and industry sectors since 2002. Both studies used a counter–factual method of analysis. The evaluation of guarantees looked at the potential effects on credit access, investments, the structure and cost of debt and the level of risk in the companies. The second evaluation investigated the size of investments and growth dynamics of the company as a result of funding and the survival rate of firms.

The results from the first study showed that the two measures had produced mainly positive effects regarding access to credit, investments, the structure of the debt and its cost. In addition, the measure implemented in 2007–13 had reduced effectively, even if to a limited degree, the probability of termination of the companies (Irpet, 2012b). The second evaluation found that the programme targeting craft industries had produced some positive effects on employees and turnover. Also, the support had reduced significantly the risk of recipient companies exiting the market. The programme targeting industrial companies produced some positive effects, especially on turnover and to a lesser extent on employees. Also the support had reduced the risk of

companies leaving the market (Irpet, 2012a). The Tuscan case was the only case in which the mid-term evaluations assessed repayable assistance measures over a longer period of time, but it was limited to only two of the funds set up in 2007–13.

In the mid-term review of the English *JEREMIE* funds (Regeneris, 2013), the North East England holding fund was compared to other two funds set up in the northern English regions. Among other findings, the evaluation noted the differences in terms of mix and type of sub-funds, the ways in which fund managers were organized in the regions (dispersed in North East England) and the marketing and delivery structures of the services provided to SMEs. Performance was measured in terms of progress on the investment activity as compared to the original business plan and the lifetime investment targets. Among the fund metrics, the evaluation examined:

a. investment activity
b. operational costs
c. revenues
d. returns on investment
e. write-offs
f. economic development outputs.

The attainment of economic development targets was also considered, in particular by looking at the provision of finance for SMEs in the region (SMEs assisted), job creation and business creation and innovation. Difficulties in securing appropriate private match funding were acknowledged for all the funds. The North East holding fund was judged positively in its role of stimulating a more active finance sector in the region. This, however, was judged less successful than would have been the case in a context of economic growth. The evaluation observed in particular the extremely high standard of the business plan for the North East fund. The study also praised the point that key investment targets and financial performance assumptions had been set out with caution. An explanation for this was the experience gained in previous rounds of funding. The flexibility in retaining unallocated resources to counter risks and future uncertainty was regarded as a positive driver of investment performance. The evaluation commended the effectiveness of procedures in place to manage investments and ensure realizations and returns in the North East. This was driven by the experience of the personnel, the appointment of expert advisors to the holding fund boards and the nurturing of relationships with the stakeholders. The strong

performance management culture from the holding fund manager was assessed as a key factor in achieving targets and ensuring the autonomy of fund managers (Regeneris, 2013).

8.4.5 Conclusions on the performance frameworks for financial instrument implementation

All cases presented a wide range of data on implementation performance. Among others, these included: the money paid into the fund or set aside in case of guarantees, the disbursements to final recipients, the interest generated, and the returns and resources still available. In terms of reporting on equity instruments, a similar approach and set of indicators was adopted in Berlin and North East England.

In North East England, the results were directly compared to the business strategy, with an indication of the reasons for holding fund underperformance, if applicable. Berlin and Tuscany had a similar approach to reporting, in which quantitative (output) data were central for assessing performance. Qualitative assessment was absent or, as in the Tuscan case, limited to an in-depth description of the distribution of funding. In North East England, the reporting format cannot be entirely compared with that of the first two cases, as the information on implementation performance was not as detailed as the information that the Commission required at closure. Nonetheless, the data provided in the annual implementation report suggested that the quantitative measures used in the document related strongly to FI implementation performance – the achievement of key cash generation and investment activity targets. An attempt to present the direct job creation effects of the fund was more marked in the North East England case (Department for Communities and Local Government, 2015).

Different approaches to performance emerged from the evaluations. These are distinct from those emerging in the annual reports. Commonalities existed between the North East England and Berlin assessments, where the evaluations broadly followed a similar method and the measures presented were similar. The assessment of fund performance was a mix of financial (quantitative) data and regional development output data. In Tuscany, a completely different approach was taken, which looked at the long-term effects and additionality of the investments.

8.5 Summary of key findings on control mechanisms and performance frameworks

The joint analysis of the control mechanisms activated in each case and the interpretation given to the performance frameworks set out by the Commission made it possible to identify the content and focus of the accountability relations. The results from the analysis showed that the range of control mechanisms available was wide and their use was strong at the point of setting up the funds. Managing authorities could ensure strategic compliance in multiple ways at the stage of contract design (the investment strategy, funding agreements and fund by-laws). Also the choice of actor and of structure could play key roles in ensuring compliance. *Ex post*, the key mechanism used was monitoring and control, which appeared to be strong across all cases.

Accountability could also be ensured through the broader frameworks for monitoring and assessing implementation performance. This research identified a discrepancy between the concept of implementation performance applied top down by the Commission and the interpretation from managing authorities. The Commission held rather limited evidence on the success in implementing financial instruments, as its focus was purely on tracking the financial flows. The information collected was in fact not appropriate to assess actual progress in the implementation of FI. Key information such as defaults and returns to the fund was not requested by the Commission. Interestingly, these same data were collected and reported by the managing authorities in their annual implementation reports to the Commission, highlighting a gap between concepts of performance at grassroots level and the position of the Commission. In particular, this study notes that, since the orientation towards results was a trend in CP evaluation since 2007–13 (2.2.1), they should be present when monitoring and evaluating performance. The evidence presented shows that an orientation towards results was fully visible across all cases. However, results, in the meaning used by the Commission, were strictly limited to absorption and fund disbursement.

Crucially, progress in implementing FI should be measured against the rationale supporting their use and the key policy targets that they aimed to achieve. In this, the results presented in the reports and evaluations analysed for each case study were fully aligned to the rationale and objectives set out in the respective OPs. In Berlin, the general objective of ensuring a sustainable use of public resources was accompanied in

2007–13 by the specific objective of fostering business creation and start-ups in the creative and technology sectors. The data reported in the annual reports and evaluations was assessed against the attainment of these key policy objectives. In North East England, the aim of generating economic activity and jobs in the area was evident when looking at the type of data reported and the targets set. The EIB loan was expected to draw attention to target achievement (in particular cash generation). The holding fund was given a particular orientation towards 'performance'.

In Tuscany, FI were used as an alternative to grants to fund productive investments. Therefore their success was mainly assessed against the achievement of spending targets. Nonetheless, in the long term, the additional investment effects achieved in target recipients were appraised in the evaluations. FI performance was measured by the low number of non-performing loans and investments or conversely by the default rates. According to the managing authority, some form of benchmarking took place: the performance of the Tuscan funds was judged against the performance of other funds at national or regional level (TU2, 2017). All in all, the predominant view of performance related to the full absorption and use of resources. If assessed according to these criteria, FI in Tuscany, especially the loan and guarantee funds, were very successful, as all allocated resources were spent (TU4, 2017).

It is apparent that the data collected to meet the same obligation to report were reported in diametrically opposite ways in practice. The summary report data were essentially aimed at tracking where and through which structures the resources were spent, whereas the annual and final implementation reports offered an assessment of implementation performance against its key metrics. The focus of the evaluations analysed was more specifically linked to assessing the actual performance (success) of the FI in achieving their key targets. The Commission focused essentially on the financial management of FI implementation to assess FI performance. The performance in implementing FI was ultimately measured in terms of absorption and fund disbursement. However, in order to assess the performance in implementing FI, this thesis argues that the information collected should be tailored to the rationale for setting up FI.

To conclude, the public accountability for FI implementation appears to be strong. Not only do the data required from fund managers directly relate to the rationale for choosing FI and the objectives that the funds intended to achieve (focus on results), but

also the strength of the control mechanisms was high both *ex ante* and *ex post* delegation. A different approach was apparent at the higher level, where the Commission had a rather weak position vis-à-vis member states and managing authorities. A reason for this was the need to assess implementation performance on the basis of the context in which FI were set up. The rationale for implementing through FI, in particular, determined how FI implementation would be assessed 'on the ground'. Since various rationale were motivating the decision to operate through FI, it is difficult to have a standardized assessment of implementation performance. That said, the data currently collected by the Commission do not allow an assessment of FI implementation performance across countries, as they simply do not focus on the appropriate type of data. The focus of the accountability relationship was more on the process toward ensuring the sound financial management of FI implementation than on the results of such measures.

8.6 Chapter summary

This chapter analysed the public accountability for FI implementation. It first examined the control mechanisms (contracts, choice of actor/structure, monitoring and control, rewards and sanctions) applied in each case study (8.1–8.28.1.5), concluding with an assessment of the mix of tools used in each case (8.3). It then considered the performance frameworks for FI implementation (8.4), examining in particular the accessibility, content and focus of the relevant documents ensuring the formal accountability of FI implementation. Finally, the chapter investigated the interplay between the processes established through control mechanisms and the requirements set out through performance frameworks (8.5) for ensuring public accountability for FI implementation.

The contribution of the chapter to the overall thesis is substantial. This thesis shows variation across cases in the use of control meachanisms and performance assessment frameworks. Berlin primarily used contract design, choice of actor and monitoring and control as control mechanisms. Tuscany focused on contract design and monitoring and control. The North East England case used almost all available control mechanisms: contract design, structure, monitoring and control and sanctions and rewards. Some of this variation could be explained by the distinct delegation modes. While contract design and monitoring and control appeared to be constant across all cases, individual elements within these control mechanisms varied. For instance, in Tuscany the

horizontal nature of contract design, with several documents setting the boundaries of agents' action, could be associated to the heterogeneity of actors involved as funds managers, which required several legal acts to be in place rather than a single contract model. Monitoring and control in North East England borrowed elements from the British performance–management culture. Among the other control mechanisms, North East England is the only case in which incentives on performance were offered in the contracts. This would suggest that private sector practices were associated to the involvement of private actors through a private delegation mode. Delegation modes influenced selected elements of the public accountability for FI implementation.

