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REPORT

NEDERLANDSE FINANCIERINGSINSTELLING VOOR ECONOMISCHE ONTWIKKELING (NFEO)

A VIABILITY ASSESSMENT

ACKNOWLEDGEMENTS

This report is a synthesis of the analysis, insights, and ideas of many individuals in the public and private sectors in the Netherlands. It was prepared inter alia at the invitation of VNO-NCW. The team from Oliver Wyman and De Brauw Blackstone Westbroek is grateful to all who contributed their time and effort to provide guidance and support in the writing of this report. We particularly would like to thank interview partners across government, industry and academia listed in Appendix J. This report builds on the paper written by Jeroen Kremers at the invitation of the Committee on Economic and Social Affairs of the Economic and Social Council, and provides detail on analyses and recommended results. The policy brief and report should serve as a starting point for the discussion to create NFEO. It is not intended as a lobby exercise. We would like to invite others to join the debate on the merits of NFEO and how such an institution can be best implemented.

AUTHORS

The views expressed in the policy brief and report are the responsibility of Oliver Wyman and De Brauw Blackstone Westbroek. Oliver Wyman and De Brauw Blackstone Westbroek have jointly written the following sections of the report: Executive summary, Introduction, 11.1. Overview of Implementation themes, 11.2. Indicative timelines.

Oliver Wyman is the sole author of the following sections of the report: 1. Mandate, 2. Institutional model, 3. Target operating model, 5.1. Governance – International practices, 6. Alternative portfolio structures, 7. Financial implications, 8.1. Prudential supervision – International practices, 10.1. Proposed end-state – Business and economic model, 11.3. Governance implementation, 11.4. Operations implementation, and the Appendices.

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EXECUTIVE SUMMARY

The Netherlands is one of the few countries in the European Union that does not have a broad spectrum public bank devoted to economic development – or a National Promotional Bank/Institution (NPBI), as we will call it for the purpose of this report. Today, the government offers a range of promotional schemes managed by three predominantly publicly owned banks and several other public entities. The Netherlands is now considering creating an NPBI with a broad mandate.

WHY AN NPBI IS NEEDED?

Development banking in the Netherlands is fragmented across three main entities - the Bank Nederlandse Gemeenten (BNG), the Nederlandse Waterschapsbank (NWB) and the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO) - and a number of governmental promotional schemes, some of which are managed by the Rijksdienst voor Ondernemend Nederland (RVO).

> *"A broad spectrum promotional bank focused on strategic investments could function as society's financing back office. Such an institution would be able to mobilise funding from private institutions such as pension funds and insurance companies"*
>
> **Cees Oudshoorn, General Director, VNO-NCW**

This fragmentation makes it difficult to offer expertise and improve access to financing and capital to those sectors in the Netherlands which have a need for it. There is evidence of un-met financing demand for small and medium-sized enterprises (SME) and innovation, energy and climate financing and international investments and exports, with government support lagging behind European norms and domestic ambition.[1] Moreover, fragmentation is creating operational and funding inefficiencies: banking is a "scale business" with high fixed costs, and therefore fragmentation increases (unit) operating costs and leads to an inefficient allocation of funding since each entity has an interest in directing money to its own borrower class. We see six key benefits of consolidating this landscape, which would help to overcome these challenges:

1. **Resolve fragmentation:** Better coordination between promotional activities in the most comprehensive manner. This will reap synergies between existing activities within institutions (e.g. alignment between promotional schemes offered through RVO), within industries (e.g. coordination of international development and export schemes for SMEs between FMO and RVO) and between industries (e.g. export finance solutions to allow SMEs extend their reach and grow) to increase impact.
2. **Bundle expertise and advocacy:** Scattered expertise around various promotional activities can be brought together to improve clout and address a demand for advisory services. Key functions like risk management and treasury as well as financial structuring can be moved to best-in-class, and scale is created to allow for high quality research and advocacy on promotional activities. In addition, we have observed in other consolidated NPBIs that it becomes easier to attract expertise and high quality personnel from the private sector.

[1] Refer to Section 1 for further sources regarding the market challenges described.

3. **More impact:** Development of more integrated financing solutions by increased flexibility to deploy all available instruments (financing, direct investment, guarantees) and allowing trade-offs around what instruments can best be offered in which situation without biases. Also such a combined mandate would allow a focus on *structurally resolving* the underlying reasons for market failure, e.g. through establishing platforms or closing information gaps where they occur.
4. **Financial benefits:** Synergies of scale and funding are estimated to reduce cost by approximately €120 MN annually, partially depending on the extension of a state guarantee. These funds will be beneficial for (national and local) government finances and can be reinvested in promotional activities and levered to attract significant further private sector co-investment. Also, consolidation would ensure adherence to capital constraints due to complementary balance sheets between the entities in terms of capital and liquidity, freeing up about €2 BN of capital on combination. The addition of free synergy benefits and the possibility to divest social housing can bring total free capital to €3.2 BN over the next 5 years.
5. **Strengthen governance and transparency:** Defragmentation would increase transparency by providing a focal point for scrutiny of the government's role in development finance, ensure it remains rigorously focused on market failure and avoid crowding out the private sector. Also, it would be easier to ensure sound and controlled business operations across promotional activities in the Netherlands, in line with best practice internationally.
6. **Central counterpart for EU initiatives:** Improved access to EU and international funds by creating an obvious national contact and counterpart for European partner organisations.

WHAT WOULD ITS STRUCTURE AND MANDATE BE?

From different constellations investigated, we believe the most effective way to achieve these benefits is to combine the current entities – BNG, NWB, FMO and selected schemes – to create one Dutch NPBI, the Nederlandse Financieringsinstelling voor Economische Ontwikkeling (NFEO). This would bring together current promotional activities under one roof, avoiding overlaps and allowing mobilisation behind gaps in current activity. Although examples of more sector-specific setups exist, with entities focusing on one or more of the arms mentioned in e.g. the UK, these models fall short in terms of achieving the full financial and non-financial benefits mentioned above. We argue that such a split end-state should not be the ambition level for government action in this area.

> *"The public financing instruments for SME/innovations, energy and climate, and international exports and investments are hampered by fragmentation. A new public financial institution encompassing and enhancing these instruments could be a huge improvement, and help reap synergy benefits between these fields. Provided the institution's mandate and governance is rigorously focused on market failure, the institution will be additional to the market and well-placed to partner with the banks."*
>
> **Koos Timmermans, Member and Vice-chairman of the management board, ING**

The proposed consolidated set-up would not require additional equity to be contributed by the state. The current balance sheet makeup of the various entities is inefficient, as it creates a lot of trapped capital and to get to a leverage ratio of 3% BNG and NWB have been forced to commit to retain €1.2 BN over the coming years. If the entities are consolidated, the combined balance sheet would have a CET1 ratio of 26% and leverage ratio of 3.4%, which means that there is €0.8 BN of free capital above reasonable minimum constraints of a 20% CET1 and 3% leverage ratio. Thus compared to the current structure a total advantage of €2 BN is created. Free synergy benefits over the next 5 years and the possibility to divest the social housing portfolio could create a further €0.5 BN and €0.7 BN of free capital respectively, bringing total free capital to €3.2 BN. The exact capacity for lending this amount could generate is dependent on the risk associated with that lending, but if an RWA density of 66% is assumed this would create more than €24 BN of lending capacity for the combined entity. If we include partnerships with the EIB, crowding in from the private sector, and a transfer of some energy subsidy funds to financing loans, we feel comfortable that more than €100 BN of financing capacity can be generated.

NFEO should play a complementary role to the private sector, focusing only on addressing market failures. This mandate should evolve over time, as new market failures arise and others cease to exist. NFEO aims to be a professional financial institution, not a government department. Strong and disciplined governance will need to be in place to ensure adherence to this mandate, as well as regular internal and external evaluation of the institution’s activity spectrum. A strong central research function within the institution should facilitate this evaluation process.

Given the current promotional landscape, NFEO would be structured to reflect a focus on three arms of activity (Small and Medium-sized Enterprises and Innovation, Energy and Climate Financing, International Investments and Exports) which are brought together under one roof in a federated model to ensure effective cooperation, while ensuring sufficient autonomy.

HOW COULD IT BE SET UP?

NFEO could be organized in the legal form of a Dutch public limited liability company; an N.V. The shares of NFEO could be owned by the current shareholders of the constituting entities, with the Dutch State as the majority shareholder.

Separating BNG’s and NWB’s social housing activities is recommended. Although undeniably socially useful, the overlap of social housing with the other arms within NFEO is limited, and excluding it would bring the size of the institution proportionally more in line with international practice. Private sector investors are already investing in social housing – sometimes at cheaper rates than BNG and NWB – and bundling these activities would increase attractiveness for private or institutional investors.

In terms of governance NFEO should strike the right balance between, on the one hand, a professional financial institution, operating at arm's length of the government, in order to avoid being considered a captive government department for EMU consolidation purposes, and, on the other hand, sufficient influence of the government on NFEO's policy.

NFEO should be backed by a guarantee from the Dutch State, in line with many promotional banks internationally, and as currently already in place for FMO. This would replace the implicit guarantee which arguably exists already for BNG and NWB and, given a significant portion of assets is already guaranteed, would not fundamentally alter the risk profile of the state. An explicit guarantee will make promotional banking cheaper due to funding benefits.

Generally, NPBIs do not impact the state’s balance sheet. The state guarantee would not be included in EMU debt as it is considered a contingent liability. Nor would the debts of NFEO be included in EMU debt provided the governance and operations of NFEO are structured in a manner that is sufficiently independent from the government and thus avoids that NFEO becomes a captive financial institution.

Including parliamentary support for the plan, the first steps in establishing NFEO – namely, incorporation and establishing the governance of the NFEO group and start of integration, could be achieved in 4-6 months. The second step, bringing FMO, BNG, NWB and the schemes under one roof, could be completed in another 6 months. Integrating the business could be achieved within a further 12 months.

* * * * *

All in all, we consider the establishment of a broad-spectrum NPBI viable and believe it is legally, operationally, and financially feasible. We believe the government should aspire for a comprehensive and high quality solution to the long list of coordination problems and inefficiencies in the current promotional landscape by establishing NFEO as consolidated NPBI.

The report should serve as a starting point for the discussion to create NFEO. We would like to invite others to join the discussion on the merits of NFEO and how best such an institution can be implemented.

INTRODUCTION

Development banking in the Netherlands is fragmented across three main entities and several governmental promotional schemes, some of which are managed by the Rijksdienst voor Ondernemend Nederland (RVO). The Bank Nederlandse Gemeenten (BNG) primarily finances public sector entities, social housing corporations and health care institutions. The Nederlandse Waterschapsbank (NWB) predominantly lends to social housing corporations, water authorities, municipal authorities and healthcare institutions. The Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO) provides loans and advisory services to private sector clients in developing countries with a focus on financial institutions, energy companies and agribusinesses.

"As a result of fragmentation in the Netherlands, it can be more of a challenge to provide technical assistance (e.g. structuring investment platforms) from the European level"

"A broad spectrum National Promotional Bank establishes credibility and could be a catalyst for investments"

Benjamin Angel,
Director 'Treasury and financial operations', European Commission

Discussions concerning the creation of a Nederlandse Financieringsinstelling voor Economische Ontwikkeling (NFEO) were initiated by the Ministers of Economy and Finance when they commissioned a position paper from the Netherlands Investment Agency (NIA). The paper[2] argued for transforming the NIA into a new National Promotional Bank/Institution, inspired by the German Kreditanstalt für Wiederaufbau (KfW) but attuned to the Dutch economy and leveraging best practices from other Promotional Banks internationally. This was reinforced by the European Commission's 2015 recommendation that countries without a broad NPBI should create one,[3] as for example Croatia and Portugal have recently done.

This report, prepared by Oliver Wyman and De Brauw Blackstone Westbroek, explores the development of NFEO. Its aim is to explain how such an entity should be established and to make a *prima facie* case for it (which should be subject to subsequent due diligence). The majority of stakeholders we interviewed in the process of elaborating this report agreed that the Netherlands would benefit from a broad spectrum institution devoted to promoting economic development.

This report outlines a mandate for such an entity and assesses alternative institutional models. For the preferred model, it then suggests a governance structure and describes the expected financial implications, building on best practices from NPBIs internationally. The final section provides a potential roadmap for implementation. The analyses and recommendations are based on public, outside-in information and interviews with more than 70 stakeholders across government, industry and academia (refer to Appendix J).

[2] Nederlands Investerings Agentschap voor EFSI: Opstart en verdere vormgeving, NIA, October 2015

[3] "Working together for jobs and growth: The role of National Promotional Bank/ Institution (NPBIs) in supporting the Investment Plan for Europe", European Commission, July 2015

1. MANDATE

1.1. OVERARCHING MANDATE AND STRATEGIC GOALS

The total or "social" benefits of some endeavours far exceed the private benefits to those undertaking them. The construction of infrastructure is a classic example. Yet, in a purely commercial market, the cost of financing these endeavours must be paid for from the private benefits alone. Such endeavours thus receive less than the socially optimal amount of funding. State-owned NPBIs aim to address such market failures.

"The governance of NFEO should be convincing and guarantee strict dedication of this new institution to alleviating market failure. This means its activities will be additional to the market, moreover it will strive to help create market solutions. In this sense, NFEO would be best in class."

Jarig van Sinderen,
Chief Economist, ACM

Several entities already operate in the Netherlands to address such market failures (refer to Appendix C for a list of promotional schemes). The proposed NFEO will consolidate their mandates and achieve the benefits arising from improved coordination and scale. Over time, this mandate can evolve from this starting point as new market failures arise, and others cease to exist.

Based on this broader mandate, a set of high level goals and principles should guide NFEO's activities. Looking at NPBIs internationally, we observe similar goals for these institutions, mostly related to establishing a clear remit – complementary to the private sector – and ensuring financial stability. Table 1 provides an overview of broad goals typically specified by NPBIs, which then shape the spectrum of activities that they take on.

TABLE 1: TYPICAL OVERARCHING GOALS OF NPBIS

OBJECTIVE		DESCRIPTION	EXAMPLES
1	ECONOMIC DEVELOPMENT	NPBIs typically have an objective of economic development (e.g. growth, company and/or job creation, company survival)	• ICO (Spain): to promote economic activities contributing to the growth and development of the country, while improving wealth distribution
2	REGIONAL DEVELOPMENT	Some NPBIs aim at developing certain regions within their country or providing development aid to third countries for their economic development	• Bpifrance (France): Works in collaboration with regional authorities to develop financial solutions adapted to territorial specificities • KfW (Germany): DEG and KfW Development Bank finance development cooperation projects and programmes around the world on behalf of the German Federal Government to combat poverty and protect the environment
3	ENVIRONMENTAL PROTECTION/ SUSTAINABILITY	Many NPBIs have an objective to further develop environmental protection	• KfW (Germany): "Performing promotional tasks, in particular financings, pursuant to a state mandate in […] environmental protection" • GIB (United Kingdom): "The green purposes are (a) the reduction of greenhouse gas emissions; (b) the advancement of efficiency in the use of natural resources; (c) the protection or enhancement of the natural environment; (d) the protection or enhancement of biodiversity; (e) the promotion of environmental sustainability."
4	SOCIAL IMPACT/ FINANCIAL INCLUSION	Some NPBIs have social goals, e.g. financial inclusion, reduction in inequalities	• Nationale Hypotheek Garantie (Netherlands): provides guarantees for mortgages to promote a sustainable and favourable climate for home ownership
5	FINANCIAL STABILITY/ COUNTERCYCLICAL ROLE	NPBIs can play a countercyclical role during the downswing of the cycle given the market's volatility, the lenders' risk aversion to some sectors/segments and the potential procyclical effects of prudential regulation	• Finnvera (Finland) has created new countercyclical loans and guarantees helped nearly 600 enterprises overcome financial difficulties caused by the 2009 recession
6	FINANCIAL VIABILITY/ SUSTAINABILITY	Well-governed NPBIs generally have some financial objectives to ensure that they are viable in the long term • General objectives of minimum profitability (e.g. RoE) • More detailed objectives (e.g. in strategic plan)	• BDB (Bulgaria): Law includes profitability as one of its key principles • BBB (United Kingdom): mid-term objective set against weighted nominal return on gilt

Appreciating the need for a clear focus on market failures and in line with the international practice, we propose the mandate of NFEO should be guided by at least the following principles:

1. Promote national and regional economic development

   NFEO should promote the economic development of the Netherlands as well as regions or countries in need for development worldwide by offering products and services to public and private parties where commercial market participants are not willing to do it alone. Products can be designed to serve the needs of certain client groups (e.g. SME) or to target certain developmental goals (e.g. innovation, sustainability or infrastructure).

2. Focus on areas of observable market failure

   This would require NFEO to solely focus on segments and sectors that are underserved by commercially oriented financial institutions, i.e. which are acknowledged as areas with a market failure. We do not envision a role for NFEO on the commercial market, like for example KfW IPEX bank has for project- and export finance for large companies in Germany.

3. Play a role which is complementary to the private sector (i.e. avoid crowding out the private sector and incentivise private sector investment by shifting the risk / return profile of investments)

   NFEO should play a complementary role to the private sector as private investment will be vital to augment the efforts of development finance - its activities should not crowd out any commercial entities from offering their products and services. In fact, NFEO should play an important role in attracting further investments from the private sector by developing joint solutions with commercial market participants wherever possible, i.e. by shifting the investment risk-return profile with flexible capital and favourable terms to overcome the problem of low returns relative to high real and perceived risks that limits private investment.

4. Operate within the limits of financial sustainability (i.e. conduct promotional activities at a level which is financially viable)

   NFEO should not seek to maximise profitability but aim for a level of profitability which enables it to fulfil its promotional objectives while remaining financially viable. Its targeted RoE should be in line with other National Promotional Banks/Institutions. Average RoEs from 2010-2015, for major European promotional banks range from 1.3% to 10.6%, with a group average of 6.0% (see Appendix D for further details).

> *"Leadership and action are needed from The Hague now in supporting startups, scale-ups, innovative projects and energy sustainability. Otherwise we miss a big chance for jobs and economic growth. The market cannot do it alone. Certainly not in sectors like high-tech where time to market can be long."*
>
> Staf Depla,
> Alderman Eindhoven and
> Chairman of Finance Committee
> VNG

Strong and disciplined governance will be required to ensure adherence to these guiding principles, as will an operational model which keeps NFEO's management at arm's length from the government. As part of this, NFEOs mandate and business activities should regularly be evaluated (internally and externally) in order to ensure that these remain targeted at sectors and segments that experience a market failure. This requires that activities which no longer serve to correct a market failure have to be stopped, whereas new activities may have to been taken on. See also section 5.

1.2. TARGETED MARKET FAILURES

NFEO should focus on areas where market failures exist. The following table provides an overview of typical market failures that promotional banks address and which of these are currently targeted by the existing development institutions in the Netherlands

TABLE 2: COMMON MARKET FAILURES ADDRESSED BY PROMOTIONAL BANKS

CATEGORY	TARGET SECTOR/ SEGMENT	DESCRIPTION	MARKET FAILURE	COVERAGE IN CURRENT LANDSCAPE[4]
SMEs and Innovation	SME financing	Financing of • SMEs (e.g. based on EU definition, of < 250 employees) • Innovative companies (e.g. based on EIF's InnovFin definition)	• Asymmetries of information (e.g. credit risk), esp. with lack of credit information (credit registry/bureau for businesses) • Lack of collateral • High transaction cost • Positive externalities (e.g. innovation, job creation)	• Partially addressed with existing schemes (see appendix C) • BMKB • GO & Garantstelling landbouw • Innovation Credit • Dutch Venture Initiative • SEED capital
	Platforms and investment infrastructure	Finance the development of alternative finance sources for SMEs (e.g. factoring platform, crowdfunding for SMEs)	• Positive externalities (i.e. more diverse financing sources, innovation) • Can address asymmetries of information in SME finance (e.g. credit bureau) • Help reach critical scale	• Not addressed
Energy and Climate Financing	Energy infrastructure	Financing of infrastructure projects in the context of a public-private partnership (PPP)	• Complexity of implementation and interaction with government	• Partially addressed – first PPP transactions conducted by NWB in 2015
	Sustainable energy	Financing of projects to ensure sustainability (e.g. environmental protection, energy-efficiency, waste)	• Address negative externalities from environmental damage • Public good • Long-term investment	• Partially addressed with existing schemes • Nationaal Groenfonds • Nationaal Energiebespaarfonds • Fonds Energiebesparing Huursector
	Other project financing	Financing of municipalities infrastructure projects Financing of public goods (e.g. Water Authorities) Financing of social housing corporations	• Incomplete market (i.e. markets fail to produce enough merit goods, such as education and healthcare) • Long term funding (e.g. 15-30yr projects)	• BNG • NWB • Addressed at high cost (public sector financing more expensive vs. providing a liability guarantee) • Social housing addressed with state guarantee of housing associations
International Investments and Exports	International development (Foreign aid)	Public arm – Financing to developing countries governments (e.g. budget support, infrastructure) • Private sector (e.g. financial sector, SMEs, PPP) Private arm – Financing to private sector in developing countries (e.g. financial sector, SMEs, PPP)	• Development aid in form of grants or loans needed for economic development, poverty reduction, health, education or protection of the environment – associated with high risks with low appetite from market participants	• Addressed (~0.7% of GNI) but lack of coordination • Develop2Build • Addressed by FMO and existing schemes • FMO • Dutch Good Growth Fund • DRIVE
	Export and international finance	Financing of exports and international projects	• Asymmetries of information (e.g. credit risk) • Insufficient access to trade finance products typically for SME due to low ticket sizes and high structuring costs	• Partially addressed with existing schemes (e.g. lack of export refinancing facility) • Dutch Trade and Investment Fund • Export guarantees (via Atradius DSB)

NFEO's target customer segments would follow from these guiding principles and evolve over time as economic conditions change. As things stand in the commercial market, NFEO would start with a focus on three areas, building on activities already performed by the Dutch development banks and the government today: SMEs and innovation, energy and climate financing, and international investments and exports.

[4] Not exhaustive

Most of these areas are already addressed by existing development institutions and schemes in the Netherlands in some form (as shown in Table 2 and Appendix C) and would hence not require a full set of new capabilities and expertise to be built. For each of these three categories we see indications that these cannot be sufficiently served by commercially oriented institutions. However, we recommend that each category should be evaluated in greater detail to confirm that a market failure exists before a final decision about NFEO's activities is taken. These evaluations should be performed (internally or externally) on a regular (e.g. semi-annual) basis in order to decide whether the financing challenges have been resolved. In which case NFEOs focus should be shifted to other market segments and sectors that still justify an intervention.

SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) AND INNOVATION

The activities of SMEs may generate considerable "positive externalities" (benefits that accrue to members of society other than the owners of the business). They can be more innovative than large companies and create more jobs. Yet they often find it difficult to raise finance because they present lenders with more risk than large companies with more predictable profit streams, do not have the same reporting standards as larger companies and often cannot offer high quality collateral. National Development Banks thus often extend guarantees or financing to SMEs.

In the Netherlands, SMEs and innovation are supported through a large number of schemes offered by the government, (mainly through RVO), regional private equity investments and some direct investments from the EU. Arguably, indications for market failure in this area are found in high rejection rates for SME credit applications and significant unmet funding needs. At 25%, Dutch banks' flat-out rejection rates are the highest in the Euro area, followed by Ireland (17%) and Greece (16%) against an average of 7% across all countries. Also, 40% of Dutch SMEs that applied for a bank loan in 2015 state that they did not get the financing they had planned for.[5] The Social Economic Council estimated the total funding requirement of SMEs in the Netherlands in 2014 to amount to €23 BN. In the previous year, only 73% of the funding requirement was met.[6]

Combining these promotional activities under one roof should deliver improvements:

- It eliminates the tunnel vision of current schemes, that are commonly established for a single purpose and operate only within that mandate. A combined mandate enables trade-offs concerning the best instruments to be used (guarantees, financing, equity investments) and allows the already available funds to be routed to the most important areas.
- Scale allows the concentration of expertise. Many of the activities of a NPBI aimed at structurally resolving market failures – such as establishing SME platforms, SME credit rating agencies,[7] or working with crowd-funders to change the fundamental risk/return profile of the market – require dedicated effort and central expertise.

[5] "Survey on the access to finance of enterprises in the euro area (SAFE) - October 2014 to March 2015", European Central Bank, June 2015

[6] "Verbreding en versterking financiering MKB", Sociaal Economisch Raad, 2014

[7] As e.g. recommended by the OECD in their March 2016 economic surveys: "OECD economic surveys NETHERLANDS," March 2016, page 5

ENERGY AND CLIMATE FINANCING

Sustainable energy and climate projects often experience difficulty in attracting sufficient funding. We believe there are two main factors that drive this:

- Firstly, the private sector does not take the relatively large external benefits of sustainable energy and climate investments into full consideration. The commercial mindset values direct financial returns above potentially positive externalities.
- Secondly, banks and investors are reluctant to finance these investments at terms that borrowers consider reasonable. These projects often require very long term financing, while banks themselves are funded primarily by short term deposits. This creates a large "mismatch" or liquidity risk for banks, which makes them reluctant to lend except with a large "risk premium" on the rate they charge. In addition, the risk premium is significantly driven by risks associated with changes in government policy (e.g. altering subsidy schemes), which can negatively impact returns and expenses.

> *"To more broadly develop sustainable energy technologies and plants at a more rapid pace, the Dutch government should stimulate the availability of mezzanine financings and co-investments, next to or in lieu of existing subsidy schemes, as it would increase market discipline, lead to more efficient use of (public) financial resources, and create a more integrated approach to address the energy system challenges ahead."*
>
> Otto Jager,
> CFO TenneT

The Netherlands is currently lagging behind other countries in achieving climate goals set on global, European, and national levels and in the effort to become less dependent on fossil fuels. According to the International Energy Agency, the share of primary energy production from renewables and waste is only 6% in the Netherlands, significantly below the share in other European countries, such as Norway (44%), Sweden (36%) and Germany (13%).[8] With a 2016 budget of €8 BN annually in governmental subsidies (SDE+) for sustainable energy, a significant challenge has been recognised[9] and calls for further public investments in sustainable energy exist.[10] To meet European standards and achieve government objectives the Netherlands will need to invest heavily in sustainable energy production capacity and its energy infrastructure (such as grid infrastructure upgrades and energy-efficient homes).

As part of the goals outlined in the Dutch energy accord (Energieakkoord) a large number of tenders have been approved in conjunction with the main subsidy instrument SDE+.[11] Given current low energy prices, it is expected that this instrument is approaching its obligation ceiling of €18 BN.[12] If energy prices remain low in the foreseeable future, the functional limit of this subsidy instrument could well be reached soon and thus limit support for new innovations.

In addition, investments in the sustainability infrastructure (e.g. energy grids) are needed. Between 2012 and 2015, the required annual investment in electricity grids is estimated to have doubled to €2 BN, and investment is expected to remain high in the coming decades[13]. An estimated €20-71 BN of investments

[8] Headline Energy Data, International Energy Agency, 2014

[9] "8 miljard voor stimulering duurzame energieproductie in 2016", RVO, December 2015

[10] Motie Samson, Van Haersma Buma en Pechtold over oprichting van een Nederlandse innovatiebank om grootschalig in de ontwikkeling van duurzame energie te investeren, 17 september 2015

[11] Headline Energy Data, International Energy Agency, 2014

[12] Beantwoording vragen over de hoge kosten van wind op zee, 2013

[13] Nationale Energieverkenning, 2015

is required for electricity grids and gas networks until 2050.[14] Sustainability investment in residential buildings and district heating is also expected to remain significant in the years ahead. Finally, significant investment will be required to improve the energy efficiency of residential buildings mainly through energy service companies (ESCOs).[15]

The Dutch economy has over time built up a specialisation in activities reliant on hydrocarbons, be it through the refinery or chemical activities in Pernis or through glas houses heated by gas. The transition to a sustainable energy economy is therefore a larger change of system for the Dutch economy than for many others. Given that magnitude it requires a coordinating and leading role of the government. Amongst the methods available to the government, integral and flexible financing capabilities are essential. Such capabilities should be able to facilitate a broad range of initiatives ranging for example from scale-ups to large scale infrastructure projects. These challenges have also been recognised at the European level and are, in part, addressed through the creation of the European Fund for Strategic Investments (EFSI).

