Brochure on ESIF/EFSI complementarities

Maximising synergies and complementarities

1 Introduction

The global economic and financial crisis has brought about a sharp drop of investment across Europe thus hampering essential investment in infrastructure and innovation. Currently, investment in Europe is 15% below pre-crisis levels. Europe must remedy this investment gap to recover from the crisis and strengthen its global competitiveness. That is why collective and coordinated efforts at European level are needed to reverse this downward trend and put Europe on the path of economic recovery.

Europe's investment gap points to a market failure, a reduced capacity of investors to take risks. Liquidity is available but many projects are unable to secure adequate funding. Investor confidence is low due to economic volatility, along with regulatory and other uncertainties. As a result, the money is not finding its way to economically viable projects. The investment plan aims at mobilising additional investments in the EU economy.

In this context, the Commission has decided to tackle the investment gap by activating the **Investment Plan for Europe** (IPE or Investment Plan) which is based on three pillars: (i) Implement regulatory and structural reforms to remove bottlenecks and ensure an investment-friendly environment; (ii) Offer a single point of entry for technical assistance and advisory services on project preparation and implementation, use of financial instruments and capacity building; (iii) Create the **European Fund for Strategic Investments (EFSI)**[1] in partnership with the European Investment Bank Group (EIB) to address the market failure in risk-taking which is holding back investment.

The year 2015 is at the same time marked in many Member States by the start of implementation of multiannual programmes co-financed by the European Structural and Investment Funds (ESIF). In total, through ESIF more than EUR 450 billion[2] will be invested in Europe in the 2014-2020 programming period.

In the next few years, EFSI and ESIF will exist and invest side-by-side in Member States and their regions. They are both set to play an essential role in the delivery of European policy objectives in the near future. While rationale, design, legislative framework and timeframe for implementation are different, there is considerable scope for maximising synergies and complementarities for additional investments as also envisaged by the Investment Plan for Europe.

[1] Regulation on a European fund for strategic investments (EFSI) was adopted on 25 June 2015 (EU 2015/1017).
[2] This amount does not cover obligatory national co-financing which constitutes part of ESIF programme support.

2 European Fund for Strategic Investments (EFSI)

2.1 What is EFSI?

EFSI is an initiative launched jointly by the European Commission and the EIB Group to assist in overcoming the current investment gap in the EU by mobilising private financing for strategic investments. Legally speaking, EFSI is not a stand-alone fund. It takes the form of a contractual arrangement between the EC and the EIB Group, consisting of an EU guarantee (EUR 16 billion) complemented by an EIB capital contribution (EUR 5 billion). It is expected that under the above combination, the EFSI support should generate EUR 60.8 billion of additional investment by the EIB Group thus further generating a total of EUR 315 billion in investment in the Union over the next 3 years (as of mid-2015). It has its own dedicated governance structure thus ensuring its focus on its specific objectives, namely to increase the volume of higher risk projects supported by the EIB Group and address market failures which hinder investment in Europe.

2.2 What are the main features of EFSI?

EFSI has its own governance structure, which consists of: (i) a Steering Board with representatives of the Commission and EIB and deciding *inter alia* on the overall strategic orientation, the rules applicable to operations with investment platforms and National Promotional Banks and the risk profile of EFSI; (ii) an Investment Committee composed of 8 independent experts and the Managing Director. The Investment Committee will assess and approve the use of the EU guarantee for individual operations and be accountable to the Steering Board.

EFSI has two components to support projects with wide sector eligibility: an Infrastructure and Innovation Window to be deployed through EIB and an SME Window to be deployed through the European Investment Fund (EIF) to support SMEs and mid-caps.

EFSI is neither a financial instrument under the Financial Regulation applicable to EU level budgetary operations nor under the definition of the Common Provisions Regulation (CPR) applicable for ESIF. The EFSI Regulation and EFSI Agreement apply.

The EU guarantee is granted on a portfolio basis; not on a project basis. The EIB will perform its standard due diligence in respect of any proposed EFSI operations, to determine the project's consistency with Union policies as well as its economic, technical and financial viability. The EIB standard pricing policies will apply to all EIB financings supported by EFSI. No grant funding will be provided.

EFSI is complemented by a European Investment Advisory Hub (EIAH). The latter shall be able to provide technical assistance in the areas listed in the EFSI Regulation (Art. 9(2)) and shall provide services in addition to those already available under the Union programmes, including under Art. 14 of the EFSI Regulation. In essence, the EIAH will offer a single point of entry to a wide number of sources for investment advice that can help to strengthen and accelerate investments.