This chapter finds that the wider accountability tools to assess implementation performance largely depend on different policy objectives for FI use. Each case study showed a different focus of such accountability tools due to different rationale being applied. In Berlin the focus of performance assessment was on the spending (for sustainability purposes) and growth of targeted businesses (to support start-ups in specific sectors). In Tuscany the focus was on spend and the additionality of investments (to measure performance of financing through FI). In North East England the focus was on economic growth and jobs created (for regeneration purposes). This research finds that these policy objectives determined the rationale for FI use, which explains the variation of performance frameworks.

Last, the analysis of the use of control mechanisms shows that managing authorities as principals did not suffer from agency drift, essentially because they fine-tuned effective accountability tools to ensure compliant implementation. This chapter shows evidence that the fund managers and the intermediate bodies as partial agents, abided by the terms of the contracts, the various legally binding and other policy documents that constrained the agents' action. To a lesser extent, the choice of actor (agent) might be used to ensure compliance, but the choice was mostly aimed at attracting an agent with the required expertise rather than a 'compliant' agent. Tailored structures might also be effective tools to ensure strategic compliance, as shown by the North East England holding fund. *Ex post*, this chapter shows that any potential agency drift was prevented through strong oversight. Potentially, compliance with the OP objectives might be ensured through rewards and sanctions, as the North East England case showed. The accountability of FI implementation was also ensured 'on the ground' through the collection of relevant and numerous indicators of FI performance, while the accountability tools of the European Commission appeared to be weaker.

9 Conclusions

9.1 New modes of delegated governance in Cohesion policy

This thesis argues that FI introduced a distinct new strand to CP governance from 2007–13. Even though FI only made up a small part of the total CP budget (van der Zwet et al., 2016), they played an important role in programme implementation in 2014–20 and are set to play an even bigger role in 2021–27. Five types of innovation were identified. These relate to actors, relationships, structures, rationale and products. In particular, the thesis argues that the involvement of new actors changed the traditional relationships in CP governance and that the new structures created additional levels of delegated governance.

The first innovation was that FI involved a new category of actors – fund managers – that did not exist before and entrusted them with the management of public resources. As noted (2.2.3), the actors traditionally identified in the implementation and management of CP were the managing authority, certifying authority and audit authority, as well as intermediate bodies and the monitoring committees. These authorities were appointed from the public sector. The intermediate bodies might involve internal or external public or private entities in the execution of specific tasks. Monitoring committees combined actors from within the public sector with socio-economic partnerships and had a more strategic oversight role. FI created the new category of fund managers. Managing authorities had ample discretion in selecting the FI that operated as fund managers (see 2.5.1 and 5.1.1). These included the EIB and EIF, which managed a substantial amount of CP FI on behalf of national and regional managing authorities, departments within ministries for FI set up under national OPs, and a range of various financial institutions at sub-national level. Under regional OPs, the legal status and ownership of financial intermediaries varied the most.

The second innovation was FI creating new relationships between these new actors and those traditionally involved in CP at programme level, i.e. managing authorities and intermediate bodies. In CP, only intermediate bodies could be officially entrusted with some of the formal implementation tasks by managing authorities. With FI, managing authorities delegated a large part of their implementation functions to fund managers. Fund managers were in charge of taking investment decisions and managing the resources held in the fund. Fund managers could sometimes be identified as

intermediate bodies, depending on the institutional arrangements, but more often they were simply granted 'fund management status'. By formalizing the set of responsibilities entrusted to fund managers, new delegated and accountability relationships emerged, especially because the financial institutions appointed as fund managers had various legal statuses.

The third innovation was an important difference between grants and FI. Managing authorities or intermediate bodies were responsible for payments to final recipients, after project selection (Ferry et al., 2007) and traditionally these took the form of grants. FI, however, do not envisage a direct distribution of resources, because a fund must be first set up to hold the resources from which the investments are made. Importantly, different FI structures had different degrees of complexity. With specific funds, there was only one additional step between project selection and payment, while with holding funds there were two steps: first, managing authorities paid resources into the holding fund, and then the holding fund transfered the resources needed for investments to the individual specific funds before the fund manager invested the resources in the projects of the final recipients.

A fourth innovation was that FI introduce new rationale for policy delivery. Broadly speaking, repayable funds could be chosen to achieve a sustainable and efficient use of public resources while enhancing project quality (European Commission, 2014b, Wishlade et al., 2016a) or to fill a gap in the market provision of finance (Cowling, 2012). Each managing authority could decide to set up FI for different reasons, and depending on the policy objectives they aimed to achieve. In any case, they had to finance projects with prospective returns on investments (Wishlade et al., 2017). None of these rationale underpinned the use of grants to deliver the EU budget, however. This was a critical policy design issue, and a difference between grants and FI.

The final innovation was that a range of financial products (equity, loans, guarantees) had become mainstream for the delivery of EU public policies from 2007–13. Grants were the most traditional of the forms of delivery that governments had at their disposal, together with tax rebates (Salamon, 2001). They were also the most straightforward to administer and involved limited additional effort on the part of the public sector once the subsidy was paid (Wishlade et al., 2016a, Wishlade and Michie, 2017). In contrast, each type of FI had *'its own political economy'* (Salamon, 2001:1653) and governance arrangements (Brown and Lee, 2017) and differed in terms of scale

and the policy objectives addressed (Wishlade and Michie, 2017). In effect, the only aspect that equity, loans and guarantees had in common was that they provided repayable support. As such, they involved challenges at both the set up and administration stages (Michie et al., 2014). They were more complex to set up, more difficult to administer and required *ex post* monitoring of investment performance and returns. For all these reasons, it could be argued that FI introduced a distinct new strand to CP governance.

9.1.1 The current state of knowledge on the governance of Cohesion policy

The use of FI increased during successive programming periods (European Commission and European Investment Bank, 2015, European Commission, 2017a), making repayable support a secondary yet growing way to deliver the EU budget (Wishlade and Michie, 2017). FI are now widely used for both directly and shared managed funds (Gloazzo, 2018). The amounts committed from ERDF and ESF resources to FI doubled between 1994–99 and 2000–06 (from €0.57 to €1.3 billion) and grew fast from 2007–13 (€12.5 billion) to 2014–20 (€14.5 billion[64]). Against this background, the implications of new forms of delegated governance for the distribution of responsibilities and compliance with CP implementation were largely unknown. Recent policy studies considered selected aspects of delegated governance (Wishlade et al., 2016a, Wishlade and Michie, 2017), however, no study has yet entirely focused on all aspects of innovation and their implications. This thesis fills the gap in the current state of knowledge on the new modes of delegated governance in CP.

CP governance is characterized by complex vertical and horizontal interactions in which various levels of government share programming and implementation functions, and networks of NGOs participate in policy-making (Marks, 1993, 1996, Hooghe, 1996b, 1996a, Rhodes et al., 1996, Hooghe and Marks, 2001). This system of multi-level governance is characterized by several coexisting levels of authority, categorised as task-specific (type 2) jurisdictions, in which the competences of transnational, public and private institutional relations overlap (Hooghe and Marks, 2003). Consequently, it is difficult to identify an ultimate centre of power (Hooghe, 1996b). At programme level, the governance and accountability of CP are ensured by three key actors: a managing authority, a certifying authority and an audit authority. These can delegate

[64] Latest figures as of end of 2017.

some of their functions externally, to intermediate bodies (Molle, 2007, Stephenson, 2016). Managing authorities, in particular, play a central role in the management of OP.

MLG scholars have researched the various actors involved in CP and their power relations. Initially, the involvement and empowerment of a new category of actors in policy-making attracted the most attention. Sub-national authorities were created *ex novo* in some countries, while in others their capacity had to be strengthened to administer structural funds. In terms of power relations, they were now given the opportunity to access structural funds and negotiate their programmes directly with EU institutions (Baun and Marek, 2014) On this basis, MLG scholars argued that sub-national actors and supra-national institutions had been empowered to the detriment of the central state (Marks, 1993, Jones and Keating, 1995, Hooghe, 1996a, Marks, 1996, Caporaso, 1996, Hooghe and Marks, 2001). Other scholars did not endorse this view, emphasizing the role of states as 'gate-keepers'. Empirical studies on national differentiation shed light on the mediating role of domestic political conditions, governance traditions and institutional arrangements over the actual impact of CP (Pollack, 1995, Benz and Eberlein, 1999, Bache, 1999, Bailey and De Propris, 2002).

The vertical interactions among supra-national institutions, member states, regions and local government have been extensively studied by MLG scholars. The horizontal involvement of NGOs and private actors in jurisdictions delegating specific tasks has also been thoroughly assessed (Rhodes et al., 1996, Bache and Flinders, 2004, Heinelt and Lang, 2011, Dąbrowski, 2013). The focus of this thesis is on the relations within these levels of governance ('intra-level' governance), namely within the sub-national authorities responsible for FI implementation. In particular, the thesis examines the further types of horizontal involvement in policy delivery, beyond NGOs and private partnerships. The study contributes to the literature on CP governance by using MLG as a starting point. It applies the p–a approach to an analysis of the further levels of delegated governance, at an intermediate (meso) level. Also, it provides a theoretical and empirical contribution to the literature on delegation in EU studies and includes an empirical application of the public accountability literature to CP.

9.1.2 Hypothesizing new forms of delegated governance

The changes outlined above, it is argued, determined a reconfiguration of power relations and a redistribution of responsibilities in policy implementation. They also affected public accountability, as the attainment of given policy objectives influenced

how compliance was ensured and monitoring and control were exercised. FI put the delegation of functions and accountability in policy implementation centre–stage. For this reason, the literature on delegation in public policy has been reviewed and its main tenets applied in this study. The core assumptions presented at length in section 3.3.2 are recalled as follows:

(a) Delegation modes are associated with different degrees of agent autonomy
(b) Delegation modes shape the balance between *ex ante* and *ex post* control mechanisms
(c) No single principal, but multiple principals can be identified
(d) The risk of 'agency drift' is greater with private agents
(e) Various reasons influence the extent of discretion granted to agents
(f) Delegation modes influence the extent of discretion granted to agents
(g) More complex FI delegate more authority to agents
(h) *Ex ante* control mechanisms preferred to *ex post*, but no substitution effect is assumed.
(i) Delegation modes influence the focus of the accountability relation
(j) Delegation modes determine mix of mechanisms.