Developing a balanced set of instruments and products on the national level is therefore crucial to address these challenges. By directly financing energy projects, NFEO would make a valuable contribution to a sector where the government's role is now restricted primarily to subsidizing both consumers and producers. NFEO would help overcome this market failure by directly (co)financing projects, offering guarantees, providing advisory services to projects and local authorities, and by functioning as a primary channel for European funds for energy sustainability – complementing existing government subsidy instruments and private sector initiatives. As a bank, it would have the possibility to offer structured solutions with different risk tranches, as required; including equity stakes and mezzanine products. It would structure Public-Private-Partnership (PPP) projects in a way that enabled private sector involvement and align the incentives of the private sector with the social goal of transitioning to a green or sustainable economy. See also Appendix F, which summarizes the policy context and the rationale for developing a balanced set of instruments and products for energy and climate financing within the NFEO group.

[14] Netbeheer Nederland, Net voor de toekomst een verkenning, February 2011

[15] Verkennend onderzoek warmterotonde, Cluster West 2015

INTERNATIONAL INVESTMENTS AND EXPORTS

The Dutch government seeks to promote international investments and exports. This includes the trade activities of Dutch companies as well as foreign aid to support economic development. SMEs often face difficulties financing their international trade activities because structuring costs can be high in relation to the small deal sizes involved. Private investors can also be reluctant to invest in developing countries given the economic and political uncertainty they often present.

> *"A very active, competent and broad spectrum promotional bank financing international business, such as Japan's JBIC and JICA, would be a critical tool for the future development of the Netherlands' international economic activities."*
>
> Robert Poelhekke, Director, NABU

These activities are currently conducted through FMO and a number of government schemes from the Ministry of Foreign Affairs, partly through RVO. However, there are still indications that market failure in this area persists, and it is widely recognised that improved coordination between existing international and national promotional activities would increase clout.[16] At 14%, flat-out rejection rates for trade credit applications in The Netherlands were among the highest among Euro area countries, in line with Greece (16%) and Belgium (14%) as compared to an average of 4%.[17] A recent report published by the Rebel Group argues that more can be achieved with the same budget in terms of development impact by realizing synergies between trade and foreign aid. For example, as the new development goals offer opportunities for Dutch companies to export their products and services, more comprehensive financing solutions and a mix of capabilities available within RVO, the Foreign Affairs Ministry and several governmental schemes will be needed.[18]

NFEO would provide the platform to facilitate this coordination, more easily combining loans to international public sector borrowers, and trade finance and investment products to Dutch SMEs. It could help Dutch companies to offer packaged solutions in developing countries – in line with existing aid and trade goals – by providing them with the financing products they need. This coordination is especially important in the Netherlands, which is a foreign trade-based economy where many SMEs must look for international opportunities to achieve growth.

Because NFEO aims only to correct market failures, it would play a role that is *complementary* to the private sector. This means that it would generally be aiming to be a second-level institution – that is, one that rarely lends or invests directly with the final customer but instead finances intermediaries that finance the end-customer. In the case of equity, NFEO can act, like UK's Big Society Capital and Business Growth Fund, as a co-investor alongside local VC funds or as an investor in funds (that is, as a fund of funds). In this way, NFEO would make use of the strengths of private sector firms, such as their

[16] 73% of stakeholders we discussed this topic with agreed that coordination in this area could be improved.

[17] "Survey on the access to finance of enterprises in the euro area (SAFE) - October 2014 to March 2015", European Central Bank, June 2015

[18] "Trademark finance; Kansen voor Hulp en Handel", Rebel Group International, March 2015.

distribution networks and credit expertise. This complementary role is in line with international best practice and the European Commission's recommendations for National Development Banks.[19]

Some multinational development banks, including the European Investment Bank (EIB), the European Investment Fund (EIF), and the newly created European Fund for Strategic Investments (EFSI), offer co-investment programs that NPBIs should make use of. These sources of development funding are now under-utilised in the Netherlands. Between 2011 and 2015 the EIB invested about € 7.7 BN in the Netherlands, or 1.4% of the average GDP of that time period. This is a full percentage point below the average of 2.4% across other European countries. As shown in Figure 1, The Netherlands is also less effective in mobilizing and leveraging EFSI funds (i.e. Juncker fund) for SME.[20] At 0.56 base points of GDP, The Netherlands only mobilises half of funds as compared to the average among other European countries. By creating a single point of contact, NFEO ought to improve the Netherlands performance in accessing these European funds.

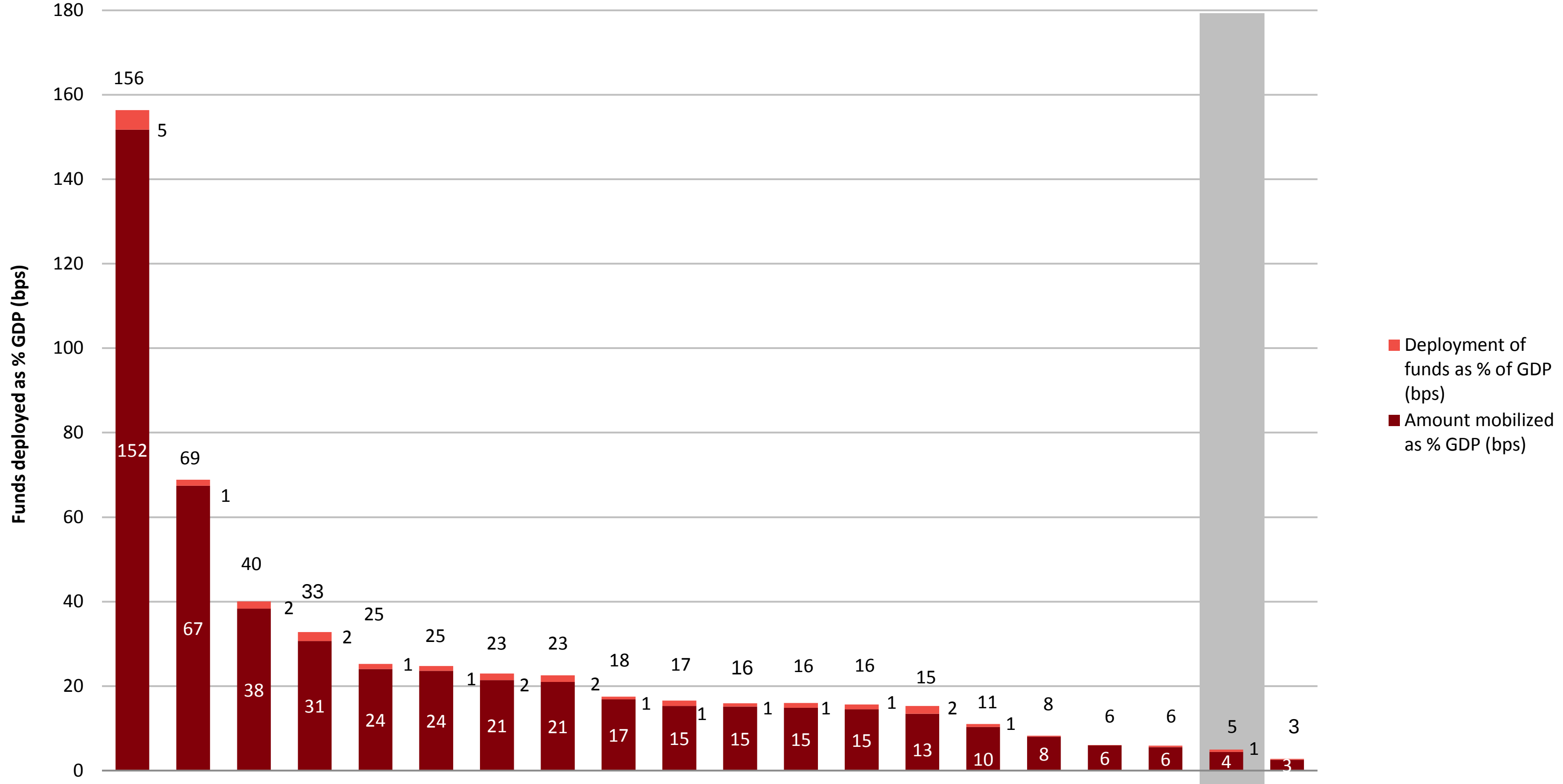
We recognize that the market challenges and externalities described above are not all caused by the lack of a broad spectrum NPBI. Complementary policy measures should be considered, including for example an enhancement of the current credit registry[21] to address SME asymmetries of information or the introduction of complementary tax breaks or subsidies to incentivize more infrastructure investments.

[19] "Working together for jobs and growth: The role of National Promotional Bank/ Institution (NPBIs) in supporting the Investment Plan for Europe", European Commission, July 2015

[20] "EFSI – Investment Plan for Europe: boosting jobs and growth", European Investment Fund (http://www.eif.org/what_we_do/efsi/index.htm); Data from "Finance contracts signed – European Union", European Investment Bank (http://www.eib.org/projects/loans/regions/european-union/index.htm)

[21] "Staff report for the 2014 Article IV consultation", International Monetary Fund, December 2014.

FIGURE 1: LEVERAGE OF EFSI SME FUNDS AND PRIVATE SECTOR FUNDS IN EUROPEAN COUNTRIES (AS A % OF GDP)



	EE	SI	IT	LU	CZ	SP	PT	FR	BU	BE	DE	UK	SE	IE	FI	PL	HU	DK	NL	GR	
Leverage ratio	**33.0**	**47.9**	**22.6**	**14.0**	**19.7**	**19.8**	**14.0**	**13.4**	**25.3**	**11.9**	**18.4**	**13.5**	**12.7**	**7.3**	**14.0**	**32.1**	**56.3**	**15.6**	**7.9**	**14.0**	**Median 15.8**
EFSI contribution (€MN)	16	8	335	11	37	171	42	374	8	58	284	263	46	39	15	22	2	8	42	4	
Mobilised investment (€MN)	515	388	7,582	154	724	3,384	588	5019	192	685	5,217	3,551	585	281	210	707	135	131	332	56	

Sources: EIB: SME Guarantee Window Signed amounts* at 31.03.2016, Worldbank GDP figures 2014

2. INSTITUTIONAL MODEL

Once the organisation's mandate, overarching principles, goals and key activities have been defined, an institutional structure has to be selected. In this subsection we assess alternative institutional models in the context of the previously recommended mandate and goals.

2.1. PRESENTATION OF OPTIONS

Based on models found internationally, we have evaluated three broad alternative institutional structures for NFEO (see Table 3):

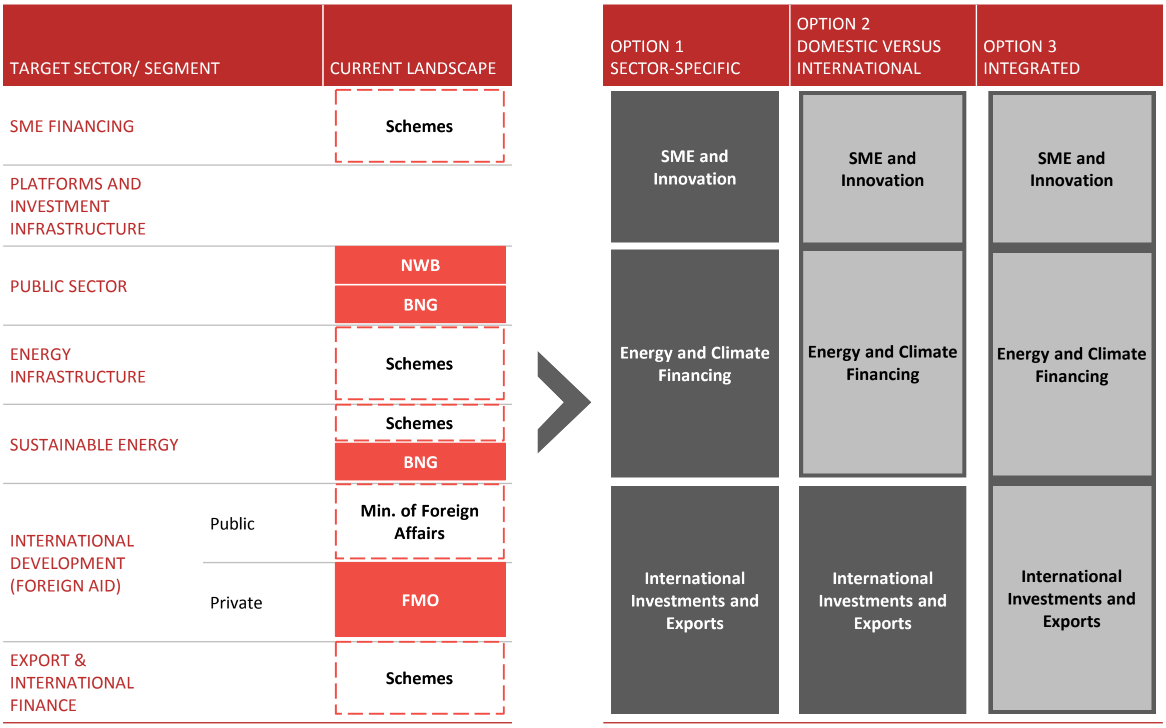
1. A **sector-specific** model, exemplified in the UK, in which separate entities, such as the British Business Bank (BBB), serve targeted sectors.
2. A **domestic-vs-international** model, as exemplified in France and Italy where the international activities are fulfilled by separate subsidiaries operating at arm's length from the rest of the group.
3. The **integrated** model, in which all sectors are served by a single group, as in Germany and Spain.

TABLE 3: ALTERNATIVE INSTITUTIONAL MODELS

	OPTION 1: **SECTOR-SPECIFIC**	OPTION 2: **DOMESTIC AND INTERNATIONAL**	OPTION 3: **INTEGRATED**
Description	Creation of 3 institutions, each focused on a specific segment/sector	Creation of two institutions focused each on domestic development and international activities (trade & development)	Integration of existing institutions and schemes in a single institution, with potential addition of "missing" activities
Examples	• UK (BBB, GIB, CDC, UKEF, etc.)	• France (Bpifrance, Proparco, AFD) • Italy (CDP, IDC)	• Germany (KfW) • Spain (ICO) • Croatia (HBOR)

Figure 2 illustrates the potential institutional models in more detail.

FIGURE 2: POTENTIAL INSTITUTIONAL MODELS[22]



2.2. ASSESSMENT OF THE OPTIONS

Each of the three institutional models described above has potential advantages and disadvantages and a tailored solution will need to be considered in the Dutch context. We have, therefore, assessed each of the three options against three key dimensions: (i) Effectiveness and comprehensiveness of coverage; (ii) Coordination; and (iii) Efficiency.

Table 4 below provides an overview of the criteria we have used for our assessment.

TABLE 4: ASSESSMENT CRITERIA

DIMENSION	CRITERIA
Effectiveness and comprehensiveness of coverage	• Is the institutional model addressing all the identified market failures? • Is it doing it effectively (i.e. quality of the work, expertise)
Coordination	• Does the set-up facilitate coordination between the various Dutch institutions? • Does it facilitate coordination with international organisations (e.g. EIB/EIF, developing countries)?
Efficiency	• Would the proposed set-up generate efficiencies in terms of: - Operating expenses - Financial aspects (funding, capital) - Service quality (e.g. risk management, IT)

As shown in Table 5 below, we see the integrated model as the most suitable option for the Dutch market and will therefor use it as a blueprint for our viability assessment.

[22] Schemes represent a number of financing schemes managed by RVO and other governmental bodies. A detailed overview of all financing schemes included in the financial analysis is provided in Appendix C**Error! Reference source not found.**.

The **sector-specific** model would improve on the current situation in terms of coordinating efforts within sectors and bringing together (sector-specific) expertise. However, it fails to address important inefficiencies and introduces complications:

- The approach would likely require new capital injections to establish the new entities required, such as a separate “SME bank”, which does not exist today. Also, establishing a new entity would take time, as setting up key functions (IT, Treasury, funding, rating etc.) and staffing a good team is a challenge.
- The benefits of scale will not be fully achieved, resulting in higher funding and operating costs.
- Optimising the allocation of financial and human resources across separate entities is more difficult than within a single entity. At any given time, the sector-specific model is likely to result in too much finance going to some sectors and too little to others.

The **domestic-vs-international** model faces similar issues to the sector-specific model, though synergies can be achieved with the domestic energy and SME arms under one roof. However, most of the balance sheet-related benefits of full integration would not be achieved. FMO’s capital would remain trapped within the international institution, and the cost of funding would remain higher than on the integrated model on account of lower liquidity, especially for the international arm. And, again, coordination issues would persist, especially in areas where the distinction between international and domestic business is unclear, as with some energy projects and SME export finance.

> *“NFEO should offer co-financed solutions that allow crowding in as much investments from the private sector as possible”*
>
> Jan Dexel,
> NIA

The **integrated** model appears best suited to the Dutch context. Structured as a federated model, maintaining versatility for the three component arms, and ensuring adequate cooperation while avoiding unnecessary bureaucracy, it would require no additional capital from the government. In fact, it could reduce capital costs by diversifying exposures. The increased scale in operations and liquidity of the entity’s debt would reduce both (unit) operational and funding costs (refer to section 7). In addition, coordination problems that now lead to gaps, overlaps, and misallocated capital would be more easily overcome by the unification of strategy, operations, and information management. As such, this model would be a logical ambition for the Dutch government to aspire to.

TABLE 5: HIGH LEVEL ASSESSMENT OF POTENTIAL MODELS

DIMENSION		CURRENT SITUATION	SEGMENT-SPECIFIC	DOMESTIC VS. INTERNATIONAL	INTEGRATED
Effectiveness and comprehensive-ness of coverage	Market failures	• Some market failures not addressed • Gaps in product offering in key segments	• Some market failures not addressed • Product offering limited to key segments and with likely overlaps	• Enhanced ability to address market failures on national and international levels • Broad product offering but with likely overlaps	• Optimal ability to address market failures at all levels • Broad and harmonised product offering
	Effectiveness	• Fragmented expertise • Limited visibility on performance of schemes • Limited visibility on product offering and distribution channels	• Expertise fragmented by segment • Improved transparency on schemes	• Expertise centralised domestically • Improved product development • Improved transparency	• Centralised expertise • High quality product development • Optimal transparency
Coordination	Domestic & international	• Fragmented landscape • Limited coordination • No clear counterparts for international institutions	• Limited coordination • Fragmented landscape	• Enhanced coordination with potentially overlapping activities	• Optimal domestic coordination across all segments • Single counterpart for international institutions
Efficiency	Operating expenses	• No synergy benefits	• Limited synergy benefits	• Some synergy benefits in the domestic bank	• Optimal synergy benefits
	Financials	• Additional capital required for NWB and BNG	• New capital required for the SME bank	• Lower funding costs for domestic bank • International bank still illiquid	• Lower funding costs through full state guarantee • Improved liquidity and capital ratios
	Service quality			• Enhanced risk management	• Enhanced risk management
Assessment score					

 Remaining Gaps, overlaps, limited benefits

 Optimal coverage, benefits, synergies

3. TARGET OPERATING MODEL

The target operating model outlines NFEO's business model and the impact on NFEO's capabilities we would expect from an integrated institutional model.

3.1. BUSINESS MODEL

The business model describes NFEO's role and relation to the private sector, its distribution model, and the type of products and services it could offer.

3.1.1. ROLE

NFEO's overall business model will be based on the goals and principles outlined in section 1.1, namely: (i) Promoting national and regional economic development (ii) Focus on areas of observable market failure (iii) Play a role which is complementary to the private sector (iv) Operate within the limits of financial sustainability. As part of its mandate, NFEO would regularly adapt its portfolio of instruments to new market developments. A regular external review process will ensure its activities remain within its mandate and adapt appropriately to changes in market conditions, including withdrawing from areas that no longer present a market failure. This scrutiny will enhance NFEO's credibility as a professional organisation not only with clients, but also the general public, the regulator, and the investor community.

NFEO can play a role that is complementary to the private sector by positioning itself as a second-level institution. A second-level institution will use financial intermediaries to lend to or invest in private customers. Through this on-lending model, NFEO will be able to leverage capabilities of the private sector – in particular, the private sector distribution channels (e.g. bank branch networks) and expertise. By improving the risk/return trade-off for commercial investors, NFEO can align their interests with the broader interests of society.

3.1.2. DISTRIBUTION

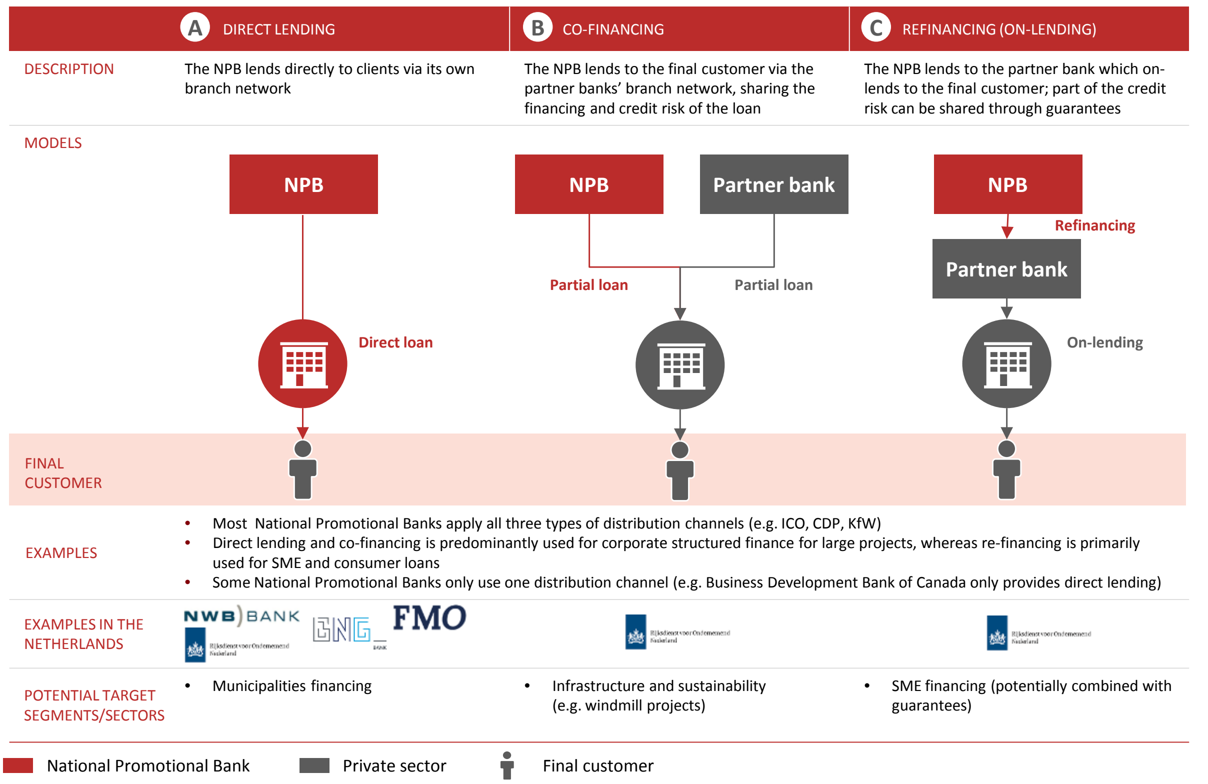
Positioning NFEO primarily as a second-level institution and applying the on-lending model need not exclude it from other distribution channels. Promotional banks can also engage in direct lending and co-financing.

In the **on-lending model,** promotional banks design the main characteristics of the different lines of credit. They then sign collaboration agreements with the private sector financial institutions for the products to be sold through their networks. Products are mainly directed at the self-employed and SMEs. Promotional banks determine the amounts of each line of credit, the purpose of the loans, the interest rates and repayment terms, and provide funds to financial institutions. The latter are typically in charge of analysing operations, deciding the guarantees that must be provided, assessing risk and approving (or declining) applications for credit. Promotional Banks would then review the assessment made by the partner banks and decide if they agree or require adjustments to the risk assessment or the terms of the loan. The refinancing principle has been adopted by institutions such as ICO, CDP and KfW and can be considered international best practice. By lending to the lender, NFEO would automatically be prevented from crowding out private sector institutions, thus providing a layer of discipline to its economic development activities. This model is also recommended by the European Commission.[23]

The **co-financing and direct lending models** are typically applied for corporate structured finance or large project finance transactions involving public or private investment. Loans are designed to match the applicant company's needs and would normally involve large advances and long repayment periods. To apply for these loans, companies approach promotional banks directly, who assess, disburse and take on the risk of the operations concerned. Preferably, funding is granted in collaboration with private or public entities (the co-financing model), whether national, international or multilateral. The direct lending model (without the participation of private sector banks) is most common for large financing transactions provided to public institutions and municipalities. Examples include Germany's KfW, which provides direct loans to local municipalities, and the UK's Green Investment Bank, which co-invests in energy related projects (e.g. wind farms). The co-financing or direct lending model is sometimes also applied when customer segment is not yet served by private sector banks at all.

Figure 3 shows the different distribution models and their main characteristics.

FIGURE 3: COMMON DISTRIBUTION CHANNELS FOR DEBT-RELATED PRODUCTS OF PROMOTIONAL BANKS



We recommend that most of NFEO's products be distributed via the refinancing/on-lending model to commercial banks. This allows better engagement of the private sector and ensures risks are shared and state-guaranteed funds are leveraged by mobilisation of private sector funds. However, direct financing and co-financing may be used in exceptional cases when it is deemed necessary, especially for large structured corporate and project finance transactions.

[23] "Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe", European Commission, July 2015

3.1.3. PRODUCTS

The portfolio offered by NFEO can broadly consist of three types of products and services:

- Debt-related products such as loans and guarantees.
- Equity products such as investments and co-investments (e.g. in start-ups, scale-ups and/or private equity funds).
- Services or market infrastructure platforms (e.g. advisory and access provision to new platforms).

3.1.3.1. DEBT-RELATED PRODUCTS

Debt-related products will be the main instrument for NFEO to address emerging and existing market failures. Debt-related products can be subdivided into two broad types. The first type is loans, which can be provided via direct lending, co-financing, and refinancing. The second type is guarantees, which include refinancing products (with an exemption of liability for the private sector banks) or direct guarantees.

> *"Huge investments are needed for energy and climate, across the broad range from energy generation through network infrastructure to energy efficiency and innovation. These are long-term investments within an environment of uncertainty about both market developments and government policies. Instead of relying only on subsidies, a "KfW-like" public financial institution to co-finance such investments could help reduce market failure and promote government energy policy that is consistent over time."*
>
> Pieter Boot,
> Planbureau voor de Leefomgeving

Loans

As outlined above, loans should usually be distributed via the on-lending principle. This allows NFEO to leverage the distribution network and expertise of the private sector. In addition, loan products will provide liquidity (as funding is typically what is needed).

The on-lending principle can have exceptions where direct lending is deemed more efficient. Typically, the larger the client and the more individual structuring of the loan is required, the more suitable direct lending will be. This often applies to more complex infrastructure financing. In the Dutch context, municipalities can continue to be financed directly by NFEO, as they now are by NWB and BNG.