The EIB Group has already started operations under EFSI and approved a number of projects. In line with the EFSI Regulation, the approval for the use of the EFSI guarantee for these projects was granted by the Commission pending the establishment of the Investment Committee.

2.3 What are the key sectors of EFSI and its financial products?

With EFSI support, the EIB Group will provide funding for economically viable projects, including projects with a higher risk profile than ordinary EIB activities. Emphasis will be put on key sectors identified under Art. 9 of the EFSI Regulation. Therefore, focus will among others be placed on: (i) transport, energy and the digital economy; (ii) environment and resource efficiency; (iii) human capital, culture and health; (iv) research, development and innovation; (v) support to SMEs and mid-caps.

EFSI financial products will mainly be loans, guarantees and equity investments.

2.4 Who is eligible to apply for EFSI support and how can applications be made?

Any public and private promoter investing in Europe is potentially able to benefit from EFSI. These can be entities of all sizes (including utilities, special purpose vehicles, SMEs and mid-caps). EFSI support may be alongside support from national promotional banks or institutions, banks acting as financial intermediaries in operations, institutional investors, funds operating in the market and investment platforms. EFSI therefore will help deliver your project, which has to be economically and technically viable and potentially of a high risk profile (evaluated on a case-by-case basis).

Applications are made directly to the EIB for a repayable type of financial support. Applications could also be channeled through EIB Group intermediated institutions. The deadline for project approvals is set at the beginning of July 2019 and for signatures is mid-2020 (*See Annex 1 for more details*).

2.5 Where will EFSI supported operations take place?

EFSI has no geographical or sectorial allocation or quotas; however, the Steering Board will establish indicative sectorial and geographical concentration limits. EFSI is demand driven and will provide support for projects across the EU, including cross-border projects. Projects will be considered and appraised based on individual merits.

3 European Structural and Investment Funds (ESI Funds or ESIF)

3.1 What are ESI Funds?

The "European Structural and Investment Funds" is a common designation for five European funds: the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, which operate under a common framework (Common Provision Regulation – CPR).

3.2 What are the main features of ESI Funds?

ESIF are some EUR 450 billion of EU funding over the 2014-2020 programming period, allocated to Member States and delivered through nationally co-financed multiannual programmes to develop and support actions related to the key Union priorities of smart, sustainable and inclusive growth in line with the objectives of each Fund. National co-financing constitutes an integral and obligatory part of these programme resources and is covered by a common set of rules applicable to all ESI Funds and further defined under Fund-specific provisions.

ESIF programmes are approved by the Commission and implemented by Member States and their regions under shared management. It is therefore the ultimate decision of managing authorities in Member States where and how funds are invested at project level within the framework of the relevant programme setting out the specific objectives, results to be achieved and types of action to deliver them.

Technical assistance is available both at programme level, where it can be used for a range of programme and project support activities, as well as at the initiative of the Commission, where it is used for more general tasks to support the preparatory, monitoring, administrative, evaluation, audit and control measures necessary for implementing the Regulation.

As of end 2015, the majority of the ESIF programmes have been adopted and implementation has started.

3.3 What are the key sectors of ESIF programme support and in what form do they come?

ESIF programmes support focuses on 11 thematic objectives: 1) Research and innovation, 2) Information and communications technology (ICT), 3) SME competitiveness , 4) Low carbon economy, 5) Climate change adaptation and risk management, 6) Environment and resource efficiency, 7) Sustainable transport and network bottlenecks, 8) Employment and labour mobility, 9) Social inclusion and poverty, 10) Education and 11) Institutional capacity.

ESIF programme support is mainly delivered either in the form of grants or through financial instruments in the form of loans, guarantees and equity investments.

3.4 Who is eligible for ESIF programme support and how is ESIF programme support decided?

The beneficiaries of ESIF programme grant support could be public or private bodies or even a natural person[3]. The type of beneficiaries and projects which can be supported derives from the applicable Regulation and the approved programme being ultimately reflected in the programme implementation. The target final recipients of ESIF programme financial instruments are identified in the relevant ex-ante assessment of financial instrument and depend on the objectives of the programme and the agreed strategy. ESIF programme support has to comply with the applicable law (including CPR, Funds specific provisions, national legislation, State aid rules, public procurement).