These various assumptions are incorporated in sections 9.2–9.4 of the conclusions. The related evidence is presented as follows. First, the main findings on the delegated governance of FI implementation are shown (9.2), with an assessment against initial assumptions. Because a number of the governance assumptions derived from the delegation and principal–agent literatures, the second part of this section presents the key findings in relation to the p–a literature. Third, the results of the appraisal of the public accountability of FI implementation are summarized (9.3), followed by an assessment of the interplay between governance and accountability in FI implementation (9.4). Last, a discussion on the contribution of this study to academic (9.5) and policy (9.6) debates is presented, concluding with an outline of potential avenues for future research (9.7).

9.2 Delegated governance of FI implementation

The primary aim of this research was to explore the implications that new forms of delegated governance in CP had for the distribution of responsibilities and the relations in FI implementation. This section highlights the key findings pertaining to CP

governance and to the principal–agent literature. In so doing, it strives to fill a gap in the state of knowledge on the new modes of delegated governance in CP – how CP works when FI are used – and to offer original insights on the distribution of responsibilities and balance of powers in FI implementation. First, it uncovers a three-layered governance structure in FI implementation, which was not only typical, but also optimal for ensuring effective implementation and accountability. Second, it finds that multiple chains of delegated relations existed: a substantial number of tasks were carried out by fund managers, while the formal responsibility for those duties remained with the ILA. Also, it finds that there was limited scope for agency drift in FI implementation, given that agents' actions were effectively constrained through contract design *ex ante*. To conclude, the extent of authority granted to an agent depended on a combination of factors, among which expertise played a central role.

(a) Delegating FI implementation: fund managers and ILA vary

The preliminary analysis of summary report data and additional company information revealed the heterogeneous nature of the financial institutions involved in FI implementation. By examining their legal status and ownership, the analysis led to the identification of three delegation modes: a public, a private and a mixed mode, with distinctive characteristics. Some member states delegated fund management duties primarily to public institutions. These could be public banks (e.g. regional development banks), credit institutions or other public institutions. Examples of public delegation modes are Germany and Spain. Another set of countries delegated duties mainly to private bodies. These were often private fund management companies, but also other civil institutions. The United Kingdom (England in particular) and Greece are typical examples of this mode. In the mixed mode, fund management duties were bestowed on a combination of public and private entities or on entities having a mixed ownership status (e.g. half public–half private). Examples of mixed mode included Italy and Poland. Institutions varied widely: they could range from regional development agencies, to regional financial institutions, mutual guarantee institutions and private banks.

These preliminary results uncovered the variation in fund managers (agents) and shaped research design, country and case selection. They also helped categorize the involvement, across the EU, of various financial institutions in FI implementation. In addition, this study found that legal status and ownership of ILA varied too (6.5). In

each of the three case studies, ILA had distinctive characteristics. In the public (Berlin) and mixed (Tuscany) delegation modes, the ILA were within the civil service. They were the specialist departments responsible for the subject matter. In Berlin, this department was granted the status of intermediate body, whereas in Tuscany the action manager had no such status. In the private (North East England) delegation mode, the holding fund manager was a private limited company and no intermediate body was appointed. This created an initial issue with categorizing the holding fund manager. According to the regulations (art. 44 European Council, 2006), the holding fund manager is a selected financial institution. However, the comparative analysis uncovered commonalities between the duties performed by the holding fund manager and those carried out by the intermediate body and action manager in the other two cases. Therefore, the holding fund manager could be considered an ILA to all intents and purposes.

(b) ILA: the backbone of a typical and optimal governance structure

Through case study research, this study then uncovered the common features of a typical governance structure for FI implementation. The three case studies, selected as a typical example of each delegation mode, operated through broadly similar governance structures. On the basis of case study findings, a structure with three layers of delegated governance was identified. The managing authority was located at the top and was externally accountable to the Commission. ILA occupied a central position between managing authorities and fund managers. Fund managers were positioned at the bottom and established a direct relationship with the final recipients of Cohesion funding. An important comparative finding of this study was that an ILA was always present in the governance of FI implementation. Comparative evidence from case study research showed that the presence of an actor performing an intermediary role between public policy objectives and the independent investment decisions of fund managers was not only typical but was also perceived as a necessary element of good governance. Such a delegated governance structure was optimal for the governance of FI implementation, but also for its accountability, as shown in case study research and interviews.

(c) ILA hold responsibility while fund managers carry out duties in practice

In the implementation of FI, p–a relations were formed of two sets of what were formally almost separate interactions. Fund managers entered a delegated relationship with the ILA and were primarily accountable to them. A direct relationship between managing authorities and fund managers (and *vice versa*) was almost completely absent. In fact, no direct p–a relationship was in place between the managing authority and the fund manager, as the simplified p–a assumptions indicated (7.3). This relationship was tenuous and was mediated by ILA. The ILA had a central role in two sets of delegated relationships, both of primary importance: one was directed up towards the managing authority, the other down towards the fund managers. Contractual arrangements, broadly defined, structured the delegated relationship among all actors involved: managing authorities delegated key project implementation tasks to ILA, who in turn entrusted a significant number of implementation tasks – investment selection and FI management – to fund managers (Figure 7-1). Although a substantial number of implementation functions were entrusted to fund managers, the primary responsibility for those tasks remained with the ILA. Even if implementation tasks were distributed to lower levels of delegated governance, the formal authority stayed with the upper levels.

(d) Multiple chains of principal–agent relations: 'partial' principals and agents

The findings outlined above have implications for the p–a literature, in particular for the classic assumption of principals and agents as unitary actors. The classic p–a literature depicts principals as unitary entities, whereas other streams assumed that multiple principals use structures to constrain the agent and establish themselves as the most influential actors over current and future agents (Moe, 1984, Waterman and Meier, 1998). The assumption of this thesis, based on an initial assessment of the available data, was that multiple principals and multiple chains of p–a relations could exist.

The findings show that FI implementation had several chains of p–a relations with multiple principals and multiple agents. A well-defined set of responsibilities and tasks was delegated to actors located at a different level of the p–a ladder. These findings support Moe's work (Moe, 1984, Moe, 1987, Moe, 1989), which starts from the assumption of multiple layers of p–a relations. However, the assumption that multiple principals exist was not found to create problems in defining the levels of authority, as hypothesized by Moe.

The managing authorities and ILA were principals to the fund managers; however, the ILA and fund managers were also agents to the managing authorities. The ILA was the main principal and account-holder for the fund managers. This means that the ultimate agents – the fund managers – were primarily accountable to a 'lead principal', even though the ultimate principal was the managing authority. No competition between principals was evident from the data collected, as multiple principals – managing authorities and ILA – were positioned at, respectively, an upper and a lower level in a vertical hierarchical structure. This study found that these actors could otherwise be called 'partial principals' to the ultimate agents (fund managers).

(e) The principal–agent problem: agency drift prevented in several ways

The p–a core assumptions were based primarily on rational choice. In particular, the assumptions that actors are opportunists, that action may be kept hidden, due to information asymmetries, and the risk that agents use information strategically or hide it from principals (Ross, 1973, Kiewiet and McCubbins, 1991) underpin the 'principal–agent problem'. Opportunistic behaviour may result in agency drift, a situation in which policy outcomes move away from the originally intended purposes (McCubbins et al., 1989). Based on the literature, the assumption of this thesis was that agency drift would affect private delegation modes in particular. Agents were motivated by opportunism, which was hypothesized to invest private agents especially, given their distinctive preferences compared to public actors. Specifically, this thesis assessed the extent to which delegation was shaped by key governance choices and the rationale and policy objectives on which these were based. Key governance choices related to the actors selected, structures chosen, and instruments/products offered.

First, this thesis found that the classic principal–agent assumption of vertical hierarchical relations held true, which is also a formal requirement of accountability

relations (Strøm et al., 2003). Therefore, FI implementation is a good case for applying the p–a framework to the study of delegated relations in policy implementation. Also, contrary to the behavioural assumption of opportunism, none of the case studies stood out as one where fund managers, driven by self-interest and knowingly retaining key information, implemented their own policy agendas. Investment decisions were based on a wide range of criteria. The large part of these criteria was set out by institutional actors (ILA and managing authorities) and was largely determined by ERDF and public policy objectives. As shown through case study research (7.2.3), provided that the policy objectives were respected, fund managers acted as independent financial operators. No administrative and political interference was made in their day-to-day management activities and investment decisions, in the public and private delegation modes. In the mixed delegation modes, however, the degree of autonomy of fund managers was practically nil: fund managers were required to apply investment selection criteria in formally defined administrative procedures. Some of the final decisions on granting the funding even saw the managing authority and ILA involved (7.2).

(f) Proximity and complexity matter only in combination with other factors, primarily expertise

The p–a literature assumed the degree of discretion awarded to agents to depend primarily on how close the policy preferences of principals and agents are. Epstein and O'Halloran (1994), (1999b) argued, however, that a minimum degree of discretion is always awarded to agents, no matter the policy preferences. Also, according to p–a scholars, the greater the complexity of a policy area, the least likely the chance of achieving the policy outcome. So, the bigger the uncertainty over policy outcomes, the higher the degree of discretion granted to agents (Epstein and O'Halloran, 1994, Epstein and O'Halloran, 1999b).

This thesis intended to appraise whether the ally and uncertainty principles formulated in the p–a literature applied to FI implementation. Based on an initial assessment of the available data, the assumption of this thesis was that various reasons (not only policy proximity) would influence the degree of discretion granted to an agent and that a minimum discretion would be granted as a natural consequence of the choice to delegate. Also, this thesis supposed that FI with a higher degree of complexity would grant more discretionary authority to agents. These policy instruments were

hypothesized to be those delivered through holding funds and those offering equity products.