NFEO should make sure its products are sufficiently flexible to accommodate the needs of the target sector. This flexibility can be applied to seniority, maturity and cost. Loans are typically *pari passu*, meaning an equal level of seniority among all lenders. However, some products could include first or second loss or mezzanine tranches, with the higher risk taken over by NFEO to encourage private sector involvement and portfolio diversity. The maturity of the loans can also be adjusted, as, for example, KfW for example does with the ERP Start-up Loan, a 5- to 10-year loan, the ERP Innovation Programme, a 10-year loan, and the Entrepreneur loan with a maturity up to 20 years. A third dimension is cost, which can be based on the target region (e.g. KfW's ERP Regional Promotional Programme), segment or sector (e.g. social enterprises).

Guarantees

NFEO can offer guarantees either as a single product, as the BBB and Bpifrance do, or as part of on-lending products, following the example of KfW's exemption of liability. As with loans, guarantees can be adjusted for seniority, target region, segment, and sector. The coverage ratio, for example, can be adjusted according to the region or sector, such as innovative companies. Guarantees can leverage existing EIF programmes such as InnovFin for innovative companies and COSME for small companies.

3.1.3.2. EQUITY PRODUCTS

Equity financing products can be offered either directly or via the on-lending model.

Direct equity investments

As a direct investor NFEO would need to identify targets independently. This requires considerable expertise. Examples of National Promotional Banks that provide equity directly are France's Bpifrance, Italy's *Fondo Strategico Italiano* and the UK's Big Society Capital and Business Growth Fund. As a co-investor on a deal-by-deal basis, NFEO can use direct equity investments alongside local venture capital (VC) funds. In this way the expertise and network of the VC fund can be used to identify attractive opportunities. NFEO can supplement the investment with additional capital and take part of the risk, especially for innovative companies with highly technical or long product development tracks and time to market.

Indirect equity investments

NFEO can also operate as an investor in funds: that is, as a fund-of-fund. This would resemble co-investor role for direct equity investment but would not be specific to individual opportunities. As a co-investor NFEO would match private sector investment in venture capital or private equity funds. This model has also been adopted by the BBB and the US Small Business Administration Program (SBIC). As a fund-of-fund, NFEO would have flexibility of asymmetric returns, allowing it to take on more risk than other investors and thereby encouraging private sector participation. The EIB and BBB employ asymmetric returns in their fund-of-fund activities to stimulate investment in risky investment opportunities with high potential (social) returns.

Indirect involvement as a co-investor in a fund is generally preferred as it plays a complementary role (i.e. adding capital) rather than a primary and direct role (i.e. selecting investments). This also relieves NFEO of the burden of building up the substantial expertise required for directly identifying investment opportunities.

Applicability to Dutch context

Acting as a direct investor or serving as a platform for investors may be justifiable in the Dutch market if only a limited number of venture capital and private equity participant are active, particularly in underdeveloped areas such as market infrastructure. Such a model should aim to encourage private sector participation. For example, NFEO could create a platform where entrepreneurs can present to business angels, and if they find private investors, NFEO will act as a co-investor. This model should be phased out as the venture capital market grows to a point where the private sector generates enough direct investment opportunity. NFEO could then position itself in a second-level role as a fund-of-fund and as a co-investor complementing the private sector.

3.1.3.3. ADVISORY SERVICES

NFEO can provide services to advisory services to firms seeking finance and or acting as a platform for investors. Advisory services can be targeted at SMEs, national and local government authorities but also at multiple stakeholders to enable them to meet. The latter is often related to facilitating equity investments.

SME and corporate advisory

SMEs require different advisory support during different phases in their life cycle, from basic strategy formulation and financial planning at the start-up phase to turn-around advice and support in times of crisis. They may also require specific advice on mergers and acquisitions or advice on export and project finance specifically for SME. These services can be delivered by NFEO or through NFEO-accredited partners. KfW, for example, provides a grant for start-ups to hire accredited business coaches to provide advice and mentorship; the UK's BBB connects SMEs with deal structuring and M&A advice through its network of over 80 financing partners; Bpifrance provides advice on mergers; and AWS in Austria assists with bringing new innovations to the market by helping inventors and companies assess the market viability of an invention and connecting the inventor to relevant partners.

NFEO can also support corporates on infrastructure project financing. For example, KfW supports businesses investing in infrastructure projects with in-depth local knowledge about the sector and associated risks, and by providing access channels and a relationship with the government.

Government advisory

NFEO can provide advisory services to national and local government authorities. For example, France's CDC provides advisory services and financing for municipalities related to the energy transition and sustainability projects. And through its many subsidiaries, CDC also provides advice to local governments on a broad range of issues, such as planning and the development of tourism infrastructure. Another example is Italy's CDP, which advices local governments on the best way to manage their real estate portfolios to maximise income.

Equity investment platform and network creation

Though its relationships with SMEs, investors, and local governments, NFEO can act as a platform enabling companies and investors to meet. For instance, Austria's AWS i^2 Business Angels Network brings entrepreneurs and investors together in an efficient and informal manner. Based on information collected when the SME or angel investor joins the network, the AWS tries to match the interests and expertise of the investor with the activities of the SME. Another example is Bpifrance, which refers entrepreneurs and SMEs to the relevant contacts, often in the same region.

3.1.4. SUMMARY OF PRODUCTS AND SERVICES

Further analysis will be required to define more precisely which market failures are to be addressed by NFEO and to determine the exact mix of products and instruments required to address these market failures. And over time, the mix of products is likely to change with economic and market circumstances. However, over the near-to-medium term NEFO's product offering is likely to include those summarised in Table 6.

TABLE 6: EXAMPLES OF PRODUCTS THAT NFEO COULD OFFER (CURRENTLY EXISTING GAPS IN ITALICS)

CATEGORY	TARGET SECTOR/SEGMENT		DEBT	EQUITY	SERVICES/MARKET INFRASTRUCTURE
SMES AND INNOVATION	SME financing		• Refinancing • Credit guarantees • Direct loans or co-financing (potentially in specific e.g. social financing)	• Private equity fund of fund • Co-investments • Mezzanine fund • Direct investments	• Financial advice to SMEs (e.g. exports)
	Platforms and investment infrastructure (e.g. credit register, information platforms)		• Investments in alternative funds (e.g. crowdfunding) • Direct loans or co-financing to platforms	• Equity stakes in platforms and investment infrastructure companies	• Provide advisory to and support the creation of platforms that would facilitate SME financing
ENERGY AND CLIMATE FINANCING	Public sector	Municipalities	• Loans to local government		• Advisory services (to local authorities)
		Public goods (water boards, etc.)	• Loans to local government		• Advisory services
	Energy Infrastructure (e.g. PPP)		• Co-financing of PPP projects	• Equity investments	• Deal structuring/ advisory services
	Sustainability		• Loans and guarantees for smaller investments (e.g. households energy efficiency)	• Equity investments, e.g. in companies that develop sustainable solution	• Deal structuring/ advisory services
INTERNATIONAL INVESTMENTS AND EXPORTS	International development (Foreign aid)	*Public*	• Loans and/or guarantees (to governments)		• Technical assistance to foreign public sector
		Private	• Direct loans • Co-financing • Refinancing • Guarantees (to private sector)	• Equity and quasi-equity investments	• Technical assistance to foreign private sector
	Export and international finance		• Refinancing facility and/or project/export direct financing		• Advisory services • Coordination with export insurance (Atradius DSB)

3.2. CAPABILITIES

Combining NWB, BNG and FMO into a single organisation would allow for improvements in central capabilities, such as financial product expertise, risk management, finance, treasury, audit, IT, and HR. In other words, scale would not only reduce costs but improve the quality of decision making and, hence, the achievement of NFEO's economic and social goals. This requires that NFEO is set up and run as a promotional financial institution, not a government department.

Risk management capabilities, in particular, could be significantly enhanced in the combined institution. NFEO should establish best-in-class risk management practices, in line with the latest Basel regime and relevant regulations and guidelines, including the EBA guidelines on the Supervisory Review and Evaluation Process (SREP) on internal governance. When NFEO provides first loss financing tranches, it's exposure to risks and adverse selection is disproportionately high compared to the private sector. Combined with its size, NFEO's ambition should be to significantly improve today's standards and become a market leader for risk management in the Netherlands. This will require bringing in significant additional expertise from the private sector. We see the following priorities for NFEO:

- Enhancing and centralising **enterprise-wide risk management capabilities** such as improved credit risk, market risk, operational risk, liquidity risk, and reputational risk management and reporting.
- Considering the **creation of a centre of excellence** by building on existing expertise from FMO.
- Scaling up **international risk capabilities** (mainly from FMO) to cover other international schemes currently on the government's balance sheet.
- Defining a **group-wide Risk Appetite Statement** that is regularly reviewed and approved by the Supervisory Board and cascaded down to the Management Board and the various divisions in the form of clear risk position limits. This is required to prevent individual divisions to take excessive risk on the joint balance sheet.

A regular external review of NFEO's risk management practices can ensure appropriate constraints and incentives in line with international best practice.

Other shared services and capabilities are also likely to benefit from scale. In terms of human resources, the increased size of the organisation would support a better brand positioning and wider career opportunities to retain current and attract new employees and would make it easier to attract further financial expertise in the areas where NFEO will be active. Other capabilities and shared services are likely to benefit from scale as well. For IT, a consolidation of systems and data management capabilities would lead to higher transparency and enable better decision-making. Similarly, the audit function's capabilities can be substantially enhanced through scale. This will also be an important mechanism to ensure proper governance and discipline throughout the organisation.

4. LEGAL FORM AND OWNERSHIP

4.1. LEGAL FORM

It is proposed to bring the existing entities BNG, NWB and FMO and the government schemes under one roof, and to structure the holding entity of the group (NFEO) in the legal form of a Dutch public limited liability company, an N.V. (*Naamloze Vennootschap*). The N.V. is a common and easy to use legal form in the Netherlands, and comes with tried and tested corporate governance rules embedded in the Dutch Civil Code. Most Dutch banks, including FMO, BNG and NWB, are organized in the form of an N.V. This legal status provides the flexibility to adapt NFEO's structure through transfer of shares, merger and demerger, both during its initial creation and for potential future purposes. Being an N.V. will also reinforce NFEO's status as an organisation at arm's length from the government, which prevents it from being considered a captive financial institution for EMU purposes.

4.2. STATE GUARANTEE AND EMU DEBT

Currently, NWB and BNG do not benefit from an (explicit) state guarantee. However, NWB and BNG's articles of association determine that NWB and BNG can only finance Dutch government bodies, related entities or other parties benefiting from government involvement or guarantees. As a consequence most of NWB and BNG's financing consists either of financing of the government or financing guaranteed by the government. Therefore most of the assets of NWB and BNG are State guaranteed. FMO benefits from a state guarantee on the basis of the Agreement between the Dutch State and FMO of 16 November 1998. The Dutch State guarantees both the assets and liabilities of FMO by stepping in if FMO incurs losses that exceed its general risk reserve, and the inadequacy is due to abnormal operating risks, and preventing situations arising in which FMO is unable to meet its borrowing (and related) commitments on time.

An explicit state guarantee for NFEO is recommended. This would allow NFEO to borrow at a lower cost than BNG and NWB, who do currently not enjoy such a state guarantee on their liabilities. Some other countries, such as Germany, Finland or Spain, provide an institution-wide state guarantee to their NPBIs, as the Netherlands does for FMO. Generally, guarantees for NPBIs are not recognised in state balance sheets and the NPBI's debt is not usually included in EMU debt. In line with the risk measures assessment policy (*toetsingskader risicoregelingen rijksoverheid*) the NFEO could pay a fee to the Dutch State commensurate with the risk taken.

The general principle is that guarantees of payments granted by third parties are considered contingent assets or liabilities.[24] The European System of Accounts (ESA) states that, "as they do not give rise to unconditional obligations, contingent assets and liabilities are not financial assets and liabilities".[25] A prerequisite for treatment as a contingent liability, however, is that lending decisions are taken at arm's length of the government. In addition, the governance and operations of the NPBI must be structured in a manner that is sufficiently independent from the government; otherwise, the NPBI becomes a captive financial institution whose debt is considered government debt.

[24] Article VII.4 of "Manual of Government Deficit and Debt – Implementation of ESA 2010", Eurostat, 2016.

[25] ESA 2010 5.08.

4.3. OWNERSHIP

4.3.1. CURRENT SITUATION

FMO, NWB and BNG are all private entities with multiple shareholders.

- FMO: The Dutch State currently holds 51% of FMO shares. The three largest commercial banks in the Netherlands (ING Bank, Rabobank and ABN AMRO) hold 42% of FMO shares. Other shareholders hold the remaining 7% of shares.
- BNG: Shares in BNG can only be placed with the Dutch State and other public bodies. The Dutch State holds 50% of the BNG shares, with the other 50% owned by municipalities, provinces, and a water authority.
- NWB: Shares in NWB can be placed only with the Dutch State and other public bodies. Water authorities hold 81% of NWB shares, with 17% held by the Dutch State and 2% by nine Dutch provinces.

The promotional schemes (listed in Appendix C) are run and funded directly by the government and therefore fully owned by the Dutch State.

4.3.2. NEW OWNERSHIP MODEL

The two main questions that need to be addressed in terms of ownership of NFEO are (i) whether NFEO should be fully publicly owned or may also have private shareholders and (ii) whether the Dutch State should hold 100% of the shares or merely a majority. Ownership models with full public ownership and with public as well as private shareholders would both be viable, although the former is standard among peers. As to the shareholding of the Dutch State, it is recommended that it owns at least a majority of the shares.

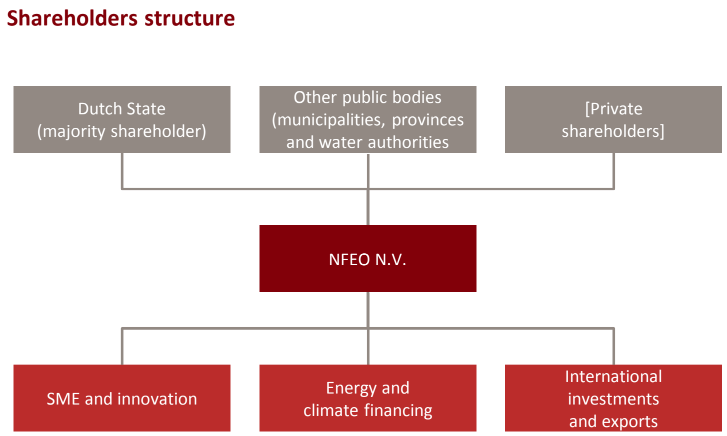
> *"In some cases we need to get the government to participate in investment funds that we are setting up because this role of risk bearing co-investor or guarantor is necessary to get private parties in. In these cases the government ought to act quickly"*
>
> Loek Sibbing, CEO, NII

Given NFEO's mandate, which is to focus on market failures and not on commercial activities, full public ownership would be logical. This would allow application of the mitigated large companies regime (*verlicht structuurregime*), which allows shareholder appointment of members of the Management and Supervisory Boards. In case NFEO is partly owned by the Dutch State and partly owned by other public bodies, the mitigated large companies regime can be applied after all shareholders have entered into a mutual cooperation arrangement (*onderlinge regeling tot samenwerking*) such as a shareholder agreement. However, full public ownership may be more difficult to achieve as the private parties that are currently shareholders in FMO must be bought out and compensated.

A mixed public and private ownership model would be a viable alternative, where private shareholders could be seen as disciplining NFEO to stay focussed on its mandate of addressing only market failures. A mixed public and private ownership model would also be the easiest to achieve, being the default outcome of the contribution of shares in FMO, BNG and NWB into NFEO in exchange for shares in NFEO.

Irrespective of the participation of private shareholders, a model in which the Dutch State is a majority shareholder in NFEO is recommended as, in line with its risk measures assessment policy (*toetsingskader risicoregelingen rijksoverheid*), the Dutch State is expected to want sufficient means to influence the risk it will be exposed to if it is to provide a guarantee to NFEO.

FIGURE 4: SHAREHOLDERS STRUCTURE



5. GOVERNANCE

In terms of legal structure and governance NFEO should strike the right balance between, on the one hand, a professional financial institution, operating at arm's length of the government, in order to avoid being considered a captive government entity for EMU consolidation purposes, and, on the other hand, sufficient influence of the government on NFEO's policy, in order to ensure that NFEO executes its public policy mandate. This requires that:

- Professional governance is fully aligned to existing international best practice for banks and NPBIs, which should facilitate an efficient and effective organisation, clear delineation of responsibilities and avoid bureaucratic pitfalls;
- The governance ensures NFEO withdraws from an activity if a market failure does no longer exist in that area;
- There is adequate government accountability and direction, but day-to-day steering and execution is at arm’s length of the government in compliance with state aid restrictions and EMU consolidation;
- There is external transparency of NFEO’s portfolio, activities, decisions and financials.

"Best-in-class governance is essential for ruthlessly exclusive focus on market failures and to avoid that this becomes a huge politicized government bureaucracy”

Sweder van Wijnbergen,
Professor, UvA

We have looked at international best practices of NPBIs and customised them for the Dutch Context.

5.1. INTERNATIONAL PRACTICES

5.1.1. SUPERVISORY BOARD STRUCTURE AND COMPOSITION

The Supervisory Board provides high level direction to the institution (the “vision”) and supervises the conduct of the bank's business and the administration of its assets.

Most NPBIs seek external members for their Supervisory Board, which typically includes experts from industrial sectors, the commercial banking or insurance sector as well as government representatives from the Ministry of Finance or Trade. In some cases SME experts and representatives from the Ministry of Development or Economics sit on the Supervisory Board as well.

We have identified four broad types of board models across developed countries as described below and analysed in Table 7:

1. **A political model,** primarily composed of political representatives (e.g. Ministers)
2. **A mixed model,** which is composed of a broad mix of political representatives (e.g. Ministers, members of Parliament), representatives of civil society (e.g. trade bodies) and some independent members
3. **An independent model,** composed primarily of independent members, which is typically found in Anglo-Saxon countries
4. **A two-tier governance structure,** with two boards, generally a Supervisory Board and a Management Board with execution responsibility

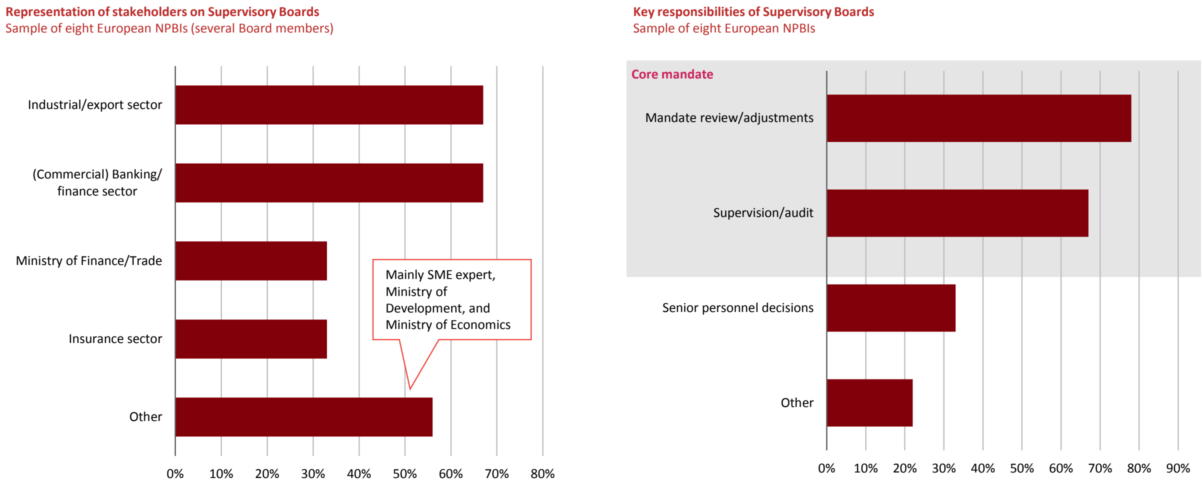
TABLE 7: GOVERNANCE – SUPERVISORY BOARD COMPOSITION

<table>
<tr><th rowspan="2"></th><th colspan="3">SINGLE SUPERVISORY BOARD</th><th rowspan="2">TWO-TIER SUPERVISORY BOARD STRUCTURE</th></tr>
<tr><th>POLITICAL MODEL</th><th>MIXED MODEL</th><th>INDEPENDENT MODEL</th></tr>
<tr><td>Description</td><td>Board mainly composed of political figures (either national or regional)</td><td>Board composed of a mix of
• Political representatives (national or regional)
• Civil society representatives (e.g. trade bodies, workers unions)
• Independent members</td><td>Board composed mainly of independent members</td><td>• “Political” Board composed of
– Political figures (national or regional)
– Representatives of civil society (e.g. trade bodies, workers unions)
• “Independent” Board composed of independent members</td></tr>
<tr><td>Pros</td><td>In line with political needs</td><td>• Balance of political and business needs
• Independent membership ensures some focus on effectiveness</td><td>Focus on effectiveness of the strategy and tools</td><td>• Balance of political and business needs
• Independent membership ensures some focus on effectiveness</td></tr>
<tr><td>Cons</td><td>Likely to be driven by political needs, hence risks of
• Dispersed agenda
• Unprofitable agendas</td><td>• Likely large Board
• Difficult to balance agendas of all parties</td><td>Risk of lacking alignment with politics (or of being perceived as such)</td><td>• Complicated coordination</td></tr>
<tr><td>Examples</td><td>• Croatia (HBOR)
• Bulgaria (BDB)</td><td>• Germany (KfW)
• France (Bpifrance)
• Spain (ICO)
• UK (BBB)</td><td>• Canada (BDC)</td><td>• Italy (CDP)
• Finland (Finnvera)</td></tr>
</table>

Sources: NPBI Annual reports, websites, Oliver Wyman analysis

Figure 5 shows the composition of Supervisory Boards of eight European NPBIs, many of which have representatives from the industry sector, financial sector but also government representatives on their boards. Supervisory Boards of NPBIs primarily focus on reviewing the institution’s mandate and strategic direction, performing general supervisory or audit functions and in some cases also approving large transactions.

FIGURE 5: REPRESENTATION OF STAKEHOLDERS AND THEIR RESPONSIBILITIES IN NPBI SUPERVISORY BOARDS



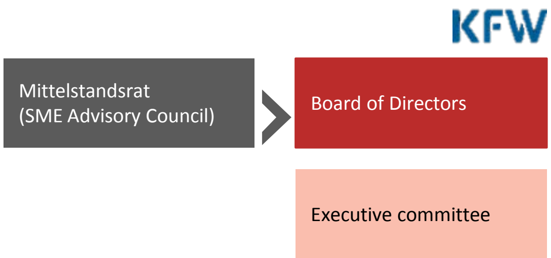
Source: Survey among 8 European NPBIs, Oliver Wyman analysis

5.1.2. ADVISORY COMMITTEES

The Supervisory Board of some NPBIs is supported by one or several External Advisory Committees. Such Advisory Committees can be particularly helpful to represent the interests of relevant stakeholders (e.g. regions, political, civil society) and can also bring some technical expertise (e.g. SME financing, infrastructure).

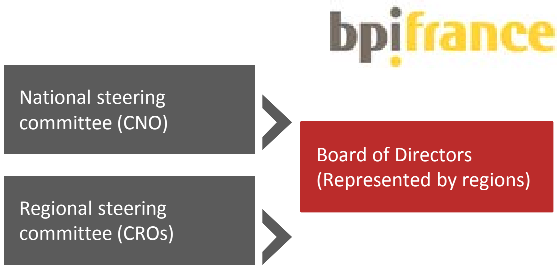
FIGURE 6: EXAMPLES OF ADVISORY COMMITTEES

Sector/segment-focused committee
Case study: KfW's SME Advisory Committee



- Federal Minister of Economic Affairs and Energy (Chairman)
- Federal Minister of Finance (Deputy Chairman)
- 10 other members
  - 2 Parliamentary State Secretaries (environment, economics)
  - 1 State Minister of Finance
  - 2 senators representing States
  - 1 senior member of the Federal Ministry of Finance
  - 4 senior members of the Federal Ministry of Economic Affairs and Energy

Regional committees
Case study: Bpifrance's regional committee



- CNO is composed of 27 representative members of the government, parliament, regions, trade bodies and unions
- The CROs play an advisory role to discuss proposals and coordinate action in the various regions; they are composed of
  - Presidents, Vice-Presidents, Secretaries and Treasurers of the regions
  - Members of the Board of the association representing the municipalities (CNAS)

5.1.3. MANAGEMENT COMMITTEE STRUCTURES

As shown in the table below, the committee landscape below the Management Board of NPBIs typically resembles that of private sector banks, with the addition of an Evaluation Office, which assesses performance against the NPBIs' objectives and mandate.

TABLE 8: MANAGEMENT COMMITTEE STRUCTURES

EVALUATION OFFICE	• Independent post-evaluation function reports directly to bank's Management Board • Assesses operational effectiveness, investments, and donor-funded activities • Provides accountability and lessons learned to improve performance
COMPLIANCE OMBUDSMAN/ REVIEW PANEL	• Independent review board reports to the Audit Committee and Management Board • Evaluates policy compliance and responds to complaints by those affected by investment projects
AUDIT COMMITTEE	• Assists Directors in overseeing the Bank's internal controls and audits • Monitors accounting process, reviews financial statements, reporting, and policies • Recommends the appointment and compensation of the external auditor to the Board
FINANCIAL POLICY/ BUDGET COMMITTEE	• Reviews President's budget proposals and assists Board in approving budget • Responsible for treasury operations, liquidity policy, borrowing program, and portfolio management • Can also be separate budget and financial operations committees
OPERATIONS COMMITTEE	• Considers routine investment proposals before escalation to the Management Board • Reviews and manages of projects, proposes new projects to the Management Board • Oversees strategic and reputational risk
RISK MANAGEMENT COMMITTEE	• Reports directly to the CEO • Responsible for measuring, monitoring and managing risk within defined policies • Reviews risk policies and makes recommendations on risk management processes
HUMAN RESOURCES COMMITTEE	• Reviews, monitors and makes recommendations on staffing, compensation and benefits as well as long-term human resources strategies • In some instances HR committee may also be responsible for the budget
IT GOVERNANCE COMMITTEE	• IT management committee meets six times per year under the CEO to ensure bank's IT structure supports business strategy • IT department provides daily oversight of IT delivery

5.1.4. GOVERNANCE OF OPERATIONS

The final credit decision is typically made by the senior management and in some cases also by the Management Board. Governance at arm's length is also required for the credit process, which therefore needs to be designed in a truly independent way and such that the state cannot discretionarily interfere. Otherwise there is a potential for conflict of interest or asymmetric information.

Most NPBIs have a sequential approach to the credit approval process with checks and balances at work between different departments throughout the process, but few truly differentiate along products (i.e. credit approval follows the same logic for all products regardless of who in the senior team has the most expertise), risk categories (i.e. rating of the borrower), and expected losses (i.e. most often financing volumes rather than expected losses determine who in the hierarchy will have to approve).

An independent credit process is important to ensure appropriate pricing and information balance. This can be achieved through governance at arm's length with inclusion of independent members in the risk management committee. Generally though, the institution should aim to have a "lean" credit process to increase the efficiency of day-to-day operations. For example, risk involvement is not required for small and/or standard deals below certain thresholds. Structured deal teams with both Risk and Front office staff are set up for larger and more complex deals to make the credit process less sequential. And for all but large and complex deals, the process is formally differentiated according to a rating/size matrix to channel deals into fast, standard and intensive tracks. Some banks have also formed a separate committee that previews the proposed transactions and advises on prioritisations in the approval process. This would complement the need for independent members and to avoid information asymmetries.

5.2. APPLICATION IN THE DUTCH CONTEXT

The governance and risk management of NFEO should be in line with national and international best practices. A two-tier board is mandatory and fit for purpose in the Dutch context, and members of the Supervisory Board have to be independent. Outside advisory committees could be established to represent relevant stakeholders if and where needed.