In case of grants the selection of projects is based on the selection criteria agreed in the respective ESIF programme monitoring committee. The programme support is decided by the Managing Authority or the relevant intermediate body. In case of financial instruments,

[3] In EAFRD (European Agricultural Fund for Rural Development) and EMFF (European Maritime and Fisheries Fund).

the programme support is contributed by the managing authority to a financial instrument and then subsequently transferred through a financial intermediary to the selected final recipients.

3.5 Where do ESIF programme supported operations take place?

ESIF programme supported operations take place in the area of the relevant programme. The possibility of supporting operations outside of the programme area is very limited and linked to certain specific conditions[4].

4 Combination of ESIF and EFSI – helping each other go further

4.1 The overall rationale

The rationale of EFSI is to allow EIB to provide additional catalytic, risk-bearing capacity and unlock additional sources of financing in delivering greater societal and economic value. ESIF programme resources cannot be directly transferred to EFSI, which is an additional and separate mechanism. However, ESIF programmes may contribute to the achievement of the objectives of the Investment Plan and be complementary to EFSI support.

The EFSI legal basis allows Member States to use ESIF programme resources (including resources programmed to be delivered through financial instruments) with a view to contributing to the financing of projects eligible for EFSI support. At the same time, the ESIF legal basis (CPR – Common Provisions Regulation) allows under certain conditions that both final recipients receiving support from financial instruments and operations supported by ESIF programmes may also receive assistance from other instruments supported by the Union budget[5]. EFSI and ESIF should therefore be deployed so as to be complementary to each other and not to duplicate or compete with each other. ESIF should be used in a manner complementary to the delivery of the Investment Plan objectives.

Combination of ESIF and EFSI is therefore in principle possible in cases where the respective applicable eligibility criteria are satisfied whilst bringing a demonstrable added value for a more effective and efficient use of both funding sources. This can be either at individual project level or at fund level.

ESIF programme support (i.e. ESI Fund(s) plus the respective national co-financing) will have to be clearly distinguished from EFSI in such cases as the provisions under CPR[6] require that expenditure under ESIF programmes declared to the Commission for reimbursement cannot receive support from another instrument supported by the budget of the Union. Indeed, a situation where EFSI is declared as part of the expenditure under ESIF programme would imply a doubling of support. Thus, any support deriving from EIB/EIF financial activities (e.g. loans, guaranteed loans, equity) backed by the EFSI guarantee will have to be distinct from ESIF programme expenditure.

[4] Article 70, Regulation (EU) 1303/2013
[5] Article 37(8)(9), and Article 65(11) of CPR.
[6] Article 37(8) and 65(11).

However, for Structural and Cohesion funds, it is possible to consider that any additional resources leveraged and triggered by the combined ESIF and EFSI interventions are treated as national co-financing for the ESIF programme: for example, when a financial instrument set up (Title IV of the CPR) through an ESIF contribution receives a parallel investment from EFSI and both interventions trigger additional co-investments by other investors (public and private). If such additional co-investments are neither directly nor indirectly supported by the EU budget but are directly linked to the ESIF intervention, they could be treated as national co-financing provided that these resources are paid out to final recipients in line with the applicable rules (CPR, respective ESIF programme, funding agreement). For the EAFRD, the co-financing for the programme only takes into account public resources made available at the level of the managing authority.

4.2 How this will work in practice

(i) ESIF and EFSI combination at project-level

ESIF may be combined with EFSI support in cases where the respective applicable eligibility criteria are satisfied, including an overall higher value added for the projects involved. In practice, there will also be cases where this complementarity will equally lead to co-investing EFSI supported resources with ESIF programme(s) support in one single project. This may be the case in certain countries or sectors, where the associated risks would make it unlikely for granting EFSI support without the presence of ESIF programme contributions.

EFSI and ESIF programmes may support different or same parts of the capital structure of a project (provided that in the second case separate records are maintained showing the use of the different financial streams thus evidencing the absence of any doubling up) and may cover different risks.