According to p-a scholars, other things being equal, the more the preferences of principals and agents converge, the higher will be the degree of discretion granted to agents (Epstein and O'Halloran, 1994, Epstein and O'Halloran, 1999b). This thesis assumed that the preferences of public sector principals would be closer to those of public sector agents and more distant to those of private ones. Therefore, the overall assumption of the thesis was that private delegation modes would grant less discretion to private agents than public delegation modes would to public ones. The mixed delegation mode was assumed to entail mixed patterns, given the combination of actors involved.

In general this thesis found that the primary rationale for granting more discretion to an agent were neither policy proximity nor the degree of complexity in a policy area. These two factors might have played a role in some of the cases considered, but in combination with other explanatory factors, such as the historic involvement of an agent (trust) in policy implementation, and the expertise of the agent.

A minimum degree of discretion was always envisaged, as this was the basis of the trade-off between authority and time/expertise. However, the cases analysed showed that discretionary authority varied widely in policy implementation. The findings presented in 8.1.5 showed that policy proximity mattered only to a limited extent in FI implementation. In the public delegation mode, the selection of the agent was partly explained by ideal policy positions, i.e. the pursuit of regional development objectives. However, contextual motivations, such as the historical financial involvement of the fund manager and the general regional development remit of *Landesbanken*, appeared to have had an equal role to policy proximity in explaining the choice made. In the mixed delegation mode, the choice of actor did not seem to be driven by policy alignment concerns: in the only instance in which a direct selection of the agent was made, the choice had financial and practical motivations.

In the private delegation mode (North East England), the choice of the holding fund manager as agent to the managing authority and ILA in the governance structure was mainly motivated by the expertise and management skills sought, while the selection of the fund managers was motivated by the offer on the required services. A public policy

component could be distinguished in the choice of the holding fund manager, as the individual members of the management team were in effect selected for their track record in managing ERDF-co-funded programmes and funds (6.4.3). That said, policy proximity did not appear to be the primary rationale for agent selection.

The fact that, in most cases, fund managers were selected through an open tender procedure would suggest that there was no intention of making a personal selection of the agent. The EU regulatory framework, however, also had a strong impact on this. In Berlin, for instance, direct appointment to a regional development bank was allowed by a national law compatible with the treaties, whereas in Tuscany public procurement through an open procedure was only introduced when the legal framework made this compulsory. Since the ally principle did not fully hold in the cases considered, the issue of whether the extent of delegation was more marked when principals and agents had similar policy preferences had not been considered for further analysis. The uncertainty principle has only been incorporated in broad terms in this thesis, with the assumption (g) that policy instruments characterized by greater complexity (e.g. equity instruments or holding funds) might result in more discretion awarded to agents. In effect, this thesis finds that FI characterized by greater complexity, especially equity products, granted more autonomy to agents (7.2.3). However, complexity on its own was not sufficient to explain more delegated authority. Complexity was often associated with an agent's expertise.

Ultimately, the agent's expertise stood out as a primary explanatory factor and one of the most important rationale behind the decision to delegate. Delegation occurred because only the ILA had the specialist knowledge of project implementation required by managing authorities to set up and manage repayable funds. In the same way, only fund managers had the expertise necessary to assess the viability of an investment plan and manage the resources held in a fund. This was rarely the only explanatory factor for the extent of delegation, but it often appeared in combination with other key governance decisions. In general, comparative case study research showed that the choice of the agent was not driven by policy proximity, but more by the stable involvement of certain actors in FI implementation (Berlin), their experience/expertise (Berlin and North East England) and the extent to which they could provide the required services (as in North East England and Tuscany).

(g) Key governance features and extent of discretion: legal status and holding fund structure do not matter

This thesis assumed governance characteristics to shape the distribution of responsibilities, the configuration of p–a relations and, consequently, the amount of discretionary authority granted to agents. In the context of CP, decentralized governance arrangements were assumed to grant greater decision-making autonomy to sub-national actors (Mendez and Bachtler, 2017), while devolved governance arrangements were hypothesized to enhance accountability by bringing policy-making closer to the citizens (Polverari, 2015) and providing greater scope for place-based approaches in sub-national territories (Bentley et al., 2017). On these grounds, the private delegation mode was expected to be associated with arrangements that dispersed authority. The public delegation mode was assumed to entail minimum autonomy of the agent, as authority remains in the public sector. The mixed mode was expected to combine features of the two.

This thesis uncovered original findings on the extent to which key governance features influenced the degree of discretionary authority. In general, this thesis found that legal status and ownership (public, private, mixed) of the selected agent were not direct explanatory factors for the extent of authority granted. This may explain why similar governance structures were in place and a similar concern for controls could be seen across all cases, irrespective of the legal status of the agent. For instance, even when delegation to a public agent occurred, interviews revealed that the aim of the managing authority was to ensure strengthened scrutiny over the 100% publicly owned fund manager – (d) p.244.

Delivery structures varied widely across member states (Wishlade et al., 2016c). In this thesis, they emerged as a direct explanatory factor for the extent of delegated governance in only some instances. Although more complex structures such as holding funds were assumed to disperse more authority by adding layers of delegated governance in FI implementation (Wishlade et al., 2016c), there is actually no causal relationship between structure complexity and extent of delegation. Not only did the holding fund analysed in this thesis have no more delegated authority than the other cases, but it also demonstrated that effective performance management counters the risk of non-compliance, by targeting desired performance outputs (8.2.2). An appropriate investment strategy and clear operational guidelines ensured that the

system functioned well in structures where delegation was formally greater (holding funds).

(h) Key governance features and extent of discretion: type of contribution and instrument matter

A relevant element of the structure for which previous assumptions had not been formulated was the legal entity to which contributions were made. Evidence collected suggested that the extent of discretionary authority of fund managers was greater when funds were set up as independent legal entities. In that case, the fund was a company to all intents and purposes, with the independence and contractual power of such a legal entity. Contributions in the form of a separate block of finance within a financial institution, however, resulted in the fund simply being managed as a distinct stream of funding within the budget of an existing institution. The extent of autonomy of fund managers managing a fund set up as a separate block of finance is more limited. This emerged quite clearly from the comparison of the SME and VC funds in Berlin (7.2.3). Case study research in Berlin showed that the type of contribution and legal arrangement made for VC funds (independent legal entity) enhanced the independence of the fund management. As argued by Wishlade et al. (2016a), it is often the case in Germany that financial institutions were the same as those used to deliver domestic policy, so that CP co-financed an extra source of funding for SMEs, but not a different one. This thesis added nuance to this argument, by examining the impact of different types of contribution on fund management autonomy.

No specific assumptions could be made at the outset on the extent to which the type of instrument (financial product) offered influenced the degree of delegated power. Wishlade et al. (2016a) observed that there was no obvious connection between the type of FI and the selected management structure. In general, this thesis found that the extent of delegation was slightly more marked in the governance of equity instruments, as opposed to loan and guarantee funds. A potential explanation for this was the degree of complexity and technical specialization involved in investment selection in the context of venture capital and equity funding. When investment decisions required specialist knowledge not available internally, delegation was an absolute necessity. The more know-how needed to carry out fund management duties, the greater the extent of tasks and responsibilities distributed to specialist actors. The uncertainty principle and

complexity assumption were confirmed for equity instruments, but not for holding funds.

9.3 Public accountability for FI implementation

This thesis' intermediate aim was to assess how public accountability was secured for FI implementation. The study aimed to offer an empirical application of the public accountability literature to EU CP, analyzing in particular the control and accountability mechanisms and performance frameworks used. The thesis uncovered three main findings in this respect: as assumed, different mixes of control mechanisms were used in each delegation mode, and no substitution effect was identified between *ex ante* and *ex post* tools. On the contrary, monitoring and control were strong across all cases, no matter whether other tools were used to constrain agents' discretion, before the act of delegation. Second, the examination of frameworks to appraise implementation performance allowed a dual situation in which limited information on effectiveness was available at EU level, while such appraisal took place at sub-national level. The focus of accountability frameworks was on 'results' primarily, but 'results' were defined and measured in different ways. Third, managing authorities took primary responsibility for FI implementation, while the practical implementation of monitoring and control was delegated to ILA.

(a) Availability and use of control mechanisms in FI implementation: no substitution effect

According to p–a scholars (McCubbins et al., 1989), other things being equal, principals prefer to constrain the agent's action through structure and process (institutional design) before the act of delegation, rather than relying on control mechanisms *ex post* delegation. The accountability literature examined the tools activated after the act of delegation (discussions, hearings, sanctions, etc.), while the p–a literature considered the full range of mechanisms, before and after the act of delegation. Based on the diversity of delegation modes and on the range of tools available, this thesis examined the full range of mechanisms. It assumed that the mechanisms chosen would vary for each delegation mode. Some p–a scholars (Epstein and O'Halloran, 1994, Bawn, 1997) postulate a substitution effect between *ex ante* and *ex post* control mechanisms. The assumption of this thesis was that, in effect, principals would prefer to constrain agents

before the act of delegation, but no substitution effect would exist between control mechanisms.

The overall assumption of this thesis, based on initial assessment of the available data and existing literature, was that the various delegation modes would adopt distinctive mixes of control mechanisms. Delegation to private agents was expected to disperse authority, and the preferences and interests of public principals were assumed to be distant from those of private agents. Therefore, the private delegation mode was assumed to rely strongly on control mechanisms (especially *ex ante*), to reduce the risk of 'agency drift' in policy implementation. The public delegation mode was hypothesized to rely less on control mechanisms, given the limited dispersal of authority of centralized arrangements and the alignment of policy preferences between public principals and agents. The mixed mode was assumed to combine features of public and private delegation modes.

This thesis found evidence that delegation modes influenced selected elements of the public accountability for FI implementation. Some of the variation in the use of control mechanisms could be explained by the distinct delegation modes. For instance, while contract design and monitoring and control appeared to be constant across all cases, individual elements within these control mechanisms varied. In Tuscany the horizontal nature of contract design could be associated with the heterogeneity of actors involved as funds managers, which required several legal acts to be in place rather than a single contract. Monitoring and control in North East England were influenced by the British performance–management culture, while, among the other control mechanisms, North East England only used incentives on performance. This would suggest that private sector practices were associated with the involvement of private actors through a private delegation mode.