5.2.1. BOARD STRUCTURE AND COMPOSITION

As discussed in section 4.1, the proposed legal form of the NFEO holding entity is a Dutch public limited liability company (N.V.).

Incorporating NFEO as an N.V. with application of the large companies regime (*structuurregime*) or the mitigated large company's regime (*verlicht structuurregime*) requires the establishment of a Supervisory Board as a corporate body supervising the Management Board. A two-tier board structure with a Management Board and Supervisory Board is also mandatory for Dutch banks, including FMO, BNG and NWB.

The Supervisory Board of an N.V. must act in the sole interest of the company, and all its stakeholders and as such may not take instructions from a specific shareholder or third party. The various corporate governance and regulatory rules and codes (including the Corporate Governance Code, the Banking Code, EBA Guidelines and the position of DNB) contain rules on the independence of the members of the Supervisory Board from the company, the shareholders, customers, etc. Members of the Supervisory Board must be independent "in mind" (acting independently), "in appearance" (appearing to be independent) and "in state" (formal independence).

The abovementioned requirements on independence and acting in the interest of the company do not fully preclude the representation of stakeholders' interests in the Supervisory Board. According to the Dutch Banking Code and the position of DNB, it is allowed that a minority (less than 50%) of the members of the Supervisory Board does not meet the requirement of independence "in state" set out in the corporate governance and regulatory rules and codes. This minority may thus be employed by a specific stakeholder. For example, the Supervisory Boards of NWB and BNG include a provincial governor, a mayor and a water authority chair (NWB) and the chair of the governing council of the Association of Dutch Municipalities, a provincial governor and a mayor (BNG). However, these members must still act in the sole interest of the company, and all its stakeholders and must be independent in mind and appearance. As such, only the independent model for the composition of the Supervisory Board is suitable to NFEO.

5.2.2. EMBEDDING THE IMPORTANCE OF MARKET FAILURE IN THE ORGANISATION

As stated before, the main objective of NFEO is to address and resolve market failures. It must be made sure that mission creep is avoided and commercial parties are not crowded out. This is also necessary to ensure that state aid rules are fully complied with. This restrictive mandate should be thoroughly and pervasively embedded in the governance and operations of NFEO, and a number of mechanisms should be in place to ensure that the operations of NFEO remain continuously focussed on this mandate only:

- The mandate should be clearly formulated and included in the articles of association of NFEO.
- In its operations, NFEO should implement established practices among other NPBIs to provide ex-ante and ex-post evidence of participation in market failures.
- We recommend NFEO aligns with best practice and sets up an (internal) evaluation office. The Evaluation Office should have as objective to establish evaluation mechanisms ensuring that NFEO’s mandate and activities are continuously assessed against changes in the market failure landscape. Once a market failure is no longer material or new ones appear, the Evaluation Office should make a recommendation to the Management Board which activities should be stopped and/or taken on and how resources should be re-allocated. It should report to the Supervisory Board .
- In addition, periodic (e.g. on a bi-annual basis) independent external review mechanisms, potentially involving a competition authority, international experts, or external auditors should be in place. The Supervisory Board should be obliged to request such a review at regular intervals and make results public.

5.2.3. MANDATORY SUB-COMMITTEES OF THE SUPERVISORY BOARD

Considering that entities in NFEO's group would have a banking licence, the following Supervisory Board committees are mandatory based on the rules applicable to banks (CRD IV, EBA guidelines on governance, Banking Code and Corporate Governance Code):

- **The Remuneration Committee** advises the Supervisory Board, among other things, on the terms and conditions of employment (including their remuneration) of Management Board members and the policies and general principles on which the terms and conditions of employment of Management Board members and of senior managers are based.
- **The Audit Committee** assists the Supervisory Board in monitoring the integrity of the financial statements of the company, the compliance by the company with legal and regulatory requirements, and the independence and performance of internal and external auditors.
- **The Risk Committee** assists and advises the Supervisory Board in monitoring the risk profile of the company as well as the structure and operation of the internal risk management and control systems.
- **The Nomination Committee** advises the Supervisory Board, among other things, on the composition of the Supervisory Board and Management Board.

Under a tailor-made supervisory regime, NFEO would be subject to comparable requirements.

5.2.4. POTENTIAL ADVISORY COMMITTEES

Advisory committees can be helpful in representing the interests of stakeholders (e.g. regions, political entities, civil society) and for bringing in technical expertise (e.g. SME financing, infrastructure).

These committees can be structured in such a way that the influence of the NFEO stakeholders is embedded strong enough in the organisation to actually matter but also in a way that the organisation retains its flexibility and operational independence.

Within the context of a Dutch public limited liability company (N.V.), two options can be considered for creating additional committees to allow input from other stakeholders:

1. Advisory committees outside the Supervisory Board with powers that are set out in the articles of association;
2. Committees of an (extended) Supervisory Board.

As set out below, considering that the purpose of the advisory committees is to give a voice to the interests of the relevant stakeholders, the first option seems best suited for NFEO. The second option may not work in the Dutch context as the Supervisory Board must act in the sole interest of the company and all relevant stakeholders, and a Supervisory Board in the Dutch context is usually not very large.

RECOMMENDED OPTION 1: ADVISORY COMMITTEES OUTSIDE THE SUPERVISORY BOARD WITH POWERS SET OUT IN THE ARTICLES OF ASSOCIATION

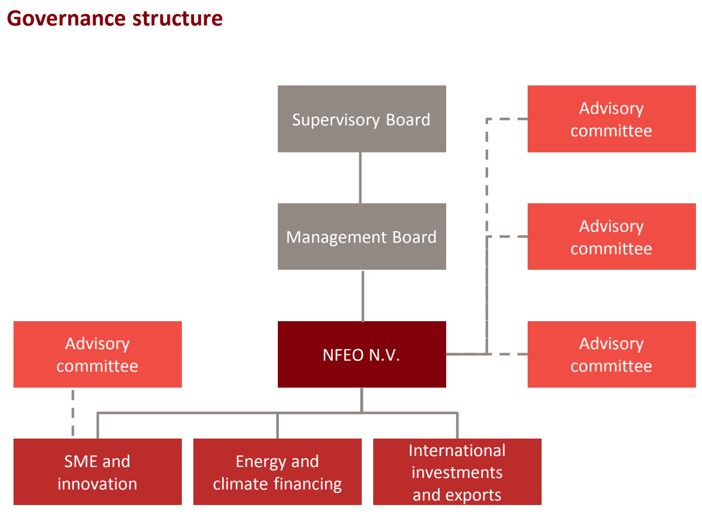
This option would consist of the establishment of advisory committees which are not a formal body of the company but are attributed powers in NFEO's articles of association. It is possible to create specific advisory committees at the subsidiary level as well.

An example is the Banking Council (*Bankraad*) of the Dutch Central Bank (DNB), which includes academics and representatives of trade unions, the Ministry of Finance and other stakeholders. It has the right to advise the Management Board of DNB on the basis of the law attributing DNB with its public functions (*Bankwet 1998*) and on the basis of DNB's articles of association.

This option has the benefit that it offers more flexibility in the appointment of the members of the advisory committees, which can be decided by and among stakeholders and which — provided that they do not qualify as de facto members of the Supervisory Board — does not need to take into account the rules on independence applicable to members of the Supervisory Board.

It is possible to strengthen the position of the advisory committees by setting out the procedure with regard to the advice that will be given to the Management Board in the articles of association of the company.

FIGURE 7: GOVERNANCE STRUCTURE



ALTERNATIVE OPTION 2: COMMITTEES OF AN (EXTENDED) SUPERVISORY BOARD

This would consist of the establishment of an (extended) Supervisory Board with representatives from various stakeholders appointed as members of specific committees. Although a Supervisory Board of 5-7 persons is customary for a large company, including a bank, a Supervisory Board can be substantially larger. Stakeholders could be represented on the Supervisory Board's committees, or could establish other committees, e.g. for specific client bases or products, e.g. municipality lending, international development assistance, etc. This option has the benefit that the Supervisory Board is one of the formal bodies of the company and may be attributed far-reaching powers on the basis of the Dutch Civil Code.

An important constraint of this option is that, on the basis of both regulatory and corporate rules and codes, the members of the Supervisory Board will need to act independently. They will also in principle be nominated by the Supervisory Board itself. Considering that the purpose of the advisory committees is to give a voice to the interests of the relevant stakeholders, this option may not work in the Dutch context, as the Supervisory Board must act in the sole interest of the company and all relevant stakeholders. Furthermore, due to the size of the Supervisory Board the decision making will be cumbersome and the accountability of the members can become unclear.

TABLE 9: ADVISORY COMMITTEE STRUCTURES

	Option 1 (recommended) Committees outside Supervisory Board, arranged for in the Articles of Association	Option 2 (alternative) Committees of an extended Supervisory Board
ADVANTAGES	• More flexibility in the appointment of the members of the committees • Stakeholders can appoint the members • Rules on independence not applicable (provided the members do not qualify as de facto Supervisory Board members)	• Supervisory Board is a formal body of the entity • Far reaching powers
DISADVANTAGES	• Attribution of powers beyond mere advisory role constrained by the Dutch Civil Code	• Supervisory Board members must act independent from the stakeholders they represent • Nomination by the Supervisory Board (if under full large companies regime)

Both options bear the risk of political and administrative slowdowns. The more formal the role of a committee, the higher the probability of political influence. For NFEO to be viable on the long term, it is essential that short and midterm operations are not in the hands of political or official bodies that can paralyze the organisation.

In addition or as an alternative for advisory committees (depending on the final ownership structure), specific arrangements could be made for the involvement of the shareholders. For example, the Dutch Railroad Company (*De Nederlandse Spoorwegen*) holds quarterly updates in which the shareholder (the Dutch State) is updated on headlines. This guarantees influence on long-term strategy, while steering clear of interference with the day-to-day management and operations of the company.

Additionally, it is possible to implement tailor-made governance structures on the subsidiary level. The Supervisory Boards and/or Advisory Committees of the different subsidiaries could include expert members from the private sector, ministries, etc. to ensure stakeholder participation and influence.

5.2.5. RISK MANAGEMENT

NFEO should be establishing best in class risk management practices, in line with the latest Basel regime, and the EBA guidelines on the Supervisory Review and Evaluation Process (SREP) and on internal governance. As NFEO would in many cases provide first loss financing tranches, NFEO's exposure to risks and adverse selection is disproportionately high compared to the private sector. This will require bringing in significant additional expertise (from the private sector).

5.2.6. FURTHER POINTS OF ATTENTION

Other relevant points of attention with regard to the governance of NFEO are remuneration and standard governance principles. The remuneration of the Management Board, Supervisory Board and the employees should be in line with the requirements of CRD IV, the Financial Undertakings Remuneration Act (*Wet beloningsbeleid financiële ondernemingen*), and the EBA Guidelines. NFEO and its subsidiaries must have a remuneration policy that is in line with their risk profile. Furthermore, the governance should correspond to the standard governance principles set out in the State's Participations Policy (*Nota Deelnemingenbeleid*) as much as possible. FMO, NWB and BNG currently already largely comply with this policy.

6. ALTERNATIVE PORTFOLIO STRUCTURES

Based on a preference for an integrated model we have developed four alternative portfolio structures. This institution will be required to address prevalent market failures; therefore, all four proposed portfolio structures focus on consolidating combinations of existing institutions and schemes. In doing so NFEO would leverage existing expertise and distribution networks. NFEO will then be able to re-design their products and services over time as market conditions and recognised market failures shift.

6.1. ASSUMPTIONS FOR OUTSIDE-IN VIEW

For each alternative we have estimated financial indicators, including composition of assets, funding mix, performance, and prudential ratios. It is important to note that this outside-in view relies on a number of high level assumptions. These assumptions relate to treatment of social housing assets, derivatives, capital ratios, and management of government schemes.

> *"Less fragmentation of the different schemes aimed at investing in SMEs will improve efficiency. Advanced coordination at the national level will provide regional development organisations with better and more efficient access to extra seed and start funds, including funds from the EU, to be able to scale-up regional blue chips into international winners"*
>
> Marius Prins,
> PPM Oost

DERIVATIVES

NWB and BNG both hedge their portfolios on the micro and macro level and, therefore, have large derivative positions on their balance sheet. Some hedges are made for individual loans but a large portion of the portfolio risk is hedged at the aggregate level. Large derivative positions are, therefore, shown on the balance sheet of both BNG and NWB. The portion of derivative positions related to the corresponding loans was assumed to be distributed *pro rata* for all types of loan assets.

SOCIAL HOUSING

Social housing loans form a large part of BNG's and NWB's portfolio. For both BNG and NWB, social housing loans, in addition to creating positive social impact, also provide scale and thus reduce the liquidity premium on their bonds.

Separating BNG's and NWB's social housing activities is proposed. Although undeniably socially useful, the overlap of social housing with the other arms within NFEO is limited and excluding it would bring the size of the institution proportionally more in line with international practice. Private sector investors are already investing in social housing – sometimes at cheaper rates than BNG and NWB – and bundling these activities would increase attractiveness for private or institutional investors. Therefore, social housing loans have been excluded from the balance sheet for several portfolio structures, either through de-recognition, sell-off or moving them into a separate fund and accounting them as off-balance sheet items.

CAPITAL RATIOS

For the leverage ratio we back calculate the exposure measure as compared to the capital measure. NFEO's leverage is calculated based on the aggregate exposure measures. The exposure measure is considered to be distributed pro-rata as compared to the interest-bearing assets. For the Risk Weighted Assets (RWAs) we have taken a conservative approach with regards to the impact of the in/exclusion of social housing loans. As we do not have visibility on the risk weighting that these institutions have attributed to the social housing portfolio, we have assumed all are currently assigned a 0% risk weighting. As such RWAs are not affected in our calculations of a housing portfolio divestment – i.e. all RWAs are conservatively assigned to the remaining balance sheet. This prevents the Core Tier 1 Equity ratio from becoming too favourable and put conservative limits on the potential for additional lending.

GOVERNMENT SCHEMES

In our proposed portfolio structures we transfer management of the schemes and non-guarantee assets to the new institution. This includes resources currently servicing the schemes and some of the debt.

6.2. IMPLEMENTATION ALTERNATIVES

We have identified four portfolio structures to develop a NFEO. In this section we discuss the capital structure, financial structure, and synergy benefits.

In section 1, we discussed three operational "arms" of the business model for an integrated NFEO. This would include an "SME and innovation" arm focussed on improving access to finance for SMEs leveraged by existing SME schemes currently managed by the government. To address existing and new market failures, NFEO would be tasked to design new schemes and products, for example to develop alternative sources of finance for SMEs. NFEO would also be required to shut down instruments that are no longer effective or required to address market failures. The institution would also have an "Energy and climate financing" arm initially composed of public sector and infrastructure activities from BNG and NWB, and existing infrastructure and sustainability investment schemes funded by the government. The third "arm" will focus on "International investments and exports". The basis for this arm would be FMO as well as foreign aid activities by the Ministry of Foreign Affairs and potentially existing public-to-public schemes supported by the government.

"We observe that National Promotional Institutions generally provide valuable advisory services to SMEs and they therefore constitute key partners for the European Investment Advisory Hub; in the Netherlands, where no such NPI exists, smaller companies need to go looking for support and advisory services more and so it's harder for the Hub to find the right local partner in this context"

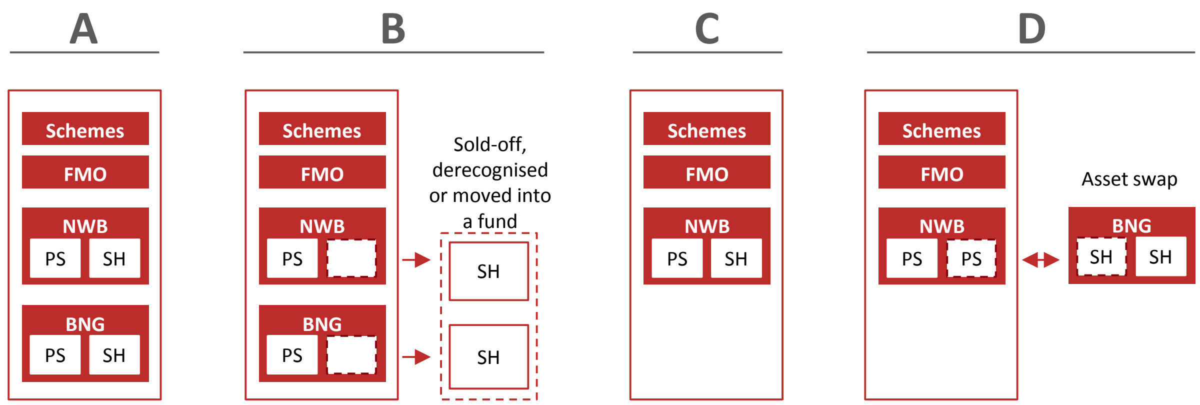
Simon Barnes,
Director, EIB

It is important to note that in all proposed portfolio structures, combinations of assets and capabilities from NWB, FMO, BNG and selected financing schemes form the foundation of the new institution (see below in Figure 8 and also refer to Appendix C for an overview of the included promotional schemes).

Portfolio structures A and B would be comprised of assets from BNG, NWB, FMO and selected promotional schemes. In portfolio structure B social housing assets would be separated through sell-off over time, but could also be derecognised or transferred into a fund. Portfolio structures C and D would mainly comprise assets from NWB, FMO and selected promotional schemes. In the case of portfolio structure D, social housing assets from NWB would be swapped against public sector assets from BNG and equity is transferred to boost BNG's leverage ratio.

The organisational configuration of portfolio structures A and B would be based on resources and systems from BNG, NWB, FMO and RVO. In portfolio structures C and D, resources would primarily be drawn from NWB, FMO and RVO.

FIGURE 8: ALTERNATIVE PORTFOLIO STRUCTURES FOR NFEO



PS = public sector, SH = social housing

A key element of the analysis of all four portfolio structures is the treatment of social housing loans. Social housing assets account for a significant share of BNG's and NWB's balance sheet. Assets related to social housing roughly total €86 BN (excluding corresponding derivative positions), translating into 56% of the combined loan portfolio and 36% of the total balance sheet of these institutions. At 64% social housing loans account for a large part of NWB's loan portfolio in particular. The high level implications and considerations for each alternative are provided in Table 10.

TABLE 10: IMPLICATIONS AND CONSIDERATIONS FOR NFEO PORTFOLIO STRUCTURES

	A	B	C	D
DESCRIPTION	Combined entity of BNG, NWB, FMO and schemes	Combined entity of BNG, NWB, FMO, schemes and excluding social housing	Combined entity of NWB, FMO and schemes	Combined entity of NWB, FMO, schemes, including BNG public sector and excluding social housing
GOVERNMENT SCHEMES	• Transferred to NFEO if possible • Others (e.g. guarantees) may remain (temporarily) on the Government's balance sheet but would be managed by NFEO			
ORGANISATION	• Resources and systems drawn from BNG, NWB, FMO and RVO		• Resources and systems drawn from NWB, FMO and RVO	
BALANCE SHEET COMPOSITION	• Assets from BNG, NWB, FMO and schemes	• Assets from BNG, NWB, FMO and schemes • Excluding social housing loans	• Assets from NWB, FMO and schemes	• Assets from NWB, FMO and schemes • NWB's social housing loans sold to NWB • BNG's public sector assets acquired by NFEO
FINANCING OF SOCIAL HOUSING LOANS	• No change	• Loans are moved into an SPV/fund or sold to investors • >95% of the risk is sold to investors and loans are derecognized	• No change	• BNG becomes the main financing company for social housing corporations
MANAGEMENT OF SOCIAL HOUSING LOANS	• No change	• NFEO could manage social housing loans if required	• No change	• BNG manages social housing loans

7. FINANCIAL IMPLICATIONS

In this section on financial implications we discuss potential synergy benefits and the more detailed financial elements of the portfolio structures considered.

7.1. SYNERGY BENEFITS

The current fragmentation of Dutch promotional banking duplicates costs and under-utilizes expertise. When combined, NFEO would have sufficient scale to generate substantial efficiency gains in funding, capital management and operating expenses (see Table 11).

TABLE 11: RESOURCE MANAGEMENT

TYPE OF SYNERGIES		DESCRIPTION
1	FUNDING COSTS	• NFEO's scale would increase the liquidity of the bonds issued and thereby reduce the cost of funding (illiquidity premium) • NFEO's liabilities would be guaranteed by the Dutch Government, generating a funding benefit of 5-20bps vs. current situation
2	CAPITAL REQUIREMENTS	• The creation of a single institution could unleash "trapped capital". Capital that is currently spread between different institutions may be greater in aggregate than the capital required for the unified entity with its diversified portfolio
3	OPERATING EXPENSES	• The inclusion of multiple institutions would reduce operating costs significantly • The total impact of these efficiency gains will depend on the scope of the selected institutional model, however our expectation is that savings would be between 5-10% and assume 7.5% for calculation purposes

We have presented four portfolio structures for developing a NFEO based on alternative combinations from assets from these three institutions and government schemes.

ESTIMATIONS OF SAVINGS

Combining existing institutions and schemes could generate substantial financial and operational benefits as shown in Table 12.

With a full state liability guarantee NFEO could benefit from a 5 to 20bps reduction in cost of funding. Conservatively assuming a funding cost reduction of 10bps, this reduction can save up to €180 MN a year.

Combining FMO with BNG and NWB would also lead to savings in capital. Both BNG and NWB currently have leverage ratios below 3%, the expected regulatory minimum set by the regulators. FMO on the other hand is more restricted on the Core Tier 1 ratio as their business inherently involves more risky loans. FMO's leverage ratio is therefore much higher, at 22%.[26] This trapped capital could be released by merging these entities resulting in no additional capital required to boost BNGs and NWBs leverage ratios, eliminating the current need to introduce €1.2 BN of new capital and freeing up an additional €850 MN of capital to create an immediate €2 BN capital benefit in portfolio structure A and B. Further benefits are expected by retaining cost savings or e.g. the divestment of the housing portfolio in portfolio structure B.

[26] Annual reports from BNG, NWB and FMO

On operational costs, some benefits can be generated by streamlining operations, particularly in treasury and risk management. However, these savings will likely be reinvested to enhance operational capabilities and build out areas that did not exist before, such as those related to SME trade financing and energy project financing.

TABLE 12: INDICATIVE FINANCIAL AND OPERATIONAL BENEFITS BASED ON 2015 INSTITUTIONS RESULTS

CATEGORY	EXPENSES CURRENT STATE	SYNERGIES	BENEFITS OF NFEO PORTFOLIO STRUCTURES			
			A	B	C	D
FUNDING COSTS SAVINGS (€ MN P.A.)	2,173	-10bps funding costs	183	97	73	64
OPERATING COST SAVINGS[27] (€ MN P.A.)	209	7.5% reduction	16	16	11	11
CAPITAL SAVINGS[28] (€ BN ONE-OFF)	-	Leverage ratio >3%	2	2	1.8	1.8

7.1.1. FUNDING COST SAVINGS

With a state liability guarantee the new institution would be able to attract cheaper funding. This is in line with international practices at other NPBs, such as Spain's ICO, Germany's KfW and Finlands Finnvera. Bonds from KfW are explicitly guaranteed by the German government and have several characteristics similar to German sovereign bonds, including their issuance policy and investor base. However, KfW bonds pay a spread over the German Bund that is generally considered to reflect a liquidity premium. This spread over the federal government bonds was around 0-15bps during 2015. Similarly, bonds issued by Finnvera and ICO, who also benefit from an explicit state guarantee, pay a relatively narrow spread over the Finnish and Spanish government bonds. (Refer to Appendix D for further details.)

Dutch public institutions currently pay a premium on their funding compared to government financing due to the absence of a liability guarantee and a lack of liquidity. Most of BNG's and NWB's assets are guaranteed by the state through their shareholders and customers, such as municipalities, water boards and social housing corporations. However, their cost of funding is 20-40bps higher than government bonds. FMO does have a state liability guarantee. However, its low issuance volumes mean it pays a higher liquidity premium. The government schemes are currently on the balance sheet of the Dutch government and will therefore be funded at the Dutch government bond rate. These schemes are relatively small because they are mainly guarantees, for which only reserves are kept on balance sheet.

With a state guarantee and increased scale NFEO would be able to fund itself at a lower cost than the existing institutions from which it would be formed. Assuming a spread of ~10bps above government bonds, in line with the average funding spread advantage of KfW, Finnvera and ICO (refer to Appendix D), and debt securities totalling 75% of total assets, NFEO could generate yearly savings of up to €30-180 MN (see Table 13).

[27] Operating expenses are considered to scale with the combination of institutions that NFEO is initially composed of. For portfolio structures A and B this includes BNG, NWB, FMO and select resources from RVO. For portfolio structures C and D this includes NWB, FMO and select resources from RVO.

[28] Both BNG and NWB currently have a leverage ratio below the minimum Basel III threshold of 3% (2.6% and 2.1% respectively). A capital increase of €1.2 BN would be required to increase the leverage ratio of both entities to 3%. In case of a combined balance sheet, both would benefit from FMO's excess capital and no capital injection would be required.

TABLE 13: SAVINGS ON COST OF FINANCING ASSUMING STATE-GUARANTEE

	ASSETS	2YR SPREAD	5 YR SPREAD	10 YR SPREAD	20+ YR SPREAD
BNG	150	25	25	32	99
NWB	91	17	17	19	42
FMO	8	42	9	-	-
A	250	€183 MN			
B	144	€97 MN			
C	100	€73 MN			
D	97	€64 MN			

7.1.2. CAPITAL SAVINGS

We expect the new entity to also benefit from capital synergies. The current balance sheet makeup of NWB, BNG and FMO is inefficient as it creates a lot of trapped capital. To get to a leverage ratio of 3%, BNG and NWB will currently need to add €1.2 BN of capital to their balance sheets, e.g. by retaining earnings or injecting capital. By consolidating the aforementioned institutions, trapped capital will be unlocked and capital requirements met (see Table 14). As balance sheets are complementary in terms of capital and liquidity constraints, an estimated €2 BN of capital is freed up immediately on combination in portfolio structures A and B, whereas structure C and D logically only achieve part of this benefit. A more balanced institution can be created in structure A and B, as the combined balance sheet would have a leverage ratio of 3.4% and 5.8% respectively and a CET1 ratio of 26%. The need for introducing additional €1.2 BN of capital for NWB and BNG would hence be eliminated (see also Table 16). In fact, the combined balance sheet would immediately free up additional €850 MN of capital above reasonable minimum constraints of a 20% CET1 and a 3% leverage ratio, adding up to the €2 BN capital advantage. This capital can now be used flexibly to serve the mandate of the new institution, within appetite limits for each of the three arms. Note that in portfolio structure B the social housing portfolio is sold-off over time and, unlike moving these loans into a fund, this option does not require equity to be transferred.