This thesis also found that managing authorities had relatively strong control mechanisms available to ensure strategic compliance and bind the agents' performance to the attainment of specific results, before and after the act of delegation (8.5). In general, the argument that principals (managing authorities) prefer to constrain agents (fund managers) at the outset was confirmed. Managing authorities used contract design extensively in FI implementation to ensure strategic compliance (8.1.1). The general orientation was for managing authorities to set out clear rules in the investment strategy, the fund by-laws and contracts signed with the fund managers. In

particular, the definition of appropriate investment strategies, clear operational guidelines and investment criteria ensured strategic compliance (8.1.2), including in combination with other *ex ante* tools (choice of agent and structure). Furthermore, case study research showed that the provision of sanctions and rewards in contracts could be useful to ensure agents' compliance. Even if some limitations were highlighted (see 8.2.2), incentives and disincentives, if properly designed, influenced the behaviour of agents on meeting policy objectives and performance targets.

In sum, even if managing authorities preferred to constrain the agent's discretion *ex ante*, they relied quite substantially on monitoring, reporting and control *ex post*. The use of control mechanisms both *ex ante* and *ex post* delegation confirmed the assumption that there was no substitution effect between tools. This thesis found that monitoring and control were used all across the cases as control mechanisms, no matter whether contract design and choice of agent/structure had also been applied.

(b) Frameworks for FI implementation performance: 'results' vs 'process procedures'

The public accountability literature assumed the object of delegation to be more easily specified in the private sector, through contracts that set out tasks and minimum performance, than in the public sector, where performance goals are harder to specify and constantly reviewed (Mulgan, 2003). As such, accountability was often focused on the correctness of process and procedures, rather than on the outcomes of the policy implementation (Lupia, 2003). Based on this literature, this thesis assumed private agents to be held accountable primarily 'for results', public ones mostly for 'process and procedures' and 'mixed' agents for a combination of the two.

This thesis found that the content and focus of information collected by the Commission were almost exclusively on the financial management of resources, with the Commission having limited information on the effectiveness of FI implementation. A wealth of information was provided by managing authorities in the annual and final implementation reports and evaluations carried out. The data reported by managing authorities were inherently aimed at assessing the success/effectiveness of FI implementation. For instance, managing authorities provided an indication of the multiplier effect of guarantee funds and, more generally, reported on other measures such as returns and default rates, which indicated the effectiveness of FI (8.4.3). All the funds compared the achieved results to the target objectives. This suggests that the data required for an assessment of performance in FI implementation was already collected and reported by managing authorities.

An indication of the content and focus of the accountability relationships could also be drawn from the evidence on the distribution of responsibilities. What accountability meant was specified in various ways across the cases: in Berlin and North East England, the orientation was for managing authorities to hold fund managers accountable for the end result with no interference in how these results were achieved. Fund managers were entrusted with the qualitative assessment of investment proposals, a task that they could autonomously decide how to carry out. In Tuscany, it was apparent that the orientation towards performance accountability was mitigated by attention to process and procedures. In this case in fact, fund managers executed the procedures agreed upon by principals (managing authorities and ILA) and ratified by the regional council, within boundaries that were clearly defined (7.2). Case study research showed that fund managers appeared to be merely accountable for the process of selection, rather than for the final result of their activities.

Ultimately, the accountability for FI implementation was based mainly on results. However, the Commission was interested more in the financial implementation of the funds (process and procedure) than in their effectiveness. The regional managing authorities embraced a stronger orientation towards implementation performance (results) in the cases analysed. A fully fledged orientation towards accountability for results was evident in Berlin and North East England, whereas in Tuscany, this was mitigated by a stronger orientation towards process and procedures in investment selection. In sum, the focus of the accountability relationship was on 'results' both at EU and at regional levels, but the meaning attached to 'results' varied.

(c) Balance of powers in accountability for FI implementation: managing authorities at the forefront, but several functions delegated in practice

Managing authorities played a primary role in accountability for FI implementation. They were at the forefront of multiple lines of accountability, internal and external. Internally, 'simple' lines of accountability were identified from the fund managers up to the ILA and from these to the managing authority. Externally, these lines expanded and coexisted. Managing authorities were accountable, first to elected political authorities at national and sub-national level (e.g. governments and regional councils). In addition, they responded to central ministries, departments within ministries and the national courts of auditors. Second, managing authorities were held accountable by the European Commission and other authorities at EU level (e.g. European court of auditors). Each of these authorities might require reporting of selected data (Wishlade et al., 2016c). Case study research in Tuscany showed that at least three levels of monitoring were identified: the Ministry of economy and finance, the national court of auditors and the European Commission. This was in line with current knowledge on financial accountability in CP (Davies and Polverari, 2011, Karakatsanis and Weber, 2016, Gloazzo, 2018).

Day-to-day monitoring and control activities were part of the set of functions delegated to ILA; however, the managing authority retained full authority to perform audits at each level and could establish a direct relationship with the fund managers at the control stage. To conclude, the implementation of accountability functions (e.g. regular controls) was often delegated to ILA; however, managing authorities retained full authority over contract design and some aspects of monitoring and control.

9.4 The relationship between governance and accountability in FI implementation

The secondary aim of this thesis was to assess the interplay between governance and accountability in FI implementation. In chapter 6, this thesis analysed the economic and historical context leading to the use of FI as public policy instruments, the rationale for FI use and key governance decisions: selected actors, chosen structures and instruments/products offered. In chapter 7, it examined the implications that key governance choices had for the distribution of responsibilities and relations in FI implementation. In chapter 8, it considered the control/accountability mechanisms and the performance frameworks used in FI implementation. The exploratory nature of this research and the limited literature base of studies on the impact of CP governance over public accountability (Polverari, 2015 being an exception) did not allow for the formulation of specific assumptions about the relationship between governance and accountability.

However, on the basis of the evidence gathered throughout the thesis, the content of the accountability relation was found to vary on the basis of the key governance features analysed in chapter 6. The content was found to vary in particular on the basis of historic/economic contexts, rationale and policy objectives for which FI were set up. This section interprets the various findings gathered in the thesis to assess the relationship between governance and accountability. No specific hypothesis could be formulated on this relationship. Nonetheless, this thesis argues that the context in which FI were set up mattered for both the governance of and the accountability for FI implementation.

As discussed in chapter 8, the analysis of information reported to the Commission showed that the attainment of specific policy objectives, policy development aims in particular, determined the rationale for choosing FI. The logic behind FI use shaped the performance expectations of policy-makers and, therefore, the depth and breadth of information collected for accountability purposes. For instance, the primary aim of regenerating the region through job creation and ensuring a legacy in North East England determined the focus of the accountability mechanisms on the number of jobs created/safeguarded and returns to the fund (8.5). In the same way, the rationale for financing productive investments through FI in Tuscany might explain why FI implementation performance was primarily assessed through fund deployment and the

additionality of investments (8.4.4). In Berlin, the rationale for using FI, especially for VC funds, was to ensure start-up creation and business growth, which determined why the focus of the accountability mechanisms was on the growth effects in the targeted businesses (8.4.4).

The information collected by the European Commission at EU level cannot take these specific rationale into account. Therefore, it is argued, it cannot provide a thorough assessment of FI success. FI effectiveness, it is argued, can only be measured against the underlying policy objectives and the rationale for FI use, which are defined at national and sub-national level and are difficult to ascertain at EU level. This supports the MLG governance literature on the national (and regional) differentiation of CP implementation (Pollack, 1995, Benz and Eberlein, 1999, Bache, 1999, Bailey and De Propris, 2002), emphasizing the need to consider the mediating role of institutional arrangements, governance traditions and development trajectories on the impact of CP.

Ultimately, this thesis found that selected elements of the governance structure influenced how accountability was ensured. This was essentially because delegation to agents was based primarily on accountability 'for results'. Such results were defined on the basis of context, strategies and rationale. Case study research showed that the choice of actor (Berlin) and choice of structure and sanctions (North East England) had specific implications for the attainment of policy objectives and minimizing the risk of non–compliance (8.3). For instance, the choice of an agent involved in regional development – historically and by remit – mitigated per se the risk of non-compliance (ally principle). As shown in survey data (5.3.3) and interviews (7.2), this resulted in a cooperative process in which managing authority, ILA and the public fund managers jointly participated in the definition of the fund strategy and the selection criteria. Nonetheless, controls were still needed by managing authorities. In the same way, the choice of a perceived 'optimal' structure for FI implementation, a holding fund with an ILA mediating between public policy interests and the private mind-set of fund managers, was per se considered a tool to ensure accountability and compliance. Incentives over FI performance represented an additional tool to boost the funds' success, as emerged from the North East England case study.

In sum, the governance decisions taken at the time of setting up the fund influenced how accountability was ensured. As the Berlin managing authority observed (8.1.2), the life cycle of an FI depended on the decisions taken at the moment of the conception of

the fund. The time-window was fundamental for strategic compliance. Principals preferred to constrain the agent's discretion *ex ante* through institutional design choices. If, for any reason, the conditions changed or the initial choices were found not to be well suited, principals could only minimize the risk of non-compliance through *ex post* control mechanisms.

9.5 Contribution to academic literature

The key contributions of this study to the literature are threefold. A primary contribution is that a typical governance structure can be identified for FI implementation. This has two levels of delegation and three actors involved in multiple principal–agent relationships. This study also revealed that governance arrangements with an ILA between the ultimate principal and ultimate agent were perceived as optimal for both governance and accountability purposes. The second contribution to the literature is that managing authorities have quite strong tools to ensure compliance in policy implementation: contract design, and monitoring and control are widely used across the three cases and agents are mainly held accountable 'for results'. At EU level, however, the Commission does not have complete information available to ensure accountability for FI implementation, primarily because implementing actors are held accountable for financial management only. The control mechanisms of the Commission appear weak. The third contribution to the literature is that key governance features influence how public accountability is ensured in FI implementation.