TABLE 14: CAPITAL RATIOS OF EXISTING INSTITUTIONS AND PRO-FORMA NFEO, BASED ON 2015 ACTUALS

	CURRENT STATE			NFEO IMPLEMENTATION ALTERNATIVES			
Category	NWB	BNG	FMO	A	B	C	D
LEVERAGE RATIO	2.1%	2.6%	22.6%	3.4%	5.8%	4.7%	4.0%
CET 1 RATIO	65%	23%	23%	26%	26%	29%	29%
ADDITIONAL CAPITAL REQUIRED (€ MN)	643	526	0	0	0	526	0

7.1.3. OPERATIONAL COST SAVINGS

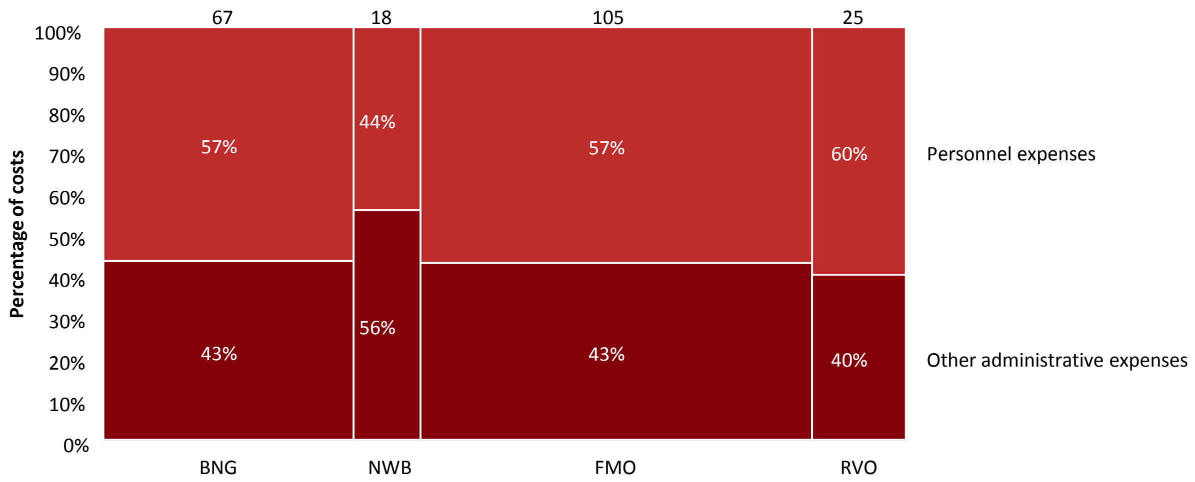
On the operational costs we believe that the new NFEO institutions could save up to 10% on personnel and other administrative expenses. These savings would likely be entirely reinvested in order to enhance capabilities, for example:

- Streamlining operations (e.g. IT systems).
- Combining enterprise wide support functions such as Treasury, Risk, internal audit and other support functions (e.g. IT, HR).

The savings are estimated based on high level assumptions for costs per FTE and conservative ranges for potential synergy benefits. The current combined annual cost base for BNG, NWB and FMO is about

€100 MN for personnel expenses and €85 MN for other administrative expenses. We also estimated RVO's operational costs associated with existing schemes to be €25 MN. This is based on a 200 FTE estimated workforce dedicated to servicing these schemes. For RVO's operational cost/FTE in 2015 we have estimated €125 K, split up between direct personnel costs of €75 K and €50 K for other administrative expenses.

FIGURE 9: CURRENT OPERATING EXPENSES (IN € MN)



Based on high level assumptions and depending on the level of institutional integration, we estimate that there is a potential for 5-10% savings on staff costs (due to duplicative functions) and ~5% savings on other administrative expenses. This translates to €10-20 MN on an annual basis.

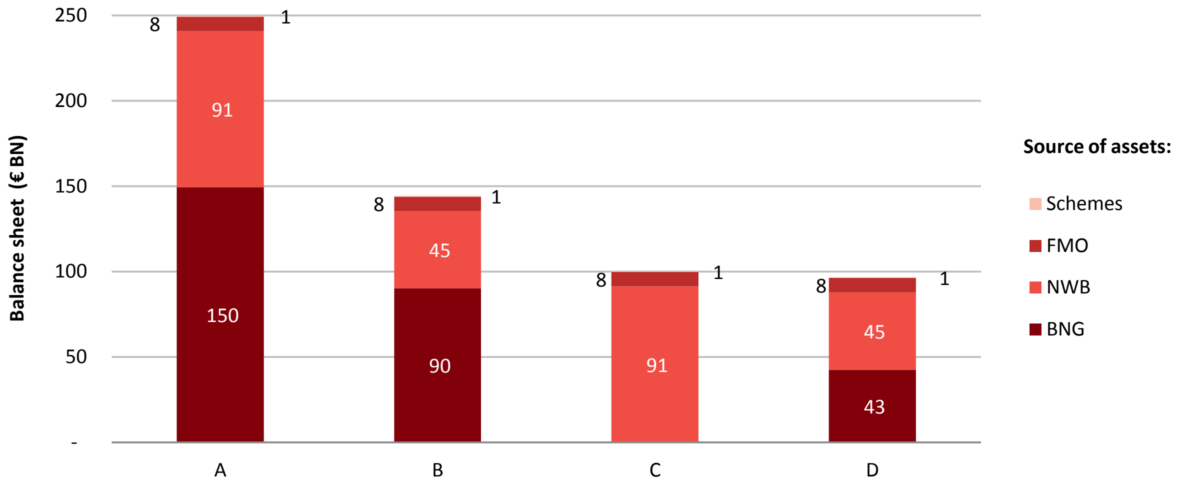
7.2. FINANCIAL ELEMENTS

We have estimated key financial indicators for each proposed portfolio structure to better understand the capital structure they entail and their financial viability. These estimations are based on outside-in information. Further detailed analysis based on internal balance sheet and P&L information will have to be performed when moving forward.

7.2.1. BALANCE SHEET SIZE

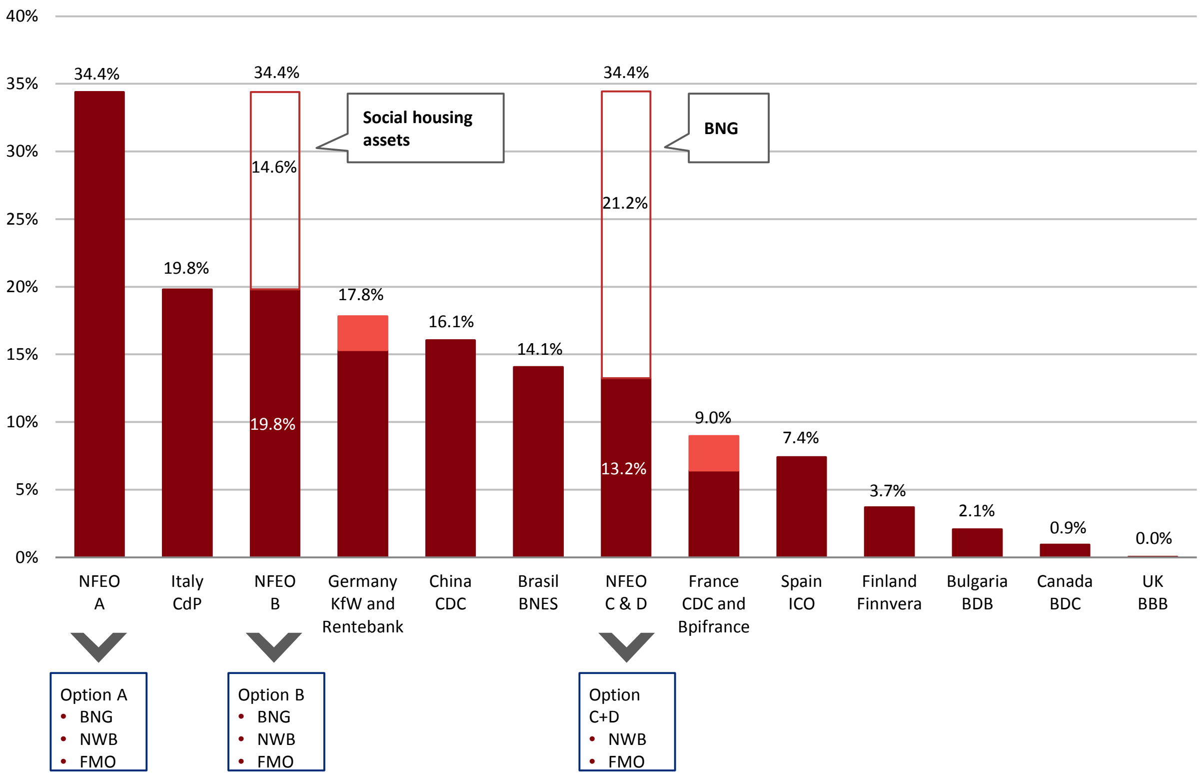
In the current situation, the aggregate balance sheet of BNG, NWB and FMO would be about €250 BN. As shown in Figure 10 for alternative B, the balance sheet would be about €150 BN, and for C and D about €100 BN.

FIGURE 10: BALANCE SHEET SPLIT BY ORIGINATING ASSETS FOR EACH NFEO ALTERNATIVE PORTFOLIO STRUCTURE



The newly created NFEO would be of a similar size to broad spectrum promotional banks in other European countries. By transferring social housing loans from NFEO's balance sheet to BNG (alternativeD), NFEO remains relatively small. However, BNG will remain a sizeable public entity, with assets equal to about 20% of GDP. In portfolio structure, B we exclude social housing assets from these public entities entirely, thus significantly reducing the aggregate size of Dutch NPBIs. In each alternative, NFEO's assets are between 13% and 20% of GDP, which is in line with comparable countries, such as Italy and Germany (see Figure 11).

FIGURE 11: BALANCE SHEET SIZE COMPARISON WITH OTHER WIDE SCOPE NATIONAL PROMOTIONAL BANKS/INSTITUTIONS, AS % OF COUNTRY GDP, 2014

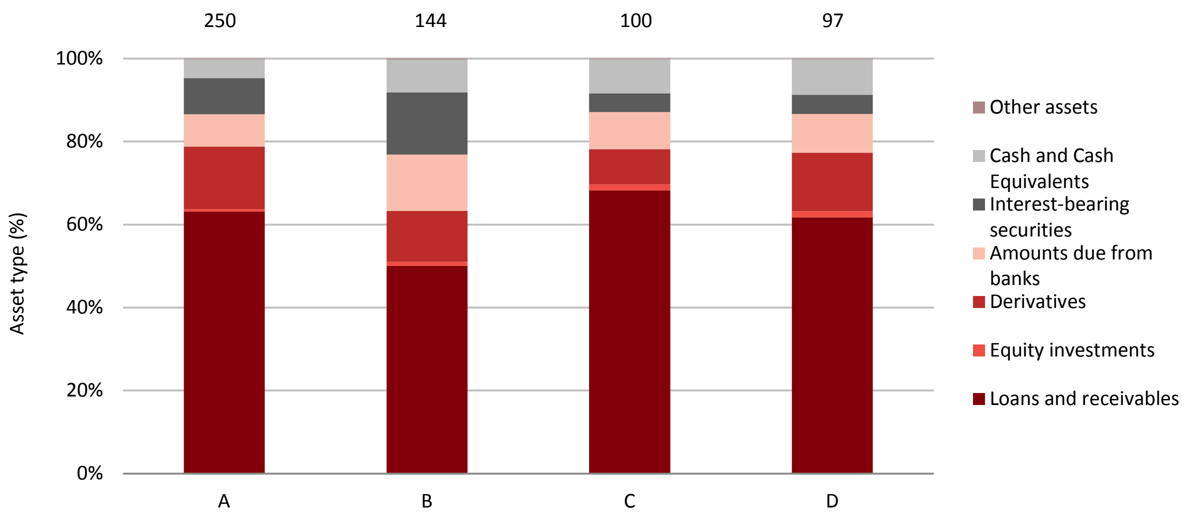


Notes: For the size comparison of NPBs against GDP only nationally operating NPBs were taken into account. Promotional banks operating on the regional level only have not been taken into account.
Sources: Bankscope, Worldbank, Annual reports, Oliver Wyman analysis

7.2.2. ASSET COMPOSITION

We have looked at the asset composition of each alternative portfolio structure to determine which types of lending the entity would perform (see Figure 12). On all structures, NFEO's assets would primarily consist of loans and receivables (50-60% of total assets) and some equity investments (1-6% of total assets). Derivatives would remain at about 15% of total assets due to our assumption of pro-rata macro-hedge derivatives with any type of loan in the portfolio. The remaining 20-30% of assets includes cash, investment securities and other assets (e.g. tangible, deferred tax, etc.).

FIGURE 12: COMPOSITION OF ASSETS FOR NFEO PROPOSED PORTFOLIO STRUCTURES



In Figure 13 we compare the composition of the loan portfolio with the current situation.

PUBLIC SECTOR, INFRASTRUCTURE AND SUSTAINABILITY

Public sector and infrastructure financing will represent the bulk of the loan portfolio (approximately 79-82%). This sector can be built from BNG's and NWB's existing portfolio and expertise. BNG and NWB have public sector and infrastructure loans worth €40 BN and €17 BN respectively, mostly to municipalities (€41 BN), water boards (€8 BN), and healthcare (€8 BN). Additionally, BNG and NWB have loans in other sectors such as energy, telecom, transport and logistics. BNG is involved in various wind and solar energy projects, sustainability PPP projects, and collaborates with the EIB.

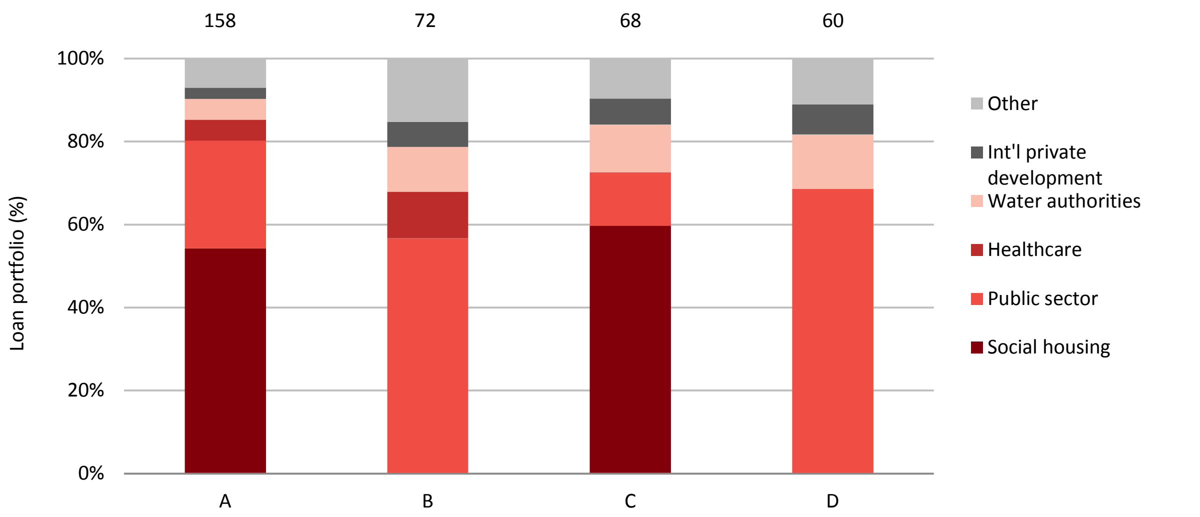
INTERNATIONAL TRADE AND DEVELOPMENT

The international trade and development part of NFEO would initially cover most of the remaining loan portfolio. It would be built on FMO's portfolio and expertise. NFEO would start with assets in this sector of €8 BN in a wide range of asset types (debt, equity, etc.) and across multiple countries. NFEO would build on FMO's existing international presence and expertise. If a public-to-public development (similar to Germany's KfW Development Bank or France's AFD) were to be created, it may also need to bring some assets from government schemes onto its balance sheet. Some export financing schemes can be transferred from RVO. However, additional export & project finance products (e.g. export refinancing facility) may need to be developed.

SME

Although some SME financing schemes currently exist, they are very small in comparison to the NFEO's total loan portfolio in each proposed portfolio structure. Some existing SME financing products can be transferred from RVO; however, they are relatively small and primarily guarantees. New products will need to be created, which may require more balance sheet capacity (e.g. refinancing schemes).

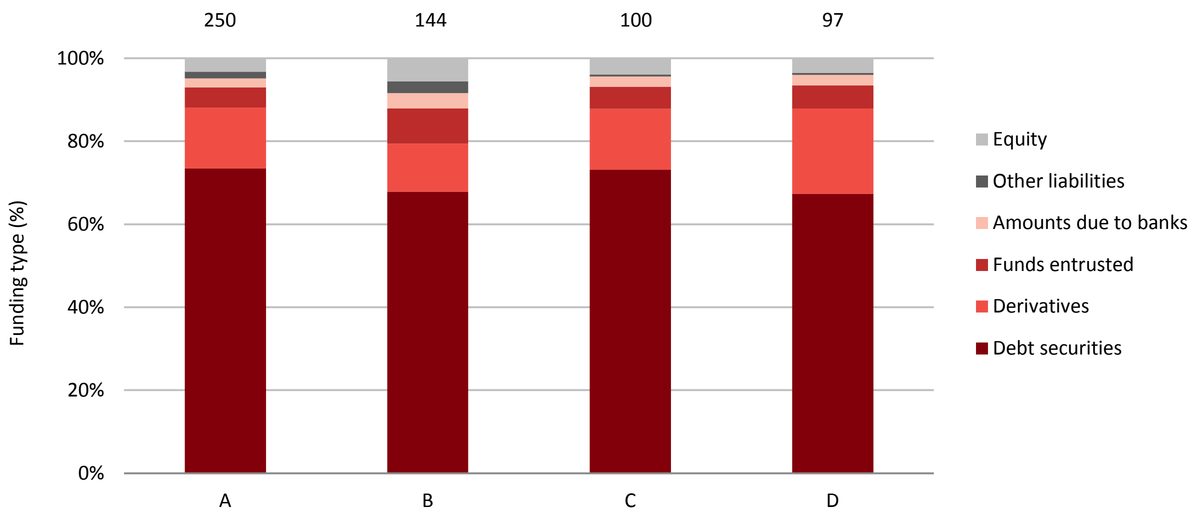
FIGURE 13: LOAN PORTFOLIO FOR NFEO PROPOSED PORTFOLIO STRUCTURES



7.2.3. FUNDING MIX

The existing institutions, BNG, NWB and FMO primarily fund themselves on capital markets. In each portfolio structure NFEO would continue to seek funding on capital markets (see Figure 14). However, we expect that NFEO will be able to do this at a cost 5-20bps lower than existing institution with a government guarantee of its liabilities.

FIGURE 14: FUNDING MIX FOR NFEO PROPOSED PORTFOLIO STRUCTURES



7.2.4. CAPITAL STRUCTURE

In the current situation, BNG and NWB must raise additional capital to meet expected capital requirements set by the regulator, in particular on their leverage ratio. To increase their capital, both banks are currently retaining earnings instead of paying dividends to their shareholders. Shareholders are therefore likely to see diminished returns, and neither bank is able to focus lending activities on challenges we have identified, such as the gap in energy and sustainability financing.

For FMO, on the other hand, the Core Tier 1 ratio is the constraining capital requirement. FMO's assets carry more risk, requiring them to hold additional equity. Therefore, FMO has a relatively high leverage ratio of 22.6%. Combining these institutions under one roof presents an opportunity to release capital "trapped" in FMO while creating a more balanced risk profile for the combined portfolios, leading to significant capital savings (see Table 15).

TABLE 15: KEY FIGURES FOR THE CAPITAL STRUCTURE OF EXISTING INSTITUTIONS AND PROPOSED NFEO PORTFOLIO STRUCTURES

	CURRENT SITUATION				NFEO IMPLEMENTATION ALTERNATIVES			
RATIO	NWB	BNG	FMO	SCHEMES	A	B	C	D
BALANCE SHEET SIZE (€ BN)	91	150	8	0.5	250	144	100	97
TIER 1 (€ BN)	1.5	3.4	2.3	0	7.2	7.2	3.8	3.3
CORE TIER 1 (€ BN)	1.3	3.0	2.3	0	6.6	6.6	3.6	3.1
RWA (€ BN)	2.0	12.8	10.1	0.4	25.3	25.3[29]	12.5	12.5
CORE TIER 1 RATIO	65%	23%	23%	–	26%	26%	29%	25%
LEVERAGE RATIO	2.1%	2.6%	22.9%	–	3.4%	5.8%	4.7%	4.0%

BNG, NWB and FMO have a safe Core Tier 1 ratio in the current situation (above 20%) and this ratio would remain strong in each NFEO implementation alternative. In all portfolio structures, capital would be available to focus new lending on identified market failures, such as energy and sustainability. In portfolio structure D social housing loans from NWB would be exchanged for public sector loans from BNG. In this structure BNG would receive equity so that its leverage ratio increases to 3%. The leverage ratio of NFEO in option B would increase to 5.8%. This is in line with major European NPBIs, which had leverage ratios ranging from 4-10% on average between 2010 and 2015 (see Appendix D for further details).[30]

If on top of the €2 BN freed up capital mentioned in section 7.1.2, the funding cost savings can be retained over the next 5 years, this would add approximately €0.5 BN to free capital. Under structure B, social housing assets would be placed outside NFEO and possibly sold over time to private investors (though they could still be serviced by NFEO), releasing another €0.7 BN of capital once completed. These amounts can also be used to strengthen NFEO's balance sheet further or, again, used to extend promotional activities significantly.

In total, this would amount to about €3.2 BN of additional capital either freed up or built up over time in portfolio structure B. If we put in place conservative constraints on the lending activities of our proposed structure, with a leverage ratio of at least 3%, a minimum Core Tier 1 ratio of 20% and assuming a RWA density for new lending of 66%, the newly combined entity will have more than €24 BN of additional lending capacity according to our estimations. Looking at the market as a whole, the impact of this amount of additional lending can be multiplied by drawing in additional private sector lending on top of NFEO transactions (crowding in private sector participants), by stronger partnership with the EIB and possibly by transferring a small proportion of energy subsidies to energy financing through NFEO. All in all,

[29] For social housing, a 0% risk weighting is assumed

[30] Analysis includes leverage ratios of KfW, ICO, Finnvera, Bpifrance and the EIB from 2010-2015. Refer to our accompanying report for further details.

we feel comfortable that more than 100 BN of additional lending capacity can be generated through these combined levers – e.g. in line with the total need estimated recently by VNO-NCW.[31]

7.2.5. FINANCIAL VIABILITY

Depending on the portfolio structure, we estimate that NFEO could generate €75-200 MN of cost savings annually compared to the existing institutions (see Table 16). We have assumed that interest income would remain broadly in line with current practices. Interest income is generated pro-rata to the assets of the existing institutions. We then apply the 10bps funding cost reduction to the interest expense generated, in the case of this simplified balance sheet on the debt securities only.

Savings will come primarily from cost reductions on the funding side (€65-180 MN) and some savings on operating expenses through process and resources streamlining (€10-20 MN). These savings could be used to increase NFEOs equity capital, and hence its lending capacity, to lower the interest rates it charges borrowers, or to improve its operations, for example in risk management.

TABLE 16: KEY FINANCIAL FIGURES FOR EXISTING INSTITUTIONS (2015) AND PRO-FORMA FOR NFEO PORTFOLIO STRUCTURES (INCL. SYNERGIES)

	CURRENT SITUATION					NFEO IMPLEMENTATION ALTERNATIVES			
KEY FINANCIALS	NWB	BNG	FMO	SCHEMES	TOTAL	A	B	C	D
NET INTEREST INCOME	180	450	227	25	882	1,065	673	505	528
OTHER INCOME	-9	49	93	0	133	133	118	84	102
OPERATING EXPENSES	(39)	(113)	(105)	(25)	(282)	(266)	(266)	(158)	(158)
PROFIT BEFORE TAX	132	314	215	0	661	860	482	431	451
NET PROFIT	95	226	174	0	495	638	357	320	335
COST : INCOME RATIO	22.8%[32]	22.6%[32]	25.0%	–	–	22%	34%	27%	25%
RETURN ON EQUITY	6.8%[32]	7.6%	7.5%	–	–	7.9%	4.4-7.9%	8.2%	7.6%
RETURN ON ASSETS	0.1%[32]	0.2%[32]	2.1%[32]	–	–	0.3%	0.2%	0.3%	0.3%

With a targeted 5%, NFEO's RoE would be in line with peer European NPBIs and sufficient to ensure financial sustainability of its promotional activities over time. Average RoEs from 2010 to 2015 for major European promotional banks range from 1.3% to 10.6%, with a group average of 6.0% (see Appendix D).

[31] VNO-NCW, MKB Nederland, and LTO Nederland. Brochure – NL Next Level. The Hague: VNO-NCW, MKB Nederland, and LTO Nederland, 16 June 2016. Web. Accessed June 2016.

[32] Calculated values based on annual reports and Oliver Wyman analysis

8. PRUDENTIAL SUPERVISION

Although NFEO as such may strictly speaking not qualify as a bank, it is appropriate that NFEO is subject to prudential supervision by an independent external supervisor. It is preferable to have a tailor-made regulatory supervision regime for NFEO. However, NFEO would also be viable under full application of normal rules of banking regulation (Basel III, CRD IV/CRR) and of the division of supervisory competences under the Single Supervisory Mechanism.

8.1. INTERNATIONAL PRACTICES

We see various approaches to the supervision of NPBIs, which range from self-supervision through to supervision by the same authority that supervises commercial banks. Similarly, the regulations controlling an NPBI's prudential and conduct requirements can be specific to the institution or the same as those governing commercial banks. Some banks, such as ICO and KfW, are supervised by the national regulator or Central Bank; however, adjustments to standard prudential regulation were agreed with the regulator. These can, for example, include exemptions to rules that would impede the mandate of NPBIs (e.g. exemptions to liquidity requirements during economic crisis situations). Table 17 below provides an overview of the four most common approaches.

> *"Our charitable foundation set €15 MN aside to build a fund for e-health scale-ups that is open for other investors. However we found that without tailored government involvement, private parties are not willing to join us. So for the moment, we'll stick to direct investment on our own"*
>
> Paul Baan,
> Noaber

TABLE 17: PRUDENTIAL SUPERVISION

	APPROACH 1 SELF-SUPERVISION	APPROACH 2 SUPERVISED BY A FINANCIAL JURISDICTION	APPROACH 3 ADJUSTED PRUDENTIAL SUPERVISION	APPROACH 4 NORMAL PRUDENTIAL SUPERVISION
SUPERVISION	No supervision (self-regulation)	Control is performed by a financial, administrative jurisdiction (e.g. State Audit Court)	Prudential supervision through the regulator/central bank	
TYPE OF PRUDENTIAL REGULATION	Prudential regulations defined by the institution	Prudential rules are specific to the supervised institution	Prudential rules are adjusted to the specificities of the institution (e.g. liquidity ratios, resolution plans)	Standard prudential rules as applied to commercial banks
EXAMPLES	• The EIB, CDP, CDP and BBB all have internal or external committees in place acting as a supervisor, often with a political oriented composition • In case of CDP, the bank is supervised by a parliamentary committee and partially by Bank Italia and some non-banking subsidiaries supervised by specific Supervisors • Advised and supported by specialized sub-commissions	• BDC supervised by • The Office of the Superintendent of Financial Institutions • The Auditor General of Canada (Court of Auditors) • The regulations created by the Treasury Board of Canada Secretariat for all banks also apply to the BDC	• KfW legally supervised by the Ministry of Finance, KfW law amended in 2013 (and in force since 2016) set the principle that prudential regulation (KWG) should be applied to KfW by Bafin, but always "preserving KfW's promotional tasks" (Art. 2 of the law) • ICO being supervised as a "Credit Institution" by Banco de España, not as a bank (only part of prudential rules applicable)	• KfW IPEX-Bank supervised as a "standard" bank by BaFin (<30 BN total assets) • SFIL supervised by ECB directly (>30 BN tot. assets) • CDC's subsidiaries La Banque Postale and Bpifrance supervised directly by the ECB • BRD is subject to the same prudential regulations as commercial banks, supervised by the Rwanda Central Bank

8.2. SUPERVISION VERSUS SELF-REGULATION

In line with commercial banks, most NPBIs and the European Commission's vision for NPBIs, we recommend that NFEO is not subject to self-regulation but supervised by an independent external supervisor.

Supervision of NFEO by an independent external supervisor will, first of all, contribute to ensuring strong risk management on the short and long term. Providing too much flexibility to NFEO may lead to a lack of accountability for the management. A pre-defined framework in which it operates to prevent management from over-reaching its capabilities is essential.