The analysis of the governance of CP has generally focused on the balance of powers between institutions involved in policy-making, dealing with institutions as unitary actors. Studies have analysed the changing role of the European Commission, member states and regions over successive reforms of the structural funds (Sutcliffe, 2000, Bachtler and Mendez, 2007). The degree of discretion of national actors in CP implementation has been highly debated (Marks, 1993, Pollack, 1995, Allen, 2010), as has the mobilization of sub-national authorities and their autonomy vis-à-vis member states (Hooghe, 1995, Jones and Keating, 1995, Jeffery, 1996, 2000). However, little has been said, concretely, about *'which actors, at which levels, will be causally important'* (Blom-Hansen, 2005 p.625) in the administration of structural funds within sub-

national authorities[65]. That claim is supported by Stephenson (2013), who suggests including close-up examination of tasks performed by institutional actors throughout various stages of the policy cycle in the MLG research agenda. This thesis examined the institutional actors that take concrete implementation responsibilities in CP at sub-national level, moving away from the traditional observation of levels of government as unitary entities. The analysis of the actors concretely involved in FI implementation at sub-national level enhances understanding of responsibilities for implementation decisions, the relationships between implementing actors and the extent of the discretion embedded in delegated governance arrangements.

Based on the functions specified over time in the regulations – art. 60 European Council (2006), and art. 125 European Parliament and Council (2013) – managing authorities play a central role in the operation of CP programmes. The organization of OP management activities depends on the institutional arrangements inside the public sector. On this basis, managing authorities can delegate some of their responsibilities to 'intermediate bodies' (Molle, 2007) and other specialist departments within the civil service. Bachtler and McMaster (2008) observed the varied nature of delegated arrangements of CP in Central Eastern Europe. Some managing authorities entrust management/control and implementation duties to, respectively, intermediate and implementation bodies. Some others only delegate implementation functions to intermediate bodies. In the context of FI implementation, the delegation of fund management functions creates an additional level of delegated governance. Delegation to actors outside the public sector gives way to a shift in the governance of CP (Dąbrowski, 2014) and requires strengthened scrutiny (Wishlade and Michie, 2017).

[65] A notable exception being Bachtler and McMaster (2008).

(a) Multiple factors influencing the extent of agent discretion

On the first contribution to the literature, the legal status of the agent was assumed to influence the governance arrangements in each case (a). In its turn, this was assumed to impact on the amount of discretionary authority granted to agents. However, this thesis finds mixed evidence in support of the influence of legal status over governance arrangements and the extent of authority. This is proved by the three cases having similar governance structures. If the legal status mattered, they would operate completely different governance choices and distribute responsibilities based on the legal status of the agent. As expected, the private delegation mode disperses authority by granting autonomy to fund managers in taking investment decisions. However, contrary to expectations, the public delegation mode works in a similar way. The mixed mode, however, is one in which authority is centralized the most in the public sector and limited autonomy is granted to the agent.

Contrary to common expectations formulated in the p–a literature, - see Epstein and O'Halloran (1994), (1999b) - this thesis assumed that the degree of discretion awarded to an agent did not depend primarily on how close the policy preferences of principals and agents were, but that various rationale might influence the degree of discretion granted to an agent. In effect, the evidence shows (8.1.2) that the primary rationale for granting more discretion to an agent is not the alignment of policy preferences. Limited support for the hypothesis of policy proximity influencing discretionary authority was found across the cases. In the public delegation mode, the selection of the agent was at least partially explained by ideal policy positions, namely the pursuit of regional development objectives. In the mixed delegation mode, the choice of agent did not seem to be driven by policy alignment concerns. Finally, in the private delegation mode, the choice of the holding fund manager as agent to the managing authority and ILA in the governance structure was mainly motivated by the expertise and management skills sought. Policy proximity mattered only to a limited extent in FI implementation.

The degree of complexity in a policy area, i.e. the extent of the complexity of policy instruments, is not a primary rationale for granting more discretionary authority to an agent either (Epstein and O'Halloran, 1994, Epstein and O'Halloran, 1999b). The policy instruments hypothesized to be more complex are those delivered through holding fund structures and those offering equity products. This thesis found no causal relationship between the complexity of the structure (holding funds) and the extent of

delegation, but there is a relationship between type of instrument (equity) and the extent of delegation. Also, the delivery structure per se is found to be a direct explanatory factor for the extent of delegated governance. In this respect, the thesis finds that the autonomy of the fund manager was more pronounced in cases where the fund was set up as an independent legal entity rather than a separate block of finance; and effective governance arrangements counter the risk of non-compliance. Incentives and disincentives, if properly designed, influenced the behaviour of agents on policy objectives and performance targets. This supports the conclusions of studies on conditionalities and the role of incentives over compliance in CP implementation (Hughes et al., 2004, Mendez and Bachtler, 2011, Bachtler et al., 2014, Mendez and Bachtler, 2017).

To summarize, policy proximity and complexity in a policy area played a role in combination with other explanatory factors. These were trust (the involvement of the same agent in policy implementation), and the cumulated experience and degree of specialist knowledge of the agent (expertise). The agent's expertise stood out as the primary explanatory factor and one of the most important rationale behind the decision to delegate, which confirms that delegation is a necessary trade-off between authority and expertise (Epstein and O'Halloran, 1994). A minimum degree of discretionary authority is necessary for policy implementation to be ensured (Epstein and O'Halloran, 1994).

At the start of the research, this thesis assumed managing authorities had the primary role of principals vis-à-vis the fund managers (agents), but left the assumption (c) of multiple principals open for testing. This study found that the majority of responsibilities of the managing authorities were entrusted to ILA, which were the backbone of the overall delegated structure. The responsibility of the managing authority was exercised over only a limited part of these functions. ILA, instead, were 'lead principals' to the fund managers. This analysis shows that principals could not be treated as unitary actors and that multiple principals and agents existed in several chains of p–a relations. This supports Moe's research (Moe, 1984, 1987, 1989). In this case, however, the two principals (managing authority and ILA) influenced the same agent (fund managers) without competing with each other, which sets this finding apart from previous assumptions made by Waterman and Meier (1998). ILA did not perform only the role of principals, but also that of agents to managing authorities. This result was especially relevant for the literature on the governance of CP. Molle (2007)

argued that no uniform concept regarding the delegation of tasks by managing authorities had yet emerged. This thesis shows, however, that a uniform governance structure did emerge in FI implementation. That said, it is certainly true that the delegation of tasks from managing authorities was characterized by the high variation of actors involved and the relationships established. Variation of agents (delegation modes) and of ILA (intermediate body, action manager and holding fund manager) brought distinctive configurations to actor relationships.

(b) Strong tools of managing authorities for ensuring accountability for policy implementation

On the second key contribution to the literature, studies of CP focusing on monitoring usually emphasize the role of monitoring committees in ensuring the oversight of implementation in OP. At the same time, it is recognized that in practice the managing authority and intermediate bodies carried out a great many of the monitoring tasks (Molle, 2007). This thesis found that managing authorities played a primary role in the monitoring and control of FI implementation. They were at the forefront of multiple, internal and external lines of accountability. These findings substantially confirm the existing knowledge on financial accountability in CP (Davies and Polverari, 2011, Karakatsanis and Weber, 2016, Gloazzo, 2018) and provide additional insights. Day-to-day monitoring activities were entrusted by managing authorities to ILA. Managing authorities retained the ultimate responsibility for monitoring and control functions, as they could decide to perform additional checks at each level (ILA and fund manager) of implementation.

Avoiding objective drift (agency drift in the p–a literature) through appropriate scrutiny was recognized to be essential for effective delegation, especially when actors outside the public sector were entrusted with implementation responsibilities (Wishlade and Michie, 2017). Strengthened/improved financial management, controls, audits and evaluation were intended to ensure accountability and compliance in CP execution (Bachtler and Wren, 2006, Batterbury, 2006, Davies and Polverari, 2011, Mendez and Bachtler, 2011, Mendez and Bachtler, 2017). Some scholars focused on the control mechanisms (spelled out in the principal–agent literature) and verified their strength in CP implementation (Blom-Hansen, 2005, Bachtler and Ferry, 2013). This thesis merged the definition of accountability mechanisms ('information', 'discussion'

and ‘rectification’ tools) envisaged in the public accountability literature (Mulgan, 2003) with the control mechanisms outlined in p–a studies.

This thesis expected the accountability mechanisms used to ensure compliance to vary in each delegation mode. Regarding the strength of the mechanisms, previous studies had tested the assumption that control mechanisms available at EU level were weak. No hypothesis was formulated on the further levels of delegated governance. The private delegation mode was assumed to rely strongly on control mechanisms (especially contract design), so as to lower the risk of agency drift, because the preferences/interests of a public principal and those of a private agent were assumed to diverge. The public delegation mode was assumed to rely less on control mechanisms, given the limited dispersal of authority in centralized arrangements. It was also assumed to rely less on control mechanisms, given the alignment of policy preferences between a public principal and public agent. It was hypothesized that the mixed mode would combine features of the public and private modes. Finally, this thesis also checked the hypothesis of a substitution effect between *ex ante* and *ex post* control mechanisms envisaged by Epstein and O'Halloran (1994) and Bawn (1997).

This thesis found that the mix of control mechanisms used did indeed vary, but there was no evidence that it varied on the basis of the nature of the actor. Contract design was used across all the cases in combination with other *ex ante* mechanisms in each case. *Ex post* monitoring and control were also used across all cases, but in different ways and very rarely in combination with sanctions and rewards. This confirms McCubbins et al. (1989)’s thesis that, other things being equal, principals prefer to constrain agents’ action through structure and process (institutional design) before delegation takes place, rather than relying on control mechanisms after the act of delegation. This thesis found that, on the basis of information held, principals could choose on which control mechanism to put emphasis, but did not decide based on assessing the full tool-kit. *Ex post* mechanisms (especially monitoring and control) were used all across the cases, no matter whether institutional design (contract design, choice of agent/structure) was also used strongly to constrain agents’ discretion. The hypothesis of a substitution effect between *ex ante* and *ex post* mechanisms was therefore not supported through the evidence offered in the thesis.

In her study on the impact of devolution on accountability, Polverari (2015) argued that the emphasis on the procedural dimension of accountability (the object of

delegation) had remained unaltered after the devolution reforms in Scotland and Tuscany. She further argued that, given the CP orientation towards procedural correctness and spending the funds, the authorities involved in CP delivery were encouraged to focus on financial and procedural accountability at the expense of impacts and performance. FI rationale emphasized the orientation towards results. The involvement of private and partly private (mixed) agents in FI implementation was assumed to trigger a stronger orientation towards accountability 'for results' (Lupia, 2003). On the basis of the public accountability literature, public agents were, however, hypothesized to be held accountable for process and procedures (Mulgan, 2003). This thesis distinguished two levels of analysis in this respect: the EU and the sub-national level.

At EU level, the content/focus of information collected by the Commission was on the financial management of resources (procedural dimension), with the Commission having had limited information on the effectiveness of FI implementation (European Court of Auditors, 2012, European Court of Auditors, 2016, Gloazzo, 2018). At sub-national level, the content and focus of information collected by managing authorities was on effectiveness (performance/results). Some variation across cases was identified: in the public and private delegation modes, the orientation was for managing authorities to hold fund managers accountable for the end result, whereas, in the mixed mode, there was more attention to process and procedures. This thesis found a potential tension between the framework for assessing FI implementation set out by the Commission and the frameworks applied/specified by member states. The frameworks of the member states for assessing FI implementation focused on effectiveness and the attainment of relevant policy objectives (strategic compliance), whereas the focus of the EU performance framework was limited to the use of EU resources. This thesis hence provided a fine-grained contribution to Polverari's argument, by distinguishing two levels of analysis displaying quite different features.

A final remark on the accountability for FI implementation is that, in terms of actor relations, the balance of power leans towards managing authorities. Managing authorities had relatively strong control mechanisms available to ensure strategic compliance and bind the agents' performance to the attainment of specific results, both *ex ante* and *ex post* delegation. The Commission's only tool to ensure accountability at EU level is the annual reporting. This confirms Blom-Hansen (2005)'s claims that instruments are weak and Bachtler and Ferry (2013)'s argument that different tools

have different levels of effectiveness. Earmarking in particular is considered a weak mechanism as it only appraises financial compliance. Similarly, this thesis argues that a fully fledged measure of accountability should take into account the attainment of relevant policy objectives, i.e. the final results, and not only spending.

(c) Governance features shape accountability in FI implementation

The third key contribution to the literature is that the rationale for choosing to implement through FI and the historic/economic context in which these are used influenced the accountability choices made. This thesis found that the rationale and specific policy objectives that FI set out to achieve, e.g. job creation, influenced how the public accountability for the instruments was ensured through the performance frameworks for FI implementation. The context in which FI were set up mattered for both the governance and the accountability of FI implementation. This supported the evidence on the regional differentiation of policy implementation in MLG systems and the argument that FI governance was context driven (Wishlade et al., 2016a, Wishlade and Michie, 2017). It also offered supporting evidence to the still limited literature base on the links between aspects of governance (e.g. devolved arrangements) and public accountability (Polverari, 2015).

To conclude, this thesis has deepened current knowledge on the governance of CP. In particular, it has provided a fine-grained account of the actors, responsibilities and authority involved in policy implementation within sub-national authorities. Ultimately, what mattered for the governance of FI implementation and the extent of the discretionary authority of fund managers was not the legal status of the delegated agent, but the economic, historic and administrative context that shaped key governance decisions. In particular, a model with three layers of delegated governance was commonly applied in FI implementation, which revealed how an optimal governance and accountability structure ought to be. On the basis of the evidence offered, the distinction between delegation modes brought conceptual clarity to the agents involved in FI implementation, but was not associated with a marked differentiation in the governance modes. In the same way, delegation modes were not the single determinant of the accountability mechanisms used. As in other areas of policy implementation, the delegated governance of FI implementation was characterized by a trade-off between authority and expertise. Managing authorities had to give away part of their functions and responsibilities, because they did not have

either the time or the specific know-how to deal with a specific area of policy implementation. Control mechanisms were used before and after the act of delegation to ensure strategic compliance. In sum, delegation and control were defining elements of the governance of and accountability for FI implementation.

9.6 Contribution to policy debates

This thesis contributes to policy in two ways: first, by providing new evidence for debates on the future use of FI, highlighting in particular discrepancies in the rationale for FI use; and second, by supporting the argument that appraising FI implementation should take the economic and historic context into account.

(a) Clear rationale, stronger capacity and strengthened regulatory frameworks are crucial

The 2007–13 programming period had been the first in which separate provisions on FI were made in the regulations. The use of repayable assistance had also been largely encouraged. The European Commission, through DG Regio, Commissioner Creţu and the President Juncker portrayed FI as an opportunity to achieve a more performance–oriented, flexible policy with focused investments, alongside the general objective of making a more sustainable use of EU resources. On the other side, the European Parliament (through its Regi and Budgetary commitees) and European Court of Auditors were concerned about the actual effectiveness of such instruments and quite vocal in asking to report more information on the actual outcomes of FI.

The budgetary recommendations raised by ECA and the Parliament in relation to this period have shaped the legislative package for 2014–20, which improved the legal framework and reporting requirements in several respects. First, through the obligation to carry out an ex-ante assessment to identify the exact funding gap; second, through phased 'interim' payments to avoid 'parking' funds into FI, third, through more stringent rules on MC&F to have a better understanding on these amounts, fourth, with simplified rules on State aid to overcome their low uptake and, last, via the introduction of off-the-shelf instruments to encourage FI use. Importantly, FI could contribute to any thematic objectives in 2014–20 (2.3.3), which led to the expansion in the use of FI to many more policy areas and funds. Stronger administrative support had been provided (e.g. through FI-Compass). For 2021–27, the Commission has proposed to streamline the use of FI and to reduce the number of programmes. The Commission will set up a

new, centrally managed fund (InvestEU), to which member states can transfer part of their CP resources on a voluntary basis (European Commission, 2018). Under all five scenarios envisaged in the Commission's reflection paper for the future of the EU budget, the use of FI is set to increase (European Court of Auditors, 2018)[66].

So far, the debates on the future of FI have focused on several themes. These are: a. the confirmed need for grants to deliver CP, given that FI cannot substitute for grants entirely; b. the necessity of clear and stable rules; c. the need for clarity in a context of expansion of the range of FI from different sources; and, d. the potential impact of FI on administrative capacity (Wishlade et al., 2018). Previous research on FI also observed that the lack of administrative capacity was an obstacle to the use and implementation of repayable assistance (Wishlade et al., 2016a, Van Ginkel et al., 2013, Wishlade et al., 2016b). This thesis contributes to these debates in several ways.

In terms of rationale, this thesis found that different rationale for FI use were adopted across the cases. Wishlade et al. (2016a) found that the narratives surrounding FI implementation on the sustainability, efficiency and enhanced project quality were often absent in the actual implementation 'on the ground'. Among these, only the sustainability element was clearly considered in the three cases analysed. In fact, managing authorities had put particular emphasis on the sustainability of repayable assistance as a rationale for FI use. The compulsory requirement in 2014–20 to carry out an *ex ante* assessment that verified the existence and scope of a funding gap – Art. 37 (2) of European Parliament and Council (2013) – would suggest the prevalence of this as a rationale for FI use. Since grants could also be used to address gaps in access to finance (Wishlade and Michie, 2017), *ex ante* evaluations might be required in the future for implementing CP through grants too. This would overturn the way in which EU policies are currently delivered. Case study research showed that the existence of a funding gap and the possibility of financing productive investments through FI were also primary rationale for FI use.

Wishlade et al. (2016a) noted that FI as an alternative delivery mechanism to non-repayable support and FI addressing market imperfections in the availability of capital were not incompatible rationale. However, they resulted in complex challenges and potential tensions in practice. This thesis adds nuance to this point, by arguing that

[66] https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en. Last accessed 29/04/2019.

various policy orientations, directly and less directly supported by the European Commission, might actually clash. In particular, it appeared hardly possible to reconcile the view that saw FI and grants as alternative instruments with the idea that a specific rationale should be in place for choosing FI. On the basis of the evidence in Chapter 6, considering FI as alternatives to grants seemed unrealistic as FI-specific rationale and the attainment of specific policy objectives through FI provided the foundations for their use. Also their accountability was intertwined with the rationale for which they were chosen, which might substantially differ from fund to fund and across OP.

The administrative capacity of the civil service and the specialist knowledge and expertise of all actors involved have been reported as crucial factors for success, in this thesis's case study research. The study considered cases with long-standing experience of incorporating ERDF funding in FI, and which were also considered good performers. On the basis of the evidence gathered, this thesis argues that initiatives (e.g. FI-Compass), to build the capacity internal to the public sector should be encouraged and expanded. This thesis also observes, however, that the availability of FI with the necessary expertise and suitable experience required contextual conditions to be in place. These ranged from the well-known concept of eco-systems for financial instruments (Mason, 2007, Nightingale et al., 2009, Wiltbank, 2009, Cowling, 2012) to a long-term strategy that allowed the build up of expertise over a longer period of time (Van Ginkel et al., 2013, Michie et al., 2014).

On the need for a clear and stable regulatory framework, survey results and interviews with administrators showed that the vague regulatory provisions for 2007–13, belated guidance and changes in the regulations proved a challenge for the success of implementation. The regulatory framework also affected the way in which fund managers were selected: in Berlin a national public law allowed the *IBB* to be commissioned directly, while in Tuscany open tender procedures started to be used because the regulations provided for it (8.1.2). In particular, FI were treated in the same way as grants in the legal framework set out by the Commission (European Court of Auditors, 2012). However, this thesis observes that a standardized approach to grants and FI did not take into account the fact that FI had specific rationale and required distinctive governance arrangements. Flexibility and tailor-made solutions were key (Michie et al., 2014). It is interesting to note that, while FI were sponsored as tools having specific rationale, they were not actually treated in a different way from grants. Evidence from case study research shows that the responsibilities of managing

authorities were the same for grants and FI (7.1.1). Previous research also observed that no separate measure for FI was available or used to measure compliance in the financial management of FI (Gloazzo, 2018). This clashed with the stance adopted by European Commission that set them aside and supported the idea that they were better tools to implement public policy.