In case NFEO is supervised by an external independent supervisor and not be subject merely to self-regulation, it is beneficial for the institution as it could strengthen its risk management practices or, at least, it would not be detrimental given that NFEO should aim at having risk management practices that are best in class and in line with the rules of banking regulation.

Furthermore, the fact that NFEO is supervised by an independent external supervisor would also increase external credibility. Indeed, as explained by the European Commission: "High standards of transparency and accountability are important for NPBIs' reputation in the market, as well as professional management and the necessary degree of independence. Prudential supervision exercised independently by a separate entity further strengthens this reputation”.[33]

Finally, the supervision of an NPBI by an external supervisor is in line with international practices, including KfW and ICO. BBB is subject to self-regulation but, contrary to KfW, ICO and NFEO, does not qualify as a bank/credit institution.

8.3. RELEVANT SUPERVISORS

Under the Single Supervisory Mechanism, the ECB qualifies a bank as "significant" and places it under its direct supervision if any one of the following conditions is met:

- The total value of the bank's assets exceeds €30 BN or – unless the total value of its assets is below €5 BN– exceeds 20% of national GDP;
- The bank is one of the three most significant banks established in a participating Member State;
- The bank is a recipient of direct assistance from the European Stability Mechanism;
- The total value of the bank's assets exceeds €5 BN and the ratio of its cross-border assets/liabilities in more than one participating Member State to its total assets/liabilities is above 20%.

Notwithstanding the fulfilment of these criteria, the ECB may qualify a bank significant to ensure the consistent application of high quality supervisory standards.

As NWB and NBG both have assets exceeding €30 BN, they qualify as "significant" banks and therefore are subject to direct supervision by the ECB. FMO qualifies as a "less significant" bank and therefore is subject to supervision by DNB.

In the model with NFEO as a holding entity and FMO, NWB and BNG or combination thereof as its subsidiaries, the NFEO group will qualify as a significant banking group. As such, the subsidiaries will fall under direct supervision of the ECB, as will the NFEO group as a whole on a consolidated basis.

8.4. TAILOR-MADE SUPERVISORY REGIME

NFEO would start to operate under the three current banking licences of FMO, NWB and BNG. It would be appropriate in the end-state model that NFEO is supervised by DNB instead of the ECB. First of all, NFEO will be primarily focussed on national activities backed by the Dutch State; therefore there is a closer link with the national supervisor that is familiar with the national system and necessities. Second, a tailor-made regime under national supervision could better address the specific needs of NFEO.

In the end-state model, NFEO has two main options to move direct supervision from the ECB to DNB. First of all, NFEO could request an exemption under the SSM Framework Regulation, which provides that particular circumstances may justify supervision of a significant bank by the relevant national competent authority. Such particular circumstances exist where there are specific and factual circumstances that make the classification of a supervised entity as significant inappropriate, taking into account the objectives and principles of the SSM Regulation and, in particular, the need to ensure the consistent

[33] Working together for jobs and growth: The role of National Promotional Bank Institutions (NPBIs) in supporting the Investment Plan for Europe, European Commission

application of high supervisory standards. The term ‘particular circumstances’ is strictly interpreted. Considering the strict wording of this exemption, we expect the probability of it being granted to be low.

Second, the Dutch State can request the European Commission for an exemption from CRD IV altogether, and setup a tailor-made regulatory regime for NFEO with DNB as its supervisor. CRD IV lists a number of specific entities that are excluded from its scope, including KfW and ICO. The European Commission may make adjustments to this list by means of implementing acts. Banks that are involved in specific activities in the public interest are eligible. A national tailor-made supervision regime will thus have to be set up in co-operation with the European Commission and in close consultation with DNB and the ECB. Many NPBIs benefit from this exemption and the European Commission is expected to grant requests for new NPBI exemptions of CRD IV if they do not differ from previously granted exemptions.

Establishing a tailor-made regime would have the added benefit that the normal set of regulatory requirements designed for commercial banks can be adjusted to reflect the risks that a National Promotional Bank Institution is exposed to (e.g. in terms of funding ratios, recovery and resolution planning). Such a set-up would be in line with KfW’s current set-up (as the *Gesetz zur Änderung des Gesetzes über die Kreditanstalt für Wiederaufbau* amended the rules applied to traditional commercial banks in the Kreditwesengesetz). Although a tailor-made regime would be preferred, NFEO would also be viable under full application of CRD IV and under supervision by the ECB. Hence a tailor-made regime would not be a precondition for it to start operating nor necessarily a requirement in the long run.

9. TAX, DIVIDENDS AND CORPORATE SOCIAL RESPONSIBILITY

9.1. TAX

9.1.1. CORPORATE INCOME TAX

Most European NPBIs are paying corporate income tax, including for example France's CDC, Italy's CDP and Spain's ICO. Whereas KfW in Germany and Finnvera in Finland are generally exempt from corporate tax, this does not apply to all of their subsidiaries such as KfW IPEX-Bank for example. Refer to Appendix E for an overview.

Arguments for not exempting NFEO from Dutch corporate income tax are the following:

- FMO, NWB and BNG are currently not exempt from Dutch corporate income tax and thus pay Dutch corporate income tax.
- An exemption from Dutch corporate income tax would require a change of the 1969 Dutch Corporate Income Tax Act; since FMO, NWB and BNG already pay Dutch corporate income tax, changing the Dutch Corporate Income Tax Act will probably take a lot of time and is a sensitive topic in the Netherlands.
- The European Commission is moving away from the tax-exempt status of public entities. A Dutch corporate income tax exemption specifically for NFEO could therefore be a disadvantage when asking for a tailor-made supervision regime.

On the other hand, paying taxes would circulate government money unnecessarily. The funds saved by a tax exemption could be used to invest in projects or to fund subsidy schemes. In case public entities would hold all shares in NFEO, it may benefit from a partial exemption from Dutch corporate income tax for the benefits derived in connection with the exercise of a governmental task. It has to be explored further to which extent each of NFEO's activities qualify for this partial exemption.

If NFEO is not exempt from Dutch corporate income tax, it would be subject to a tax on its taxable profit at a rate of up to 25%. Taxable profit encompasses both ordinary income and capital gains, as well as ordinary costs and capital losses. In particular, financing costs generally would be deductible to NFEO. We suggest to explore whether guarantee fees are deductible to NFEO as well in case such fees are charged to NFEO (e.g. by the Dutch State).

9.1.2. VALUE ADDED TAX

Most of the activities to be carried out by NFEO would qualify as exempt from Dutch value added tax. Accordingly, the costs of these activities for the recipients of NFEO are not increased with a Dutch value added tax charge of up to 21%. On the other hand, NFEO would be limited in its ability to recover value added tax on goods and services that NFEO receives (input value added tax), as input value added tax is generally recoverable to the extent that NFEO carries out taxable activities for value added tax purposes.

9.2. DIVIDENDS

KfW and Finnvera do not pay dividends to their shareholders, as it was agreed in their institution-specific laws. Other European NPBIs such as CDC, CDP and ICO do pay dividends; however, typically target pay-out ratios or limiting conditions have been agreed on. Refer to Appendix E for further details.

Currently FMO, NWB and BNG pay dividends to their shareholders if the results allow them to. FMO, NWB and BNG strive for a reasonable return on investment. The Dutch State, as shareholder, has set a target return on equity of between 4-6% for BNG and NWB and between 6-8% for FMO. Dividend policy of both BNG and NWB is to have a dividend pay-out ratio of 25%, although in recent years profits have been added to the reserves in order to comply with the Basel III/CRD IV capital standards. Dividend pay-out ratio of FMO has in recent years been between 2-5%.

It seems the obvious way forward to continue the current way after establishment of NFEO, with a possibility for NFEO to pay out dividends. Of course, at any point in time it should be investigated whether potential profits should be distributed to shareholders or whether these should be used to strengthen the balance sheet/be allocated to statutory and special reserves to realise NFEO's promotional objectives.

Where NFEO makes dividends or similar distributions to the Dutch State, a Dutch province, municipality or a Dutch resident company as its shareholder, these shareholders qualify for a full exemption from, refund of, or credit for Dutch dividend withholding tax that is due on the amount distributed to each shareholder. Accordingly, any Dutch dividend withholding tax would not increase the cost of capital for NFEO's shareholders.

9.3. CORPORATE SOCIAL RESPONSIBILITY STANDARDS

As the Dutch promotional bank, NFEO will have an exemplary role. Business activities and social responsibility should go hand in hand. NFEO should be 'best in class'. NFEO can combine the social responsibility efforts of FMO, NWB and BNG, which already have extensive corporate social responsibility programs. To ensure compatibility with the highest standards in the field, it is proposed that NFEO complies with international development standards, report its progress in its Annual Reports, and be subject to ratings from sustainability rating agencies on a yearly basis. NFEO should strive not only to achieve the highest possible results in comparison with competitors in the financial sector, but also in comparison to other sectors.

10. PROPOSED END-STATE MODEL

10.1. BUSINESS AND ECONOMIC MODEL

As a result of the findings in the previous chapters, NFEO can be structured as follows:

- **Business model**: NFEO would provide lending and equity products as well as advisory services to customers currently underserved by the private sector. As we see the situation in the Netherlands today, NFEO could initially focus on three arms: SMEs and innovation, energy and climate financing and international investments and exports.
- **Distribution model**: NFEO should cooperate closely with the private sector, leveraging their distribution network via the on-lending model wherever possible. This applies mainly to products and services targeted at SME and consumers. The direct lending model should only be applied if size and complexity of the loan require individual structuring and more resource involvement on the side of NFEO. Co-financing along with private sector participants should be the preferred approach, to crowd in as much private sector capital as possible.
- **Institutional model**: An integrated model, where all three of NFEO's target activities are combined within one group is recommended.
- **Portfolio structure**: A combined entity of BNG, NWB, FMO and relevant promotional schemes excluding social housing is recommended.
- **Financial implications**: Merging the three existing institutions and schemes would generate substantial financial benefits. For the recommended portfolio structure, we would expect approx. €100 MN of interest expense (funding cost) savings p.a., €20 MN of operating expense savings p.a. and freeing up about €2 BN of capital on combination. Free synergy benefits and the possibility to divest social housing can bring total free capital to €3.2 BN over the next 5 years.

10.2. LEGAL MODEL

Similarly, the legal model can be summarized as follows:

- **Legal form and structure**: the holding entity of NFEO would be a Dutch public limited liability company (N.V.) with initially FMO, NWB, BNG and an entity managing the government schemes as its subsidiaries.
- **Ownership**: NFEO and its subsidiaries are to be majority publicly owned. The Dutch State is to be the largest shareholder, with other shares held by other public bodies (provinces, municipalities, water authorities) and potentially private parties.
- **Governance**: NFEO would have a two-tier governance structure with a Management Board, a independent Supervisory Board, and certain advisory committees representing stakeholders.
- **Market failure**: NFEO's mandate to focus only on market failures should be thoroughly embedded in its governance and operations and be subject to both internal and external review mechanisms.
- **Supervision**: The ECB would be the direct supervisor of the group of the combination of BNG, NWB and FMO. However, preferably supervision of NFEO would be shifted to DNB under a tailor-made supervisory regime.
- **Tax**: NFEO would pay corporate taxes, as its predecessors currently do.
- **Profit motive and dividend**: NFEO would have a return on equity target and pay-out dividend to its shareholders, as its predecessors currently do.
- **CSR**: NFEO would comply with CSR best practices.

11. IMPLEMENTATION

The creation of NFEO as a core institution could already be in place and operational after 4-6 months, with another 14-18 months to fully convert to the target operating model. The current activities of BNG, NWB, FMO and selected schemes would not be interrupted during the implementation of NFEO. Once political support has been obtained, several workstreams could start in parallel, establishing NFEO's governance structure, operations and legal framework. There are three major steps that the implementation phase would comprise:

1. Step 1: Setting up the core;
2. Step 2: Bringing current activities under one roof;
3. Step 3: Implementing the target operating model.

It is proposed that new activities will only be deployed once the strong governance around focus on market failure is fully in place.

> *"SMEs have more trouble getting financing than they should, as processes are complex and take time and resources to complete.*
>
> *"A professional promotional bank partly aimed at SME would help streamline the process and would likely draw in more private (co-) investment as well."*
>
> Jan de Ruiter,
> Advisor and former CEO, RBS

11.1. OVERVIEW OF IMPLEMENTATION THEMES

We see three broad themes that need to be addressed for creating NFEO: 1. Defining the institution's governance; 2. Designing and implementing its operations and 3. Setting up the legal structures and ensuring required legal approvals. Key activities within each of these three themes are shown in Figure 15 below.

FIGURE 15: IMPLEMENTATION THEMES AND KEY ACTIVITIES

IMPLEMENTATION THEMES	KEY ACTIVITIES
A Governance	A1: Governance and ownership model A2: Detailed Governance structure
B Operations	B1: Portfolio structure, mandate and target activities B2a: Target operating model blueprint and processes B2b: HR and change management B3: Detailed blueprint and implementation
C Legal	C1: Incorporation NFEO (Initial legal structure and approvals) C2a: Transfer of shares and schemes C2b: Regulatory aprovals transfer of shares C2c: State aid approval C3a: Integration C3b: Regulatory approvals integration C3c: Establishing a tailor-made supervisory regime

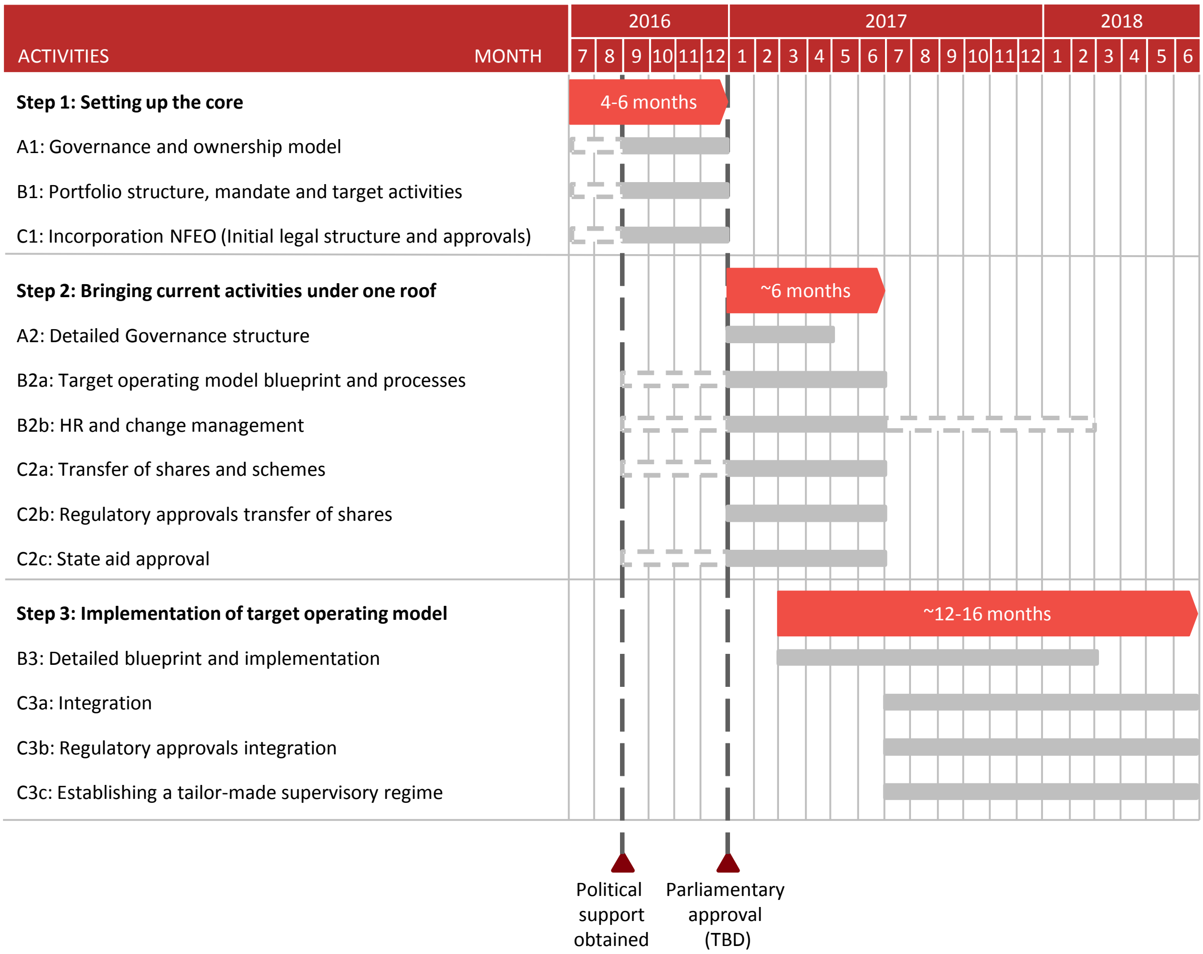
11.2. INDICATIVE TIMELINE

The core structure of NFEO could be established within 4-6 months. This would include obtaining the required government and parliamentary approvals, setting up the governance and ownership model of the NFEO group, defining its portfolio structure, mandate and target activities and incorporating NFEO.

The second step comprises of bringing FMO, BNG, NWB and selected schemes under one roof, the detailing of NFEO's governance structure, the blueprinting of NFEO's target operating model and some initial quick fixes. This could be achieved approximately 6 months after completion of the first step.

Finally, the third implementation step would be dedicated to further detailing of the target operating model blueprint and its implementation as well as the further integration of the business of FMO, BNG, NWB and the relevant promotional schemes. This could be finalized within approximately 8-12 months after completion of the second step. Figure 16 below summarizes the required activities and timelines.

FIGURE 16: INDICATIVE TIMELINE FOR CREATING NFEO



11.3. A: GOVERNANCE IMPLEMENTATION

The implementation of NFEO's governance could be accomplished during steps 1 and 2 described in Figure 16 above and would require approximately 8-10 months.

In step A1, NFEO's ownership model and shareholder structure has to be defined and approved. In addition, the structure, composition, role and responsibilities of NFEO's Supervisory and Management Board as well as additional Committees need to be agreed. This could for example start with attracting and agreeing the new CEO and chair of the Supervisory Board. To align governance, it could be considered to have all members of the supervisory boards of FMO, BNG and NWB take a seat in NFEO's Supervisory Board. As a result, the Supervisory Board would have a mixed and balanced composition, including a provincial governor, a mayor and a water authority chair, the chair of the governing council of the Association of Dutch Municipalities, a provincial governor, a mayor and a number of independent bankers.

> *"There are not enough platforms for large institutional investors to finance SMEs, e.g. via an investment in a vertical slice (e.g. securitization) or identifying high potential start-ups. In a small market like the Netherlands, this is a market failure that may need to be addressed by government intervention, esp. through a national promotional bank."*
>
> Leen Meijaard, Blackrock

In step A2, further governance requirements need to be assessed and defined, including for example the delegation of authorities and credit approval processes or the design of the Management Board and Advisory Committee landscape.

11.4. B: OPERATIONS IMPLEMENTATION

The implementation of NFEO's operations could be accomplished during steps 1, 2 and 3 outlined in Figure 16 above and would require approximately 18 months.

In step B1, NFEO's portfolio structure has to be agreed. It is proposed that a more detailed assessment should be undertaken on which of the existing Dutch promotional entities and schemes should form part of NFEO and whether some of their activities today (e.g. social housing) should be transferred or kept outside of NFEO. Once this decision has been taken, the mandate described in this report should be assessed and agreed, including a thorough description of NFEO's goals and target activities. This should comprise a specification of the target sectors and segments NFEO would be mandated to address. For this, an in-depth assessment of the current market failures in the Netherlands should be undertaken.

In step B2a, a blueprint of NFEO's target operating model should be defined as well as NFEO's key operational processes. This comprises:

- A specification of products and services to be offered.
- A selection of distribution channels and required partnerships with commercial financial institutions.
- A specification of policies, setup and core activities of key functions (e.g. risk management, finance & treasury, audit).
- A definition of NFEO's IT strategy and platform.
- A description of key processes and procedures (incl. for example the core credit process).

In step B2b, a change management plan and HR strategy should be developed for NFEO. This should include the development of a hiring and training strategy for new staff as well as a communication strategy and talent management plan for existing staff. Adjustments to current agreements (that would require works council approval) need to be thought through early on and required discussions with respective stakeholders taken on.

In step B3, further detailing of NFEO's target operating model blueprint should be undertaken as well as its implementation. A detailed implementation plan needs to be written and agreed addressing all the areas listed under step 2 above and actions triggered by those. This could for example include the preparation and use of template processes to kick start new activities.

Finally, a potential fourth step should follow after this, which should consider a further streamlining of NFEO's activities as many policies and procedures from the existing entities will likely only add on to another during the first three steps. To ensure highest operational efficiency and effectiveness, all of these should eventually be adapted and merged into a coherent strategy and approach. For example, this could involve building one common IT platform or the streamlining of existing processes.

11.5. C: LEGAL IMPLEMENTATION

A number of legal implementing actions are required in the setting up of NFEO, depending on the end state model. Without being exhaustive[34] the key actions which will have to be performed are the following:

1. Step C1: Incorporation of NFEO, setup of initial legal structure and government and parliamentary approvals (see section 11.5.1)
2. Step C2a: Transfer of shares and schemes (see section 11.5.2)
3. Step C2b: Regulatory approvals transfer of shares (see section 11.5.3)
4. Step C2c: State aid approval (see section 11.5.4)
5. Step C3a: Integration (see section 11.5.5)
6. Step C3b: Regulatory approvals integration (see section 11.5.6)
7. Step C3c: Establishing a tailor-made supervisory regime (see section 11.5.7)

These actions can be accomplished during steps 1, 2 and 3 outlined in Figure 16 above and would require a total of approximately 18-24 months to complete.

11.5.1. STEP C1: INCORPORATION NFEO, SETUP OF INITIAL LEGAL STRUCTURE AND GOVERNMENT AND PARLIAMENTARY APPROVALS

GOVERNMENT APPROVAL AND PARLIAMENTARY NO OBJECTION TO INCORPORATION PRIVATE LAW ENTITY

Based on the Governments Accounts Act (*Comptabiliteitswet*), incorporation of a limited liability company by the Dutch State requires (i) agreement with the cabinet; (ii) consultation with the National Audit Office; and (iii) written notice to Parliament of the proposed legal act at least 30 days in advance.

If Parliament supports the idea, the NFEO holding entity and entity for the management of schemes can be incorporated immediately. Parliament may require additional information and the incorporation may not be executed before the requested information is provided. During the 30 day period or within 14

[34] Not all required actions are included in this chapter (e.g. works council requirements, staffing of mandatory committees etc.).

days after the information request, Parliament can determine that the proposed incorporation requires authorization by law.

GOVERNMENT APPROVAL AND PARLIAMENTARY NO OBJECTION TO STATE GUARANTEE

A new state guarantee will have to be granted. A state guarantee for NFEO will require government approval. The procedure for the incorporation of a limited liability company by the Dutch State on the basis of the Government Accounts Act is also applicable for providing a private entity with a State guarantee. This means that government approval is required, and the parliamentary no objection procedure must be followed. The government will assess any proposed guarantee on the basis of its risk measures assessment policy (*toetsingskader risicoregelingen rijksoverheid*).

11.5.2. STEP C2A: TRANSFER OF SHARES AND SCHEMES

All the shares of FMO, NWB and BNG will be contributed into NFEO N.V. in return for shares in NFEO N.V. for the existing shareholders or a cash consideration, depending on the exact end-state ownership model chosen. Contribution of shares is done by the execution of a notarial deed. The existing government schemes will also be transferred to the NFEO group.

11.5.3. STEP C2B: REGULATORY APPROVALS TRANSFER OF SHARES

The acquisition by the new NFEO entity of all shares of FMO, NWB and BNG constitutes the acquisition of a qualifying holding in a bank and as such requires a declaration of no objection from the ECB prior to the transfer. Similarly, the (indirect) acquisition by NFEO of all shares in FMO Investment Management B.V constitutes the acquisition of a qualifying holding in an investment firm which requires a DNO from DNB prior to the transfer. The timing of such a process is uncertain, but it may take 6-12 months to complete. This includes both an informal process with DNB, followed by a formal process.

11.5.4. STEP C2C: STATE AID APPROVAL

STATE AID IN RELATIONSHIP BETWEEN STATE AND NFEO (LEVEL 1)

The establishment of NFEO should not proceed without a formal or at least informal assessment and approval by the European Commission. A first level on which the state aid rules are relevant is in the relationship between the Dutch State and NFEO. On this level, the establishment of NFEO will be in line with the state aid rules (i) when NFEO is set up such that it receives no funding from the Dutch State and its activities are not imputable to the Dutch State; or (ii) NFEO receives funding from the Dutch State or its activities are imputable to the Dutch State but such state aid is approved by the European Commission.

NFEO can accomplish that its activities are not imputable to the Dutch State when the Dutch State cannot be regarded as involved, in one way or another, in NFEO's day-to-day activities. Even when fully owned by the Dutch State, and when some of the members of the Supervisory Board are appointed by the Dutch State, NFEO may meet this criterion when it is incorporated as an N.V., the Supervisory Board is not involved in day-to-day commercial activities, which are under the responsibility of the Management Board, and the Dutch State cannot interfere with to whom loans are granted or under what terms.

When NFEO receives funding from the Dutch State (with an expected return below normal market conditions) or the Dutch State grants NFEO a state guarantee, formal approval would be required from the European Commission. The European Commission will determine the aid amount and assess its compatibility with state aid rules. In this context great importance is attached to the definition of the scope of the mandate. The European Commission is expected to look favourably at the establishment of NFEO as NPBIs are considered to be able to play a key role in the implementation of the Juncker Plan.

STATE AID IN RELATIONSHIP BETWEEN NFEO AND CUSTOMER (LEVEL 2)

A second level on which the state aid rules are relevant is in the relationship between NFEO and the customer, i.e. the recipient of loans, guarantees and subsidies. The granting of such measures by NFEO will be in line with the state aid rules when (i) it is provided under commercial terms; (ii) it is allowed under the EU State aid regulations, such as the *de minimis* regulation, the General Block Exemption Regulation (GBER), or specific guidelines; or (iii) it does not constitute a commercial activity.

The schemes, which are not provided on commercial terms, can be brought in line with the state aid rules by using the applicable state aid regulations: the *de minimis* regulation (aid of up to €200 K per undertaking over any period of three years), the GBER (for specific categories of aid, such as regional aid, aid to SMEs and aid for local infrastructures). In such case they will constitute state aid but are automatically approved by the European Commission. The schemes currently managed by RVO are largely designed to fit under one of these regulations. If not eligible under the *de minimis* regulation or GBER measures may still be individually approved by the European Commission on the basis of applicable European Commission guidelines, such as those for aid for export credit insurance.

Raising funds for the financing of the government or local governments can be kept outside the scope of the state aid rules as such activities have been designated by the European Commission as non-commercial. Financing of (local) governments can be done without restrictions against both commercial and non-commercial terms, the “in-house” or “closed-cycle” approach. This includes specialised institutions established with the objective to raise funds for the financing of the State.

The state aid rules also have implications for the legal structure of NFEO. To ensure that funds raised for the Dutch State are actually used for public purposes, that is the public, non-commercial, non-competitive sector, NFEO must operate in such a way that all advantages remain within the public, non-commercial sector. Any state support, in whatever form received for the specific task of raising funds for the local governments or for the management of public subsidies, has to be limited in its effects to the performance of that task and may not spill over in any way into competitive activities. This means that the public financing and schemes management arms of NFEO must be clearly separated from any potential future commercial activities.