(b) Evaluating regional variation in FI implementation is fundamental

This research found that the decision to use FI to achieve certain policy objectives had several motivations, frequently distant from the mainstream view. Therefore, this thesis argues that a better understanding of how FI were implemented by national and sub-national authorities was beneficial for CP design and to strengthen its accountability. FI were depicted as 'better tools' than grants by the European Commission, primarily in 2007–13. However, at that stage, that was not sustained by a strong empirical evidence and multi-country research. Knowledge of FI implementation performance started cumulating towards the end of the 2007–13 period. Therefore, this thesis argues that more studies should be carried out that take into account the various regional approaches to and experiences of FI implementation. This supports what has been recommended in other policy studies (Wishlade et al., 2016c). This would enhance the current knowledge of how FI work and better FI as policy tools. That is what this thesis aimed to do.

The case studies showed that distinct regional development trajectories could be supported through similar policy tools, provided that they were adjusted to local needs. The key policy lesson was that an assessment of the success of regional development strategies had to take into account the rationale for using FI, the historical and economic context in which these instruments were used and the capacities to manage such funds. This supports current evidence that the use of FI might be primarily motivated by economic development rationale – i.e. addressing the finance gap – rather than policy design ones, i.e. FI as alternative delivery mechanisms to grants (Wishlade et al., 2016a). While recognizing that such an exercise would be difficult to carry out at EU level, there is no doubt that the information held by the Commission should be strengthened. This thesis' survey results shows that evaluation should include key indicators to assess FI performance (revolving factor, default rates) and improve existing indicators on MC&F and private funding. However it argues on the importance to evaluate FI against the policy aims that they are intended to achieve.

To conclude along the lines of an argument put forward by the European Court of Auditors and related literature (European Court of Auditors, 2012, European Court of Auditors, 2016, Gloazzo, 2018), this thesis urges more and qualitatively better data to be collected on measures of implementation specific to FI (e.g. the default rate). It urges appraisal of the implementation of regional FI in their economic and historic context (Wishlade and Michie, 2017). These two objectives could be achieved in two ways. First, the European Commission should set higher standards, demand more and qualitatively better data, clarify the requirements and provide clear guidance at the outset. Better rules and a clear framework for FI implementation would help build experience inside and outside the public sector, so that each can tailor an optimal mode of governance to their needs and on the basis of their experience. Second, more within-case and cross-case studies are needed to assess the success of FI in their own contexts and to offer examples of good practice in the governance of and accountability for FI implementation.

9.7 Future research

The present research examined the governance of and public accountability for CP. It analysed in particular the institutional design and performance frameworks for FI implementation. The research faced several challenges: first, there was a limited literature base, which required examining both academic and the wider policy studies; second, the restricted data availability and poor quality of available data required collecting new data for which no benchmark was often available. This affected the research design and limited some of the quantitative findings from the survey to descriptive evidence. Although there were challenges in researching an underexplored area of studies, it was possible to draw out innovative insights on CP governance through a mixed-methods research design. The preliminary desk research on the data published in the summary reports allowed the identification of patterns of delegation – delegation modes – and a first selection of potentially interesting countries to research. This was validated by a literature review on varieties of capitalism (Hall and Soskice, 2001). The exploratory survey made it possible to carry out a scoping exercise on FI implementation across the selected countries, to refine the research questions and make a justified selection of typical cases. The case study research then compared countries with different delegation modes, and unconvered the variation in governance and accountability practices for FI implementation, as well as the policy implications of the introduction of a distinct new strand in CP governance.

This thesis's research design was conceived to ensure validity and to minimize the risk that survey and interview respondents would interpret concepts in different ways. The primary data have been triangulated with data drawn from relevant policy documents and cross-checked for consistency. The research findings have the potential to be generalized to cases with similar delegation modes. More research is needed to fine-tune the research design further and to uncover divergent or convergent findings within delegation modes. The research design already has the potential to be replicated in countries with similar delegation modes. But it also would be interesting to consider extreme cases, e.g. cases where delegation occurs purely to private actors, with no previous involvement in the management of public funds. Also, it would be meaningful to compare the experience of countries with a long-standing tradition of ERDF-co funded financial instruments (such as Germany, Italy and the UK) with that of less-experienced countries, such as Central and Eastern European ones.

Some of the key findings developed in the thesis point to the role of institutional set-up. The long-standing involvement of certain actors as fund managers (trust) and the expertise of the agent are key factors for success in the cases considered. Both elements require time and vision. Countries with weaker administrative capacities, less developed private markets and less mature eco-systems for FI implementation struggle with the challenges of setting up and administering repayable funds. Applying the research to such different contexts is a crucial step for a fully fledged examination of governance and accountability patterns in FI implementation across the EU. A direct comparison between more developed/experienced regions (the cases considered in the thesis) and regions that are catching up, where FI experience is in its early stages, is highly needed to advance further the current state of knowledge of the new modes of delegated governance.

Beyond multi-country variation, it would certainly be interesting to replicate the research within the same countries, uncovering for instance the variation in implementation modes in other regional case studies within Germany, Italy and the United Kingdom. Furthermore, when the results of the 2014–20 programming period start to be finalized it would be meaningful to expand this research over the two programming periods, to assess the occurrence and potential extent of changes in the governance and accountability of the cases considered. Without a doubt, more research is needed in this area, to have a better understanding of the implications that delegated modes of governance have for CP. Shared knowledge may encourage countries with

limited experience to adopt FI. This is particularly relevant, since the EU and Cohesion budgets are set to diminish in the future. Using public resources in a more sustainable way is an objective of the policy agenda that is set to stay, which is confirmed by the plans to increase allocations through FI in 2021–27 (European Court of Auditors, 2018). In sum, building a critical mass of knowledge on how FI work in practice and the innovations they bring to the governance of CP not only would provide insights, but is also necessary to assess the full implications for the EU budget and the governance of EU policies.

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Interviews

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BE4 2017. Interview with the fund manager of the SME funds - ERDF OP *Land* Berlin 2007-2013, 09/03/2017.

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Annexes

Annex I

Key survey data

Table I | Survey list and key data

Version	Dates	N. target recipients	N. questionnaires sent = funds	N. questionnaires returned	N. returned compared to n. funds offered in region	Regions covered
English	25/07/ – 31/08/2016	13	66	11	5/9	North East England
					1/1	Northern Ireland
					3/8	Scotland
					2/2	Wales
Italian	24/10/2016 – early 2017	17	76	16	1/1	Abruzzo
					2/5	Emilia-Romagna
					1/11	Lazio
					1/4	Molise
					4/4	Piemonte
					1/3	Sardegna
					5/5	Toscana
					1/1	Umbria
German	07/11/2016 – early 2017	16	41	11	5/5	Berlin
					1/1	Hamburg
					1/1	Rheinland-Pfalz
					2/3	Thüringen
					2/2	Schleswig-Holstein
		TOTAL				
		46	183	38		

Source: own elaboration.

Annex II

Interviewee abbreviations

MA: managing authority

IB/AM/HFM: intermediate body/action manager/holding fund manager

FM: fund manager

Interview questionnaire

Context

ALL: Can you describe your involvement in the management and implementation of the funds?

Actors

MA, IB/AM/HFM: Was there a specific reason for involving the selected financial institutions as fund managers?

MA: Were fund managers directly appointed or publicly procured?

Structures

MA: Was there a specific rationale for the choice of the structure (holding fund, specific financial instrument)?

MA: Was there a specific reason for (not) choosing a holding fund/specific fund?

Governance arrangements

MA, IB/AM/HFM: Can you please sketch out the structure for all actors involved in the management and implementation of the funds (actors involved, structures for their participation, frequency)?

ALL: Specifically, what is your role?

MA: Can you explain your choice in terms of contract design?

MA, IB/AM/HFM: Were rewards and sanctions envisaged? Were they used?

Distribution of responsibilities

MA: Can you please sketch out the tasks and responsibilities retained and those delegated to the intermediate body/action manager/holding fund manager and the fund managers?

IB/AM/HFM and FM: What are your main tasks and responsibilities in the management and implementation of the funds?

MA, IB/AM/HFM: Do responsibilities differ on the basis of the type of fund?

ALL: How do tasks and responsibilities relate to those of other actors involved?

MA: In what way did you ensure that fund managers complied with the OP objectives in their activities?

ALL: What is the overall balance of responsibilities of all actors involved in the management and implementation of the funds?

IB/AM/HFM and FM: Are you involved in defining investment selection criteria?

ALL: To what extent are you (FM)/ the fund managers (MA/IB/AM/HFM) autonomous in taking investment decisions?

FM: Do any actors intervene in the investment selection process?

MA: What is your relationship with the European Commission?

Monitoring and control

MA: In what ways (measures) did you ensure the monitoring and control of fund managers performance?

MA, IB/AM/HFM: In what ways is it ensured that the commercial interests of the fund are balanced with the FI rationale/public policy objectives?

FM: How do you perceive your role in a context where commercial interests of the fund shall be balanced with the FI rationale/public policy objectives?

ALL: How often is reporting required? How often are meeting held to monitor fund managers' activities?

Relations

MA: Do you have a direct relationship with the fund managers?

IB/AM/HFM: Do you have a direct relationship with the MA and the fund managers?

FM: Do you have a direct relationship with the MA, intermediate body/action manager/holding fund manager?

FM: Do you have any direct relationship with the other fund managers?

ALL: How would you define these relationships (structured/unstructured, formal/informal)?

Other factors

ALL: Do (administrative) capacity factors influence FI implementation? In what way?

ALL: Do political actors influence FI implementation? In what way?

ALL: Do other stakeholders influence FI implementation? In what way?

ALL: To what extent do networks influence FI implementation?