11.5.5. STEP C3A: INTEGRATION

The completion of the legal integration of NFEO and its subsidiaries can involve the legal merger of its subsidiaries or, possibly, an upstream parent-subsidiary merger. Through a legal merger all assets and liabilities of FMO, NWB and/or BNG can pass by universal transfer of title from one entity into another. There are in principle no special transfer requirements nor is there a need for cooperation by third parties. As a result of the merger all of the assets and liabilities of a disappearing entities pass to the new entity and the disappearing entities will cease to exist. The merger becomes effective on the day after the day the notarial deed of merger is executed.

The procedure for a legal merger can be divided in three different phases: (i) the preparatory phase, in which the management boards of the merging companies draw up a joint merger proposal and a statement explaining the proposal, (ii) the publication phase, during which the proposal is made public, a notice is placed in a national daily newspaper and creditors may file a petition opposing the proposed merger, and (iii) the implementation phase, during which the competent corporate body may adopt the merger resolution, after which the notarial deed of merger may be executed.

11.5.6. STEP C3B: REGULATORY APPROVALS INTEGRATION

A legal merger or a substantial restructuring or asset liability transfer of FMO, NWB and/or BNG also requires a DNO from DNB. Past experience has shown that the ECB is closely involved in such procedure. The timing of such a process is uncertain but it may take 6-12 months to complete. This includes both an informal process with DNB, followed by a formal process.

11.5.7. STEP C3C: ESTABLISHING A TAILOR-MADE SUPERVISORY REGIME

The implementation of a tailor-made regulatory regime for NFEO requires an exemption from the normal rules of banking regulation of CRD IV. A request may be made to obtain an exemption from CRD IV so as to allow the establishment of a tailor-made regime for NFEO.

Article 2(5) CRD IV lists a number of specific entities excluded from the scope of CRD IV, this lists includes among others, KfW (Germany) and ICO (Spain). CRD IV provides that the European Commission may make "technical adjustments" to this list by means of implementing acts with an advisory role for the European Banking Committee. Banks that are involved in specific activities in the public interest are eligible for an exemption.

The timing of such approval procedure is uncertain. The fact that the European Commission, in the context of the Juncker Plan, looks favourably towards the establishment of NPBIs may help expedite this process.

11.6. TAX IMPLICATIONS

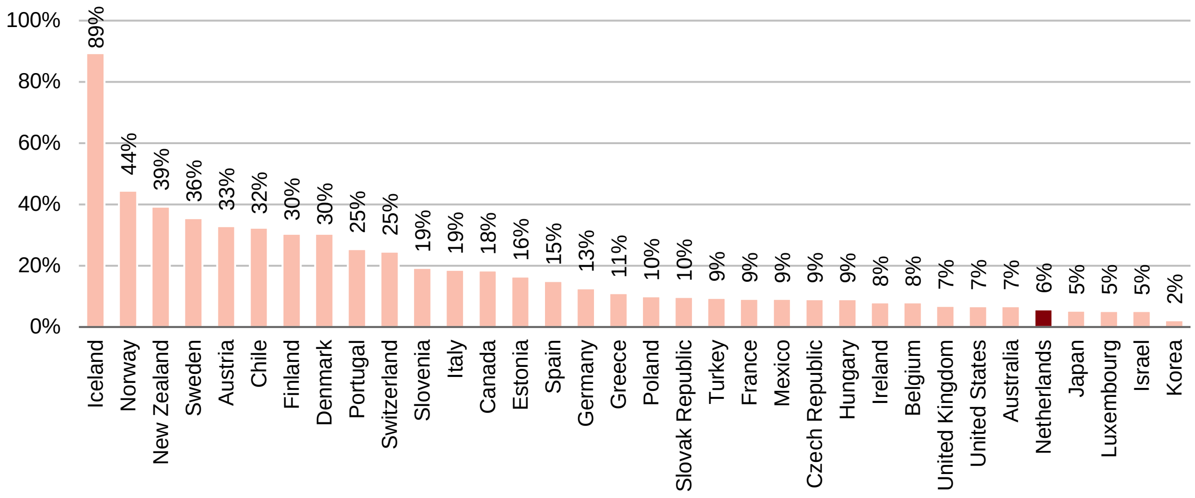
Neither the incorporation of NFEO nor the issue of shares upon its incorporation results in any adverse Dutch tax consequences for NFEO or its shareholders.

The transfer of shares from the current shareholders in FMO, BNG and NWB should not result in adverse Dutch tax consequences for most current shareholders on the basis that (i) a current shareholder qualifies for tax-exempt status (e.g., the Dutch State), (ii) a current shareholder's equity participation in FMO, BNG or NWB qualifies for the Dutch participation exemption (being a full exemption from Dutch corporate income tax for all benefits derived from an equity participation of at least 5% in a Dutch resident or non-resident company), or (iii) a current shareholder qualifies for roll-over relief where it exchanges shares in FMO, BNG or NWB for shares in NFEO.

A legal merger of FMO, BNG and NWB should not result in adverse Dutch tax consequences on the basis that the legal merger qualifies for roll-over relief. Roll-over relief would be available both where FMO, BNG and NWB merge into NFEO and where FMO, BNG and NWB merge into one another.

APPENDIX A. MANDATE

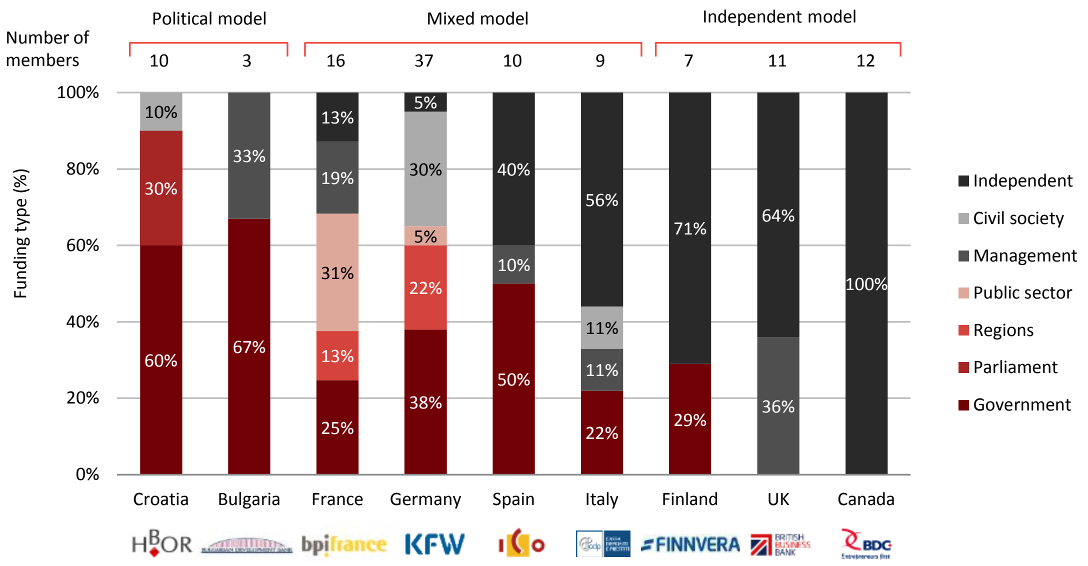
FIGURE 17: RENEWABLE ENERGY'S SHARE OF TOTAL PRIMARY ENERGY SUPPLY (TPES) ACROSS OECD COUNTRIES, 2014



Notes: TPES is made up of production + imports – exports – international aviation bunkers ± stock changes.
Source: IEA Headline Energy Data, 2015

APPENDIX B. GOVERNANCE

FIGURE 18: BENCHMARKING OF BOARD COMPOSITION ACROSS NPBIS IN PEER COUNTRIES



Notes: CDP and Finnvera are also supervised by a Parliamentary Committee
Sources: Annual reports, websites, Oliver Wyman analysis

TABLE 18: EXAMPLE: SUPERVISORY BOARD/COMMITTEE COMPOSITION AND ROLE OF CDP AND FINNVERA

	CDP (ITALY) PARLIAMENTARY SUPERVISORY COMMITTEE	FINNVERA SUPERVISORY BOARD
COMPOSITION	7 members • 4 parliamentary members – 2 representatives of the Chamber of Deputies – 2 representatives of the Senate • 3 non-parliamentary members – 2 representatives of the Council of State – 1 representative of the Corte dei Conti (State Audit Court)	18 members • 10 members of Parliament • 7 representatives of trade bodies • 1 employee (Security Manager, Finnvera Oyj)
ROLE	N/A	• The Supervisory Board supervises the company's administration – Gives the AGM its opinion on the financial statements and the auditors' report – Counsels on issues that concern considerable reduction or expansion of the company's operations or substantial reorganisation of the company – Provides the Board of Directors with guidelines in matters that have far-reaching consequences or that are important as issues of principle • The Board of Directors is responsible for the company's administration and for the proper organisation of activities and approves the company's strategy and annual plans, the semi-annual reports and the financial statements, as well as the risk management principles

APPENDIX C. FINANCING SCHEMES IN SCOPE

The landscape of promotional, government-backed schemes in the Netherlands is wide and fragmented. We acknowledge that the list of schemes shown below is most likely incomplete. This, however, demonstrates by itself the difficulty of obtaining a full picture of the schemes on offer. For the purposes of our financial analysis, we have only included schemes that are active in the three market segments we think NFEO should focus on (SMEs and innovation, energy and climate financing, international investments and exports), that provide lending products, and for which sufficient financial information has been disclosed. However, we recommend that a more detailed review of the existing promotional schemes will be undertaken in a next step, to assess for example whether schemes offering guarantees should become part of NFEO as well.

TABLE 19: PROMOTIONAL SCHEMES IN THE NETHERLANDS

ARM	SCHEME NAME	MINISTRY[35]	MANAGED BY	PRODUCT CATEGORY	TARGET	GEOGRAPHY	FUNDING CAPACITY	INCLUDED IN NFEO FINANCIAL ANALYSIS[36]
SME AND INNOVATION	INNOVATION CREDIT	EZ	RVO	Direct loan	Innovation	Domestic	€70 MN (renewed/reviewed annually)	✓
	BORGSTELLINGSKREDIET MKB (BMKB)	EZ	RVO	Guarantee	General	Domestic	€706.25 MN (2014 annual guarantee ceiling)	×
	GARANTIE ONDERNEMINGSFINANCIERING (GO)	EZ	RVO	Guarantee	General	Domestic	€400 MN (2014 annual guarantee ceiling)	×
	GROEIFACILITEIT	EZ	RVO	Guarantee	General	Domestic	€84.4 MN (2014 annual guarantee ceiling)	×
	SEED CAPITAL	EZ	RVO	Fund-to-fund	General	Domestic	€24 MN (renewed/reviewed annually)	✓
	VROEGE FASE FINANCIERING (VFF)	EZ	RVO	Direct loan	Technology	Domestic	€9.5 MN (renewed/reviewed annually)	✓
	DUTCH VENTURE INITIATIVE	EZ	PPM Oost and EIF	Fund-to-fund	Technology	Domestic	>€200 MN (one-time, close-ended)	✓
	MICROCREDIT	EZ	Qredits	Direct loan	General	Domestic	>€200 MN (open-ended)	✓
	TOEKOMSTFONDSKREDIET ONDERZOEKSFACILITEITEN (TOF)	EZ	RVO	Direct loan	Research	Domestic	€200 MN (one-time, revolving fund)	×
ENERGY AND CLIMATE FINANCING	NATIONAAL GROENFONDS	EZ	Fondsenbeheer NL	Direct loan	Environment	Domestic	€58.8 MN (current value, revolving fund)	×
	NATIONAAL ENERGIEBESPAARFONDS	BZK	Stimuleringsfonds Volshuisvesting Nederlandse Gemeenten (SVn)	Mixed	Environment	Domestic	€300 MN (one-time, revolving fund)	✓
	FONDS ENERGIEBESPARING HUURSECTOR (FEH)	BZK	RVO	Mixed	Environment	Domestic	€75 MN (one-time, revolving fund)	✓
INTERNATIONAL INVESTMENTS AND EXPORTS	DUTCH GOOD GROWTH FUND	BuZa	RVO, Atradius DSB, PwC/Triple Jump	Mixed	General	Foreign	€700MN (stepped contribution 2014-2017, revolving fund)	✓
	DUTCH TRADE AND INVESTMENT FUND (DTIF)	BuZa	RVO	Mixed	General	Foreign	€100 MN (one-time, revolving fund)	✓
	FINANCE FOR INTERNATIONAL BUSINESS (FIB) -DISCONTINUED 2016	BuZa	RVO	Direct loan	General	Foreign	€7.5 MN (one-time, revolving fund)	✓
	DRIVE (PREVIOUSLY ORIO)	BuZa	RVO	Subsidies	Infrastructure	Foreign	€150 MN (renewed/reviewed annually)	×
	DEVELOP2BUILD (PREVIOUSLY ORIO)	BuZa	RVO	Human Capital (Experts)	Infrastructure	Foreign	€10 MN (renewed/reviewed annually)	×
OTHERS	GARANTIEREGELING SCHEEPSBOUWFINANCIERING (GSF)	EZ	RVO	Guarantee	Shipping	Domestic	€1 BN (2014 annual guarantee ceiling)	×
	GARANTSTELLING LANDBOUW	EZ	RVO	Guarantee	Agriculture	Domestic	€130 MN (2014 annual guarantee ceiling)	×
	GARANTSTELLING LANDBOUWONDERNEMINGEN WERKKAPITAAL (GLOW)	EZ	RVO	Guarantee	Agriculture	Domestic	€75 MN (Total guarantee ceiling)	×

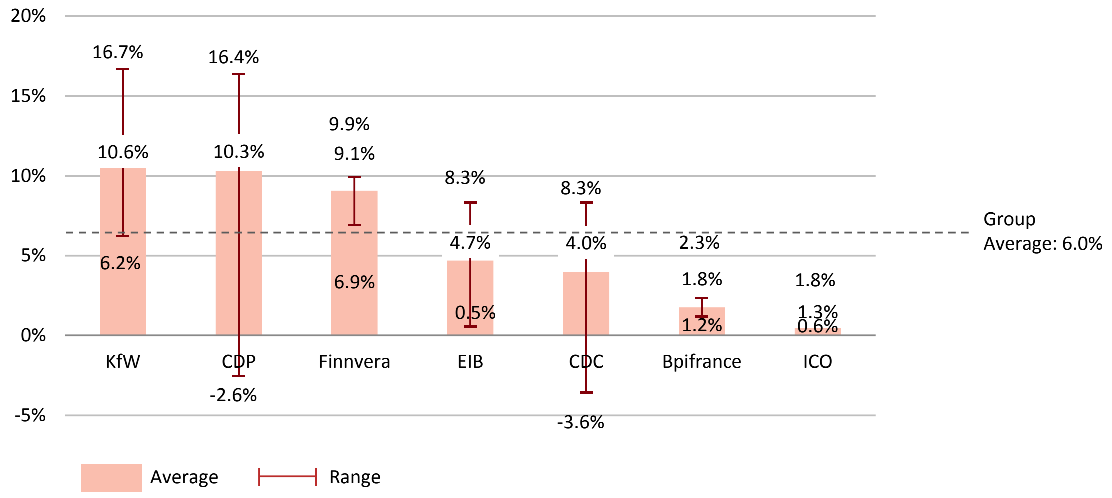
[35] EZ – Ministry of Economic Affairs; BuZa – Ministry of Foreign Affairs; BZK – Ministry of the Interior and Kingdom Relations.

[36] For the analysis of NFEO's financial implications, only financing schemes that provide loans and fund-to-fund have been included. Schemes that provide only guarantees and/or subsidies have been excluded. This should be seen as a first step. At a later stage the inclusion of guarantees on NFEO's balance sheet should be assessed as well.

APPENDIX D. FINANCIAL IMPLICATIONS

RETURN ON EQUITY (ROE) OF MAJOR EUROPEAN PROMOTIONAL BANKS

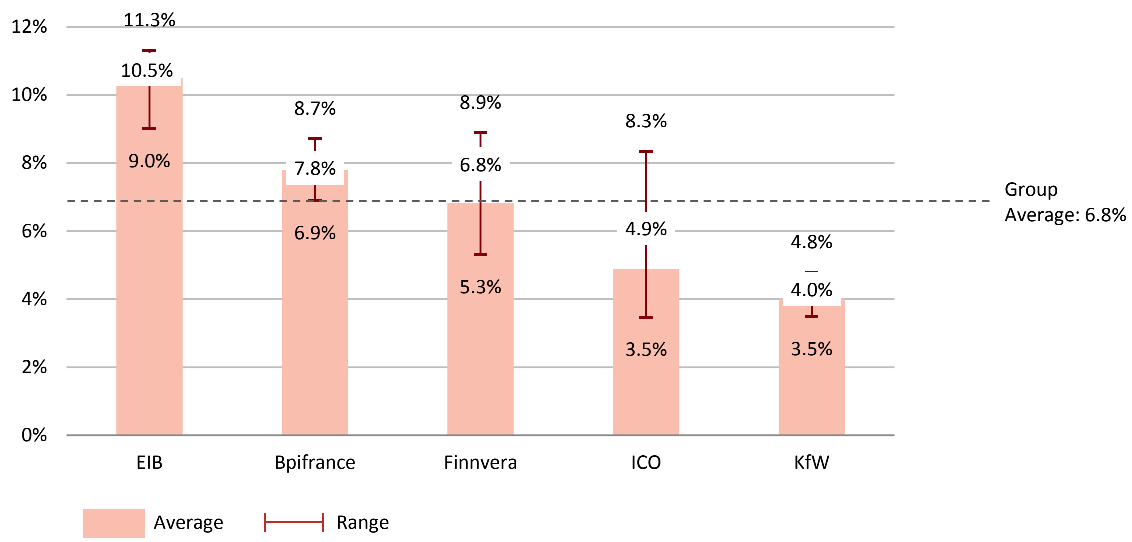
FIGURE 19: 5-YEAR RANGE AND AVERAGE ROE OF MAJOR EUROPEAN PROMOTIONAL BANKS, 2010-2015



Notes: Other recently founded European NPBIs such as BBB were excluded due to the lack of financial data over the last 5 years
Sources: SNL, Oliver Wyman analysis

LEVERAGE RATIO (LR) OF MAJOR EUROPEAN PROMOTIONAL BANKS

FIGURE 20: 5-YEAR RANGE AND AVERAGE LR OF MAJOR EUROPEAN PROMOTIONAL BANKS, 2010-2015

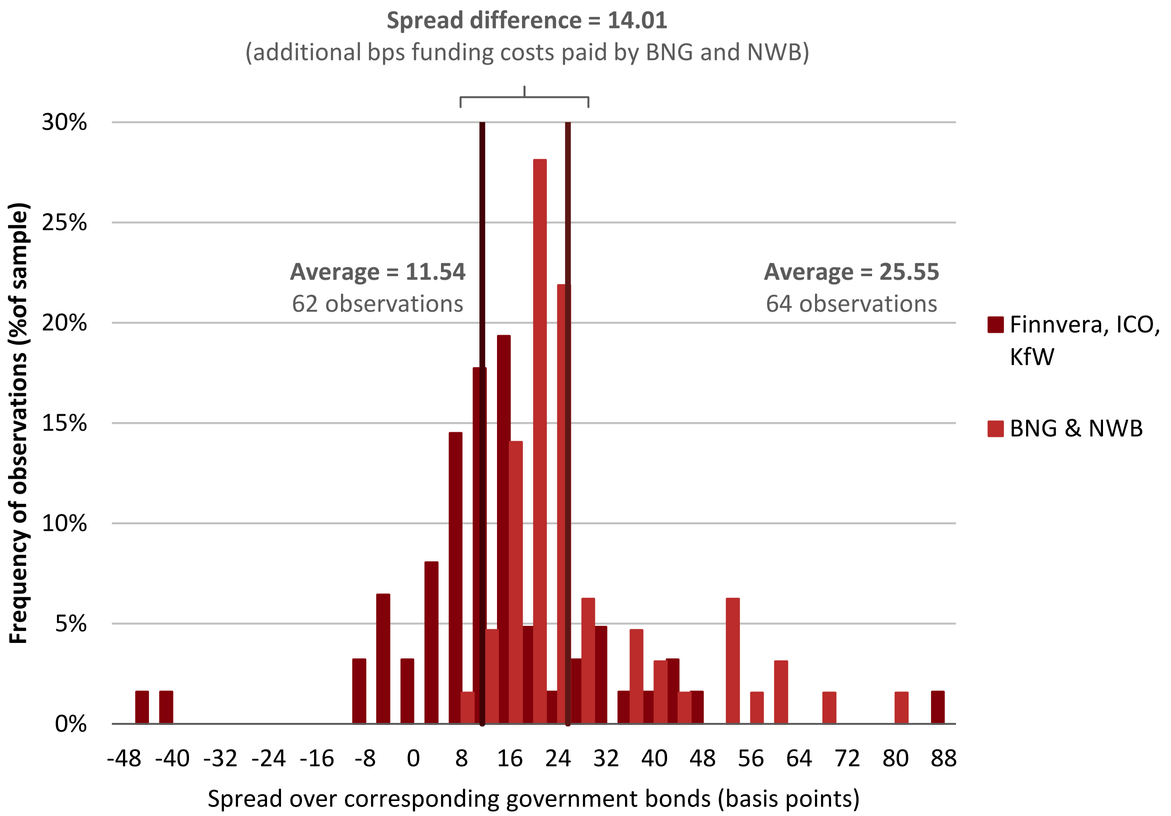


Notes: Due to the lack of publicly available information on leverage ratios for the selected banks, we calculated a simplified leverage ratio based on each bank's reported Tier 1 Capital and total assets. No tier 1 capital was publicly available for CDC and CDP, which were hence excluded from this analysis. For Finnvera, only values from 2013-2015 were used as figures were not available for previous years. Other recently founded European NPBIs such as BBB were excluded due to the lack of historic figures.
Sources: SNL, Oliver Wyman analysis

FUNDING COSTS OF MAJOR EUROPEAN PROMOTIONAL BANKS

FIGURE 21: COMPARISON OF BOND YIELD SPREADS BETWEEN NWB AND BNG (AGAINST DUTCH GOVERNMENT) AND EUROPEAN PROMOTIONAL BANKS (AGAINST RESPECTIVE NATIONAL GOVERNMENT BONDS

NUMBER OF OBSERVATIONS PER LEVEL OF YIELD SPREAD ACROSS DIFFERENT BONDS AND MATURITIES ON 29.04.2016



Notes: Bond spreads were calculated by subtracting the average yield of government bonds with the same maturity from each specific bond issued by the NPBI. For each NPBI, government bonds yields of the respective country were taken (e.g. German government bonds for KfW). NPBI-issued bonds with no comparable government bonds of the same maturity were excluded from the analysis. The average spreads shown in the chart are the simple averages of the bond spreads sampled in the respective groups.
Sources: Datastream, Capital IQ, Oliver Wyman Analysis

TABLE 20: AVERAGE FUNDING SPREADS BETWEEN PROMOTIONAL BANKS AND GOVERNMENT BONDS. ESTIMATED FUNDING BENEFIT NFEO ASSUMING STATE LIABILITY GUARANTEE (IN BPS)

	2YR SPREAD	3YR SPREAD	5YR SPREAD	10YR SPREAD	15YR SPREAD
BNG	25	25	25	32	46
NWB	17	17	17	19	24
KFW	5	2	-2	-2	16
ICO	22	18	13	22	59
FINNVERA	11	8	5	11	36
AVG SPREAD BNG, NWB	21	21	21	25	35
AVG SPREAD KFW, ICO, FINNVERA	13	9	5	10	37
ESTIMATED FUNDING BENEFIT NFEO	9	12	16	15	-2

Sources: Datastream, Capital IQ, Oliver Wyman Analysis

APPENDIX E. TAX, DIVIDENDS AND CSR

FIGURE 22: OWNERSHIP STATUS, STATE SUPPORT, DIVIDEND POLICY AND CORPORATE TAX LIABILITY OF MAJOR EUROPEAN NATIONAL PROMOTIONAL BANKS/INSTITUTIONS

COUNTRY	BANK	OWNERSHIP	STATE GUARANTEE	DIVIDEND POLICY	CORPORATE TAX LIABILITY
Finland	Finnvera	100% state-owned	Yes	No (No dividend payments by law)	No (all subsidiaries are taxed)
France	CDC	100% state-owned	No (implicit guarantee due to special agency status)	Yes (50% of net profits, capped at 75% of net profits registered in social accounts)	Yes
Germany	KfW	100% state-owned (80% by the State, 20% by regional states)	Yes (excludes export and project finance from KfW IPEX-Bank)	No (No distribution of profits by law)	No (some subsidiaries are taxed)
Italy	CDP	80.1% state-owned, 18.4% owned by bank foundations	No (funding for “Separate Account” from postal savings products is guaranteed)	Yes (60% of net profits; subject to exception by shareholder votes)	Yes
Spain	ICO	100% state-owned	Yes	Yes (lowest priority for allocation of profit)	Yes

Sources: Finnvera, Daiwa Capital Markets, Fitch Ratings, CDC, KfW, CDP, ICO

APPENDIX F. ENERGY AND CLIMATE: POLICY CHALLENGES FOR THE NETHERLANDS AND IMPLICATIONS FOR NFEO

The Nederlandse Financieringsinstelling voor Economische Ontwikkeling (NFEO) is intended to help develop a balanced set of instruments and products for energy and climate financing. This appendix summarizes the policy context and the rationale for positioning this within the NFEO group. This comes on top of the very sizeable financial benefits (capital, funding, operations) of placing the three NFEO arms under a single roof as explained in the main text of the report.

POLICY CHALLENGES FOR THE NETHERLANDS

While successful in some areas, the Netherlands according to the European Energy Agency is amongst the laggards in realizing the EU energy objectives.[37] Moreover according to the OECD, early assessments indicate the Netherlands may not achieve the stated objectives of its own Energy Agreement for Sustainable Growth.[38]

Three explanations are generally quoted for this apparent shortfall:

- First, the Netherlands energy and climate *policy has a relatively short time horizon*. The 2013 Energy Agreement runs up to only 2023, whereas surrounding EU countries like Germany, France and the UK have defined comprehensive national energy and climate objectives running up to 2050.[39] Given the long-term investments required for energy infrastructure and innovation, a short policy horizon is a significant handicap.
- Second, it is argued that *policy instruments are inconsistent in part and incomplete*. Policy instruments are seen as inconsistent in that, on the one hand, energy use by retail and SME consumers is taxed and sustainable energy such as wind parks is subsidized at relatively high rates while, on the other hand, generous tax exemptions and refund mechanisms exist for large-scale users and for coal used in electricity plants.[40] The instrument set is seen as incomplete given the dearth of financing instruments (government loans, participations, guarantees) and the reliance by the government on subsidization. However, Raad voor de Leefomgeving en Infrastructuur and VNO-NCW et al. emphasize the need for sizeable public investment and financing.[41] [42]

[37] European Energy Agency, Trends and Projections in Europe 2014 – Tracking Progress towards Europe's Climate and Energy Targets for 2020, EEA Report 6/2014, Copenhagen, 2014.

[38] OECD, OECD Environmental Performance Reviews – The Netherlands, Paris, 2015.

[39] Notenboom, Jos, and Remko Ybema, "De Energietransitie Kent geen Blauwdruk: Wat Nederland Kan Leren van zijn Buurlanden", TPEdigitaal 9(2), 2015, pp. 129-148.

[40] OECD, OECD Environmental Performance Reviews – The Netherlands, Paris, 2015.

[41] Raad voor de Leefomgeving en Infrastructuur, *Rijk zonder CO2: Naar een Duurzame Energievoorziening in 2050*, September 2015.

[42] VNO-NCW, MKB Nederland, and LTO Nederland. *Brochure – NL Next Level*. The Hague: VNO-NCW, MKB Nederland, and LTO Nederland, 16 June 2016. Web. Accessed June 2016.

- Third, *effectiveness is hampered by frequent policy change* (financial and regulatory). This is argued i.a. by Algemene Rekenkamer and Ministerie van Financiën.[43] [44] Frequent policy change adds to uncertainty over time and thus undermines private investors' appetite for any investment in energy and climate projects with a long payback horizon. It thus further raises the need for subsidization and the already large cost of energy and climate policy to the taxpayer.

OECD do note a comparative advantage for the Netherlands in several environmentally related technologies, though the country is lagging behind the most eco-innovative OECD member countries. There is a concern that larger firms and incumbents benefit more from government support initiatives than do SME enterprises.[45]

NFEO cannot resolve all of these issues, but it could strengthen the Netherlands' energy and climate effort by offering financing instruments that are geared particularly to the long term where market failure is the most prevalent; that promote policy consistency over time; and that improve policy effectiveness and efficiency by exploiting comparative advantages in the Netherlands energy and climate eco-system.

IMPLICATIONS FOR MISSION AND STRUCTURE OF NFEO

The design of NFEO as proposed therefore aims to satisfy the following requirements.

NFEO should have a significant balance sheet so as to be able to offer a broad spectrum of financing instruments (loans, participations, guarantees) to support market failure in energy and climate sustainability and to mobilize large-scale co-financing from private (institutional) investors as well as from EU funds (including EIB and Juncker initiative). In support of this, it should encompass high-quality financial expertise and financial structuring capability.

NFEO financing should be concentrated on a long time horizon, where market failure is most prevalent.

By means of the NFEO's long-term exposure in energy and climate financing, the government as the major shareholder in NFEO will incur a tangible financial stake in policy consistency over time. Policy changes that undermine the value of its long-term exposures will directly impact NFEO. Value-preserving research and advocacy by NFEO can help foster policy coordination and consistency.

- SME and innovation financing should be integral to NFEO's mission. ECN and PBL highlight that successful market development for eco-innovations requires co-investment including by government.[46] This is confirmed by Van der Vooren and Hanemaaijer, who evidence that market failure is particularly current in the Netherlands and for eco-innovation (positive externalities, lack of venture capital, high capital intensity, long payback period, small scale of investments, uncertainty government policies).[47] This is best done by positioning the NFEO's Energy and Climate Financing arm

[43] Algemene Rekenkamer, *Energiebeleid: Op Weg naar Samenhang*, Den Haag, 2015.

[44] Ministerie van Financiën, *IBO Kostenefficiëntie CO2-reductiemaatregelen*, Den Haag, April 2016.

[45] OECD, OECD Environmental Performance Reviews – The Netherlands, Paris, 2015.

[46] ECN and PBL, Nationale Energieverkenning 2015, Petten, 2015.

[47] Vooren, Alexander van der, and Albert Hanemaaijer, *"De Vallei des Doods voor Eco-innovatie in Nederland", PBL-notitie*, Planbureau voor de Leefomgeving, 10 March 2015.

together with its SME and Innovation Financing arm under the single NFEO roof. The Tweede Kamer has called for such an integral approach.[48]

- In a similar vein, and in line with Ministerie van Financiën, policy effectiveness as well as cost efficiency are to be served also by linking up with the NFEO's arm for International Financing and Exports.[49] For the open Dutch economy with its small home market, going international is natural and mandatory for most firms, including for innovative startups in energy and climate sustainability. Hence, like Germany with KfW IPEX-Bank as part of the KfW group, there is a strong rationale for positioning within NFEO group the Energy and Climate Financing arm together with its International Investments and Exports arm under a joint roof.

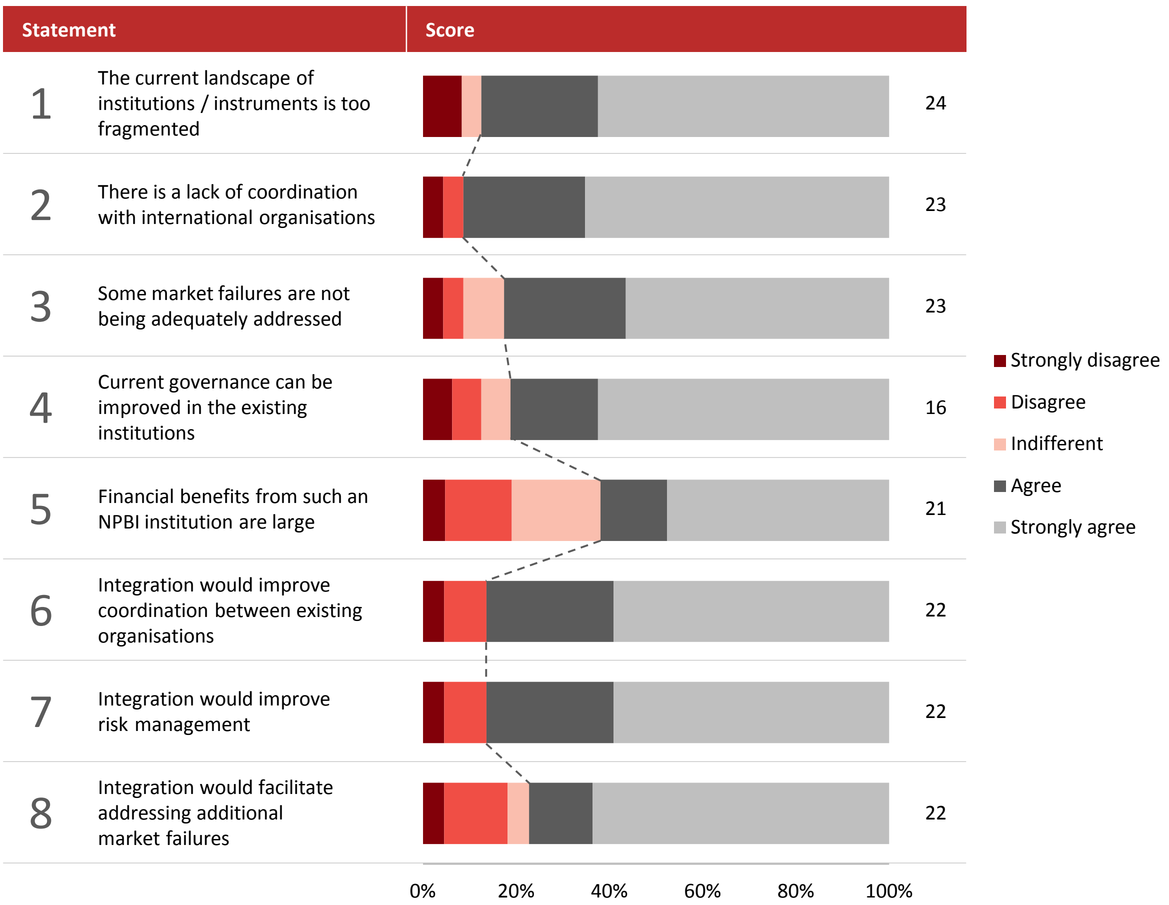
[48] Tweede Kamer, Motie Samson, Van Haersma Buma en Pechtold over oprichting van een Nederlandse innovatiebank om grootschalig in de ontwikkeling van duurzame energie te investeren, 17 September 2015.

[49] Ministerie van Financiën, *IBO Kostenefficiëntie CO2-reductiemaatregelen*, Den Haag, April 2016.

APPENDIX G. INTERVIEWEE'S PERCEPTION OF CURRENT PROMOTIONAL BANKING LANDSCAPE IN THE NETHERLANDS AND NFEO

In the span of writing this report we have spoken to many individuals in government, industry, and academia, often in groups. In order to give a sense of the type and tone of our conversations, we have tried to convey what was said and what ideas were supported. These discussions were completely qualitative in nature, and at no point have we requested an official survey. Given the generally strong support, we have tried to quantify the results of these meetings. We acknowledge this is not perfect science and stress that this survey should only serve as a window into the tone and thinking of the many conversations we have had.

FIGURE 23: INTERVIEWEE'S PERCEPTION OF CURRENT PROMOTIONAL BANKING LANDSCAPE IN THE NETHERLANDS AND NFEO



Sources: Views from individuals interviewed for this report and listed in Appendix H, figures on the right represent number of views included in the analysis, Oliver Wyman analysis

APPENDIX H. LIST OF ABBREVIATIONS

ACM	The Netherlands Authority for Consumers and Markets
AFD	Agence Française de Développement, development agency from France
AWS	Austria Wirtschaftsservice, National Promotional Bank from Austria
BBB	British Business Bank, National Promotional Bank from the UK
BDB	Bulgarian Development Bank, National Promotional Bank from Bulgaria
BDC	Business Development Bank of Canada
BMKB	*Borgstelling MKB Kredieten*, a government guarantee scheme for loans to SMEs in the Netherlands
BNG	*Bank Nederlandse Gemeenten*, a State-owned bank in the Netherlands offering loans to local authorities and public institutions
BRD	Development Bank of Rwanda
CDC	*Caisse des Dépôts et Consignations*, National Promotional Bank from France
CDP	*Cassa Depositi e Prestiti*, National Promotional Bank from Italy
CNAS	*Comité National d'Action Sociale*, or the National Committee on Social Welfare, from France
CNO	National Steering Committee
COSME	The EU programme for Competitiveness of Small and Medium-sized Enterprises
CRD IV	Capital Requirements Directive IV
CRO	Regional Steering Committee
CSR	Corporate Social Responsibility
DNB	*De Nederlandsche Bank*, central bank of the Netherlands
DNO	Declaration of No-Objection
EBA	European Banking Authority
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EMU	Economic and Monetary Union
FMO	*Financierings-Maatschappij voor Ontwikkelingslanden*, or Entrepreneurial Development Bank
GIB	Green Investment Bank, National Promotional Bank from the UK
GO	*Garantie Ondernemingsfinanciering*, a government guarantee scheme for loans to medium to large-sized companies
HBOR	*Hrvatska banka za obnovu i razvitak*, National Promotional Bank from Croatia
ICO	*Instituto de Credito Oficial*, National Promotional Bank from Spain
IDC	Italian Development Cooperation, development agency from Italy
KfW	*Kreditanstalt für Wiederaufbau*, National Promotional Bank from Germany
KWG	*Kreditwesengesetz*, the German Banking Act
N.V.	Limited liability company (in Dutch: *Naamloze Vennootshap*)
NFEO	*Nederlandse Financieringsinstelling voor Economische Ontwikkeling*, or Netherlands Financing Institution for Economic Development
NIA	Netherlands Investment Agency

NPBI	National Promotional Bank/Institution. See glossary for National Promotional Bank.
NWB	*Nederlandse Waterschapsbank*, a State-owned bank in the Netherlands offering loans to local authorities and public institutions
PPP	Public-Private Partnership. See glossary for Public-Private Partnership.
RoE	Return on Equity
RVO	*Rijksdienst voor Ondernemend Nederland*, or Netherlands Enterprise Agency
SBIC	Small Business Investment Company program by the U.S. Small Business Administration
SFIL	*Société de financement local*, National Promotional Bank from France
SME	Small and medium-sized enterprises
SREP	Supervisory Review and Evaluation Process
UKEF	UK Export Finance, export credit agency from the UK
VNO-NCW	Confederation of Netherlands Industry and Employers, the largest employers' organisation in the Netherlands

APPENDIX I. GLOSSARY

Asymmetric returns	When applied to the context of the making of a loan or investment that involves more than one party, it means that one or more parties may enjoy higher or lower returns than the others, in return for taking on higher or lower risk. In contrast to ***pari passu***.
Co-financing	Co-financing is similar to the practice of direct lending, where an institution like a bank or government institution makes loans to or investments in the final beneficiary of the funds directly. However, in co-financing, more than one lender or investor agree to provide the financing to the final beneficiary together.
Countercyclical role	When an NPBI takes on a countercyclical role, it means that the institution regulates its activities counter to the business cycle. This means that when there is a downturn in the business cycle, the NPBI will increase its promotional activities to reduce the effects of the downturn on the wider economy.
Coverage ratio (guarantees)	In the context of guarantee products, the coverage ratio refers to the percentage of a debt obligation that is guaranteed. See **Guarantee (loan-related product)**.
Credit registry/bureau	Credit registries and credit bureaus are institutions that collect and record information on individuals' or companies' past financial transactions. This is to allow regulators or lenders to assess the credit history, and thereby the associated credit risk, of an individual or company.
Crowdfunding	Crowdfunding is a practice where funding for a project, product or a venture is raised from a large number of people, usually mediated by platforms on the internet.
***De minimis* regulation**	A Latin phrase that means "minimal things". In the context of state aid in the EU, the *de minimis* regulation allows for small amounts of aid (less than €200 K over three years) to be given to an undertaking for a wide range of purposes without the need for notification or approval.
Derivative (financial)	A financial derivative is a financial product or contract whose value is derived from the value or price of an underlying asset.
Ex ante	*Ex ante* means "before the event".
First/second loss tranche	In a co-financed loan, where multiple lenders come together to provide a loan, the different lenders may agree to take on varying amounts of risk on their portion of the loan. In the event of default, or a loss in the value of the loan, the losses are first absorbed by the first loss tranche, set at a certain amount, after which the losses are absorbed by the second loss and subsequently more senior tranches.
Fund-of-fund	Fund-of-fund refers to a fund that invests its money in individual funds, instead of directly in specific companies or projects.
Guarantee (loan-related product)	A guarantee is a promise by one party (the party giving the guarantee, also known as the guarantor) to take on the debt obligations of the borrower in the event that the borrower is unable to meet said debt obligations. A guarantee can be for a portion, or the entirety, of the loan.
Large companies regime (*structuurregime*)	A corporate structure for large companies where the Executive Board is selected by a Supervisory Board, instead of elected directly by the shareholders.
Leverage ratio	The leverage ratio measures the percentage of a bank's assets (and exposures) that is funded by its Tier 1 capital. See **Tier 1 ratio**.

Liquidity	Liquidity refers to the availability of assets to meet short-term obligations. An asset is liquid when its value can be easily and quickly realised in cash without a significant loss of value. Liquidity risk thus refers to the risk that a bank (or other institution) is unable to meet its short-term financial obligations. This happens when a bank holds long-term assets that are not easily tradable and takes on short-term liabilities at the same time. In the context of a security, like a bond or stock, liquidity refers to how easily the security can be bought or sold, usually because there are many buyers and sellers of the security. A liquidity (or illiquidity) premium is thus the additional premium a buyer of the security would expect to get when buying an illiquid security.
Mezzanine (debt)	Mezzanine debt represents a claim on a company's asset that is senior only to the company's common equity. This means that mezzanine debt is usually riskier than other forms of loans.
Mitigated large companies regime (*verlicht structuurregime*)	Unlike the **Large companies regime**, the Management Board in this structure is appointed directly by the shareholders.
National Promotional Bank	A financial institution with a mandate from a EU Member State, or a Member State's entity, to carry out developmental or promotional activities. These activities are aimed at addressing market failures like information asymmetries and externalities, and catalysing private sector investment in under-invested areas of the economy.
Negative externalities	A negative externality occurs when the production or consumption of a good or service by an individual or entity results in a cost, or negative effect, for a third party. For example, a factory that dumps toxic by-products into a public river creates negative externalities, since this act will harm individuals that come into contact with the water.
Nominal return on gilt	A gilt is a bond issued by the UK government. The nominal return on gilt thus refers to the rate of return, or rate of profit, that is expected on a gilt before inflation is taken into account.
On-lending	On-lending refers to the practice of directing funds, usually designated for financing entrepreneurs and small and medium-sized enterprises, via financial intermediaries like banks and investment funds. These financial intermediaries manage the funds provided and make risk assessments and final decisions on the disbursement of funds to the final beneficiaries. This is in contrast to direct lending, where funds are directly disbursed to the final beneficiaries by the originating institution, usually a government agency or promotional bank.
Pari passu	A Latin phrase that means "on equal footing". When applied to the context of the making of a loan or investment that involves more than one party, it means that all parties (lenders or investors) enjoy the same risk and returns. In contrast to asymmetric returns. In contrast to **asymmetric returns**.
Positive externalities	A positive externality occurs when the production or consumption of a good or service by an individual or entity results not just in private benefits to said individual or entity, but also to a third party. For example, an individual choosing to commute by bicycle instead of by car creates a positive externality, since the air pollution that is avoided is enjoyed by society at large.
Prima facie	A Latin phrase that means "at first appearance". A *prima facie* case is one where, upon initial examination, there is sufficient evidence to support the case.
Public-private partnership	A public-private partnership is an agreement or business relationship between a public, or government, agency and a private sector company.
Refinancing	See **On-lending**.
Risk premium	A risk premium is the amount of return or profit an investor or lender expects to get in exchange for taking on risk. The larger the risk, the larger the expected risk premium.

Second-level institution	Instead of directly granting loans to or making investments in the final beneficiary of the loan/investment, a second-level institution channels funds via financial intermediaries like commercial banks and private financial institutions. This practice of distributing funds through financial intermediaries is called on-lending. See **On-lending**.
Small and medium-sized enterprises (SMEs)	Small and medium-sized enterprises are defined by the EU as an enterprise with less than 250 employees and either revenues less than €50 MN or balance sheet total less than €43 MN.
Tier 1 ratio	The Tier 1 ratio is defined as the core equity capital of a bank (or Tier 1 capital) divided the bank's risk-weighted assets. This is a measure of a bank's financial strength.
Venture capital fund	A venture capital fund (or VC fund) is an investment fund that invests money in small or medium-sized enterprises with high growth potential.

APPENDIX J. PERSONS CONSULTED FOR THIS REPORT

The views expressed in the policy brief and report are the responsibility of Oliver Wyman and De Brauw Blackstone Westbroek. In the period April-June 2016, the following persons at the request of Jeroen Kremers were so kind as to discuss the subject matter of the report:

Ministry of General Affairs	**Michiel Boots**, Senior Advisor to the Prime Minister
	Stan Kaatee, Senior Advisor to the Prime Minister
	Marjolein van Zuilekom, Advisor to the Prime Minister and Assistant Secretary to the Cabinet
Ministry of Finance	**Jeroen Dijsselbloem**, Minister of Finance of the Netherlands
	Wim Jansen, Deputy Director for Foreign Financial Relations and Head of Export Credit Insurance
	Jacob van Gent, Senior Advisor Export Credit Insurance
	Wouter Raab, Director for Inspection of the Government Budget
	Gita Salden, Director Financial Markets and Deputy Treasurer-General
	Patrick Schuerman, Senior Advisor Budget Policy
	Hans Vijlbrief, Treasurer-General
	Other civil servants in various departments of the Finance Ministry
Ministry of Economic Affairs	**Bertholt Leeftink**, Director-General for Enterprise and Innovation
	Remco van Montfoort, Senior Advisor SME and Innovation
Ministry of Foreign Affairs	**Marten van den Berg**, Director-General for Foreign Economic Relations
	Marc Cabret, Program Manager Trade Finance
	Annelies Drost, Senior Policy Officer
	Selwyn Moons, Deputy Director Sustainable Economic Development
	Christiaan Rebergen, Director-General for International Cooperation
Ministry of Interior and Kingdom relations	**Titus Livius**, Director Policy and Finance
	Arne Meeter, Senior Economic Advisor
	Richard van Zwol, Secretary-General
Metropole Region Rotterdam-The Hague	**Annet Bertram**, Secretary General
City of Eindhoven	**Staf Depla**, Alderman and Chairman of Finance Committee VNG (Association of Dutch Municipalities)
	Camille Wildeboer Schut, Strategic Advisor
	Piet van der Wielen, Program manager brainport development
De Nederlandsche Bank (DNB)	**Jan Sijbrand**, Director of Oversight
	Job Swank, Director of Monetary Affairs and Financial Stability

Authority for Consumers & Markets (ACM)	**Henk Don**, Board Member
	Freek Keppels, Head of Policy and Communications Department
	Jarig van Sinderen, Chief Economist
Nederlands Investerings Agentschap (NIA)	**Jan Dexel**, Senior Advisor
	Peter Martens, Director
Netherlands Investment Institution (NII)	**Loek Sibbing**, CEO
	Jan van Rutte, Commissioner
VNO-NCW	**Hans de Boer**, Chairman
	Cees Oudshoorn, General Director
	Nick van de Sande, Advisor Economic Affairs
Netherlands Association of International Contractors (NABU)	**Robert Poelhekke**, Director
European Commission	**Benjamin Angel**, Director of Treasury and Financial Operations, DG ECFIN Officials in DG competition
European Investment Bank	**Simon Barnes**, Director, Advisory Services
	Jean-Luc Revéreault, Head of Strategy – Advisory Services Department
	Helmut Kraemer-Eis, Head of Research and Market Analysis of the European Investment Fund
	Markus Berndt, Head of Operational Strategy and Business
OECD	**Noé van Hulst**, Permanent Representative of the Netherlands
Nederlandse Waterschaps Bank (NWB)	**Ron Walkier**, CEO
	Frenk van der Vliet, Board Member
Bank der Nederlandse Gemeenten (BNG)	**Carel van Eykelenburg**, CEO
	Edwin van Veenhuizen, Manager Structured Finance
Entrepreneurial Development Bank (FMO)	**Nanno Kleiterp**, CEO
	Roel Messie, Director NL Business
Shell	**Dick Benschop**, VP for Non-Operated Ventures
	Maike Boggemann, Projects Manager for Strategy and Scenarios
RBS	**Jan de Ruiter**, Former CEO
ING	**Koos Timmermans**, Board Member
	Steven Evans, Director for Structured Finance Utilities, Power & Renewables
	Nick Jue, Chairman and CEO for the Netherlands
	Leonie Schreve, Global Head for Sustainable Finance
TenneT	**Mel Kroon,** CEO
	Otto Jager, CFO
HPE Growth Capital	**Hans van Ierland**, Co-founder and CEO
	Manfred Krikke, Partner

Blackrock	**Leen Meijaard**, Chairman for Benelux
PPM Oost	**Marius Prins**, CEO
Carnegie Consult	**Hans Slegtenhorst**, Managing Director
APG	**Dick Sluimers**, Former CEO
Noaber foundation	**Paul Baan**, Chairman
	Matthijs Blokhuis, Director
Netherlands Environmental Agency (PBL)	**Pieter Boot**, Head of Department of Climate, Air and Energy
Scientific Council for Government Policy (WRR)	**Margot Weijnen**, Member of Council
	Albert Faber, Research Fellow
University of Amsterdam (UvA)	**Sweder van Wijnbergen**, Professor

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APPENDIX L. FREQUENTLY ASKED QUESTIONS

1. Why do we need another state-owned entity and wouldn't it become ungovernable due to its size?

The creation of government entities often leads to a loss in dynamism and increase in bureaucracy. However, this can be avoided through several mechanisms. First, we suggest establishing three arms as coherent units that can be effective in their field and reap synergies under one roof. Second, strong governance needs to be put in place that ensures coordination and a clear delineation of responsibilities between the arms, regular reviews of the institution's adherence to its mandate, and sufficient transparency on the institution's activities - as outlined in this policy brief. Broad spectrum national promotional banks exist in most European peer countries, whereas its absence in the Netherlands inhibits sufficient promotional activity where it matters.

2. Why should the institution be guaranteed by the state?

- The existing promotional landscape is to a large extent already backed by the state, both implicitly and explicitly. FMO has a direct government guarantee and, arguably, recent history has shown that the state would recover losses in case of a crisis situation at BNG and NWB; i.e. an implicit guarantee. An explicit guarantee would bring with it the opportunity for the state to cover the risks which are de facto already present by ensuring strong governance, an explicit mandate and best practice risk management. Moreover, a large proportion of BNG and NWB assets are already guaranteed by the state.
- For the preferred alternative in this report, in which the social housing portfolio is separated from the entity and private investment is attracted, an explicit or implicit guarantee is no longer needed for this portfolio. Hence the combined total of implicit and explicit guarantees would be lower than in the current situation.
- At the same time, a state guarantee to promotional banks is also seen in international practice, e.g. KfW, ICO, Finnvera all have explicit state guarantees.
- In current market conditions, we expect the funding advantage to be €100 MN per annum. Without a guarantee, the state would not reap these financial benefits fully. In potentially higher interest rate environments in the future, this benefit could be substantially higher.
- We recognise that the government requires fair compensation for extending new guarantees. Although for an entity owned by the state this is a technicality (RoE would be reduced by the same amount), a fair compensation is likely to be in the order of magnitude of a few bps.
- Even without providing an institution-wide guarantee, the argumentation for benefits of creating NFEO would outweigh any potential drawbacks.

3. How can it be ensured that NFEO operates only within its mandate and does not do business the private sector is better placed for?

NFEO operations need to be guided by a clear mandate. In addition, strong and disciplined governance is essential to ensure that NFEO's activities remain in line with its mandate. An internal Evaluation Office should be put in place that regularly reviews any changes in the market landscape and whether NFEO's activities are still limited to address market failures. These internal evaluations would be complemented by periodic reviews by external independent parties. The results of these reviews as well as NFEO's business performance in general should be published in order to ensure maximum transparency to the public. In our opinion, the current environment in the Netherlands allows for only limited control over the mandate and activities performed by the Dutch promotional institutions. This is one of the key concerns that could be mitigated by the creation of NFEO.

4. What is wrong with the status quo and why should it change now?

- The current promotional banking landscape in the Netherlands is highly fragmented, with a number of institutions (BNG, NWB, FMO) and national as well as regional governmental schemes (managed by RVO and others) independently providing support to the Dutch economy. This fragmentation makes it difficult to coordinate activities between the entities, offer expertise and improve access to financing and capital to those sectors in the Netherlands which have a need for it.
- Moreover, fragmentation is creating operational and funding inefficiencies. Especially at a time when the European Commission is encouraging all countries without an NPBI to establish one and when European funds such as the Juncker plan should be leveraged to support national efforts, a central point of contact in the Netherlands is urgently needed.
- Finally, the current setup has important gaps such as for energy and climate sustainability financing where the Netherlands has fallen behind internationally.

5. What would the establishment of NFEO mean for local governments and the ROMs?

The Regionale Ontwikkelings Maatschappijen (ROMs) provide valuable roots into the regional and local economy. Establishing NFEO would support their work by offering a strong national partner with financial expertise, financial scale and access to EU funds. In addition to supporting the ROMs, NFEO could offer financing to local authorities at better rates than currently available from BNG/NWB.

6. Would NFEO lead to an increase of state debt?

We think it is possible to structure NFEO without any implications for the Netherlands' EMU debt levels. This is also what we have observed for other European NPBIs. A key prerequisite will be for NFEO to operate at arm's length to the government, which would be preferable also from a governance perspective. A more detailed assessment has to be undertaken and NFEO's target operating model and legal structure designed accordingly.

7. What is the purpose of NFEO?

NFEO should dynamically identify market failures, mitigate these by developing effective solutions, resolve market failures when possible over time, monitor its alignment of activities with changes in the market environment and exit from activities if market failures cease to exist. Initially, we recommend NFEO to focus on areas that have already been identified as market failures and which are addressed by existing promotional institutions in the Netherlands.

8. Why are you recommending an integrated model?

An integrated model is not the only option for creating NFEO. It is possible to proceed with two or more institutions not combined under one roof. However, this model does not allow reaping the full benefits in terms of a coherent strategic focus, better coordinated activities, higher expertise, better brand positioning, and single face to the customer as well as large financial synergies. Most peer NPBIs chose an integrated model, which best suits the internationally open Dutch economy.

9. Aren't the existing entities good enough?

We have spoken to a large number of stakeholders and came across a variety of opinions on the required quality of operations, risk management and transparency. Regardless, we believe NFEO - as a state-backed institution - should aspire to adopt best practice standards. Especially, this applies to the application of best practice expertise and risk management standards in line with requirements for commercial banks. As size typically facilitates talent attraction, we think that as an integrated broad spectrum promotional bank it would be easier for NFEO to hire qualified and experienced staff.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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