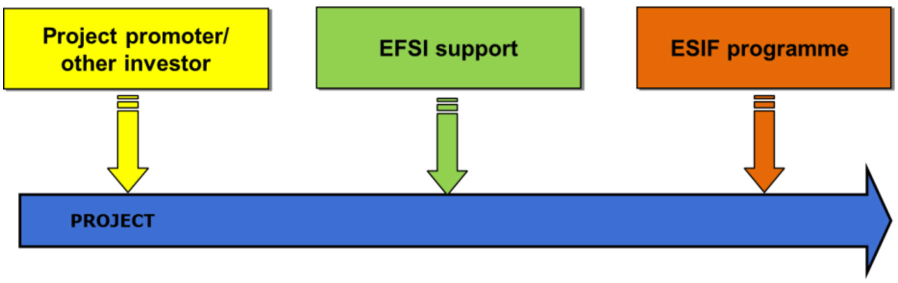
Examples:
1) EFSI and ESIF both contribute to a transport infrastructure project, thereby increasing the total number of kilometres funded (either separate parts of the project, or EFSI funds the revenue-generating part of the infrastructure project);
2) EFSI support for parts of projects which are not eligible under an ESIF programme but which are part of a bigger investment.

Infrastructure and Innovation Window (IIW)

Under the IIW, the EIB is expected to support viable strategic infrastructure and innovation projects taking on higher risk, where necessary, or meeting the additionality principle in line with the EFSI Regulation (Art. 5). The EIB's first EFSI projects include investment in healthcare research in Spain, energy efficiency in France, the construction of 14 new healthcare centres across Ireland and backing for industrial innovation in Italy.

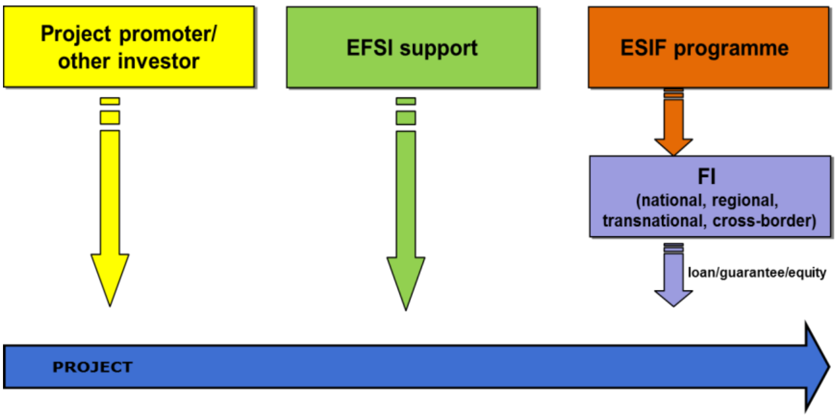
ESIF programme support may cover a portion of the project cost. For example, a project has the commitment of the project promoter and/or other investors for the provision of an initial investment amount. In order to close the remaining funding gap, the ESIF programme contribution, in the form of a grant, and an EFSI loan may cover the remaining part of the project cost *(Chart I).*

Chart I



A variation of the above example may also be implemented in which the ESIF programme contribution provides support to the project through a financial instrument. In this case, the ESIF support may reach the project through a loan, guarantee or equity-type instrument *(Chart II)*.

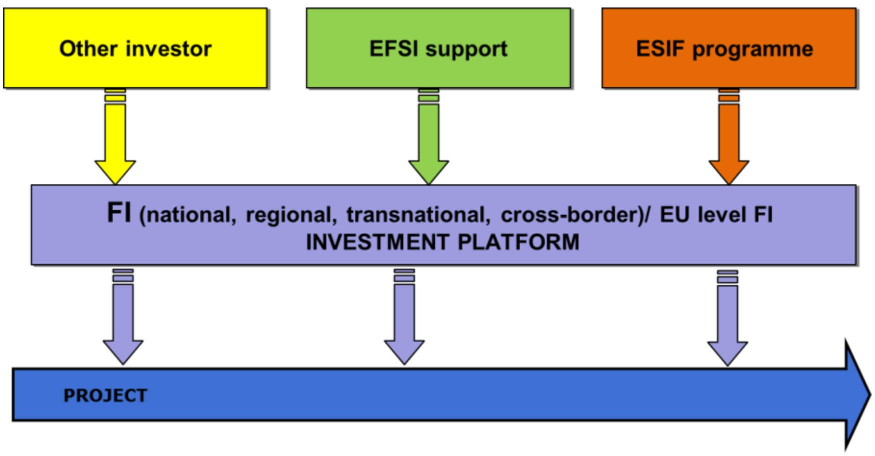
Chart II



(ii) ESIF and EFSI combination at financial instrument / investment platform level

ESIF programme and EFSI may also be combined at a higher level than individual projects, such as through a financial instrument and/or an investment platform (*see Annex 2 for more details on investment platforms*). Such financial instruments and investment platforms could be set up at national, regional or supra-regional level. The use of ESIF programme resources would have to be in line with the ESIF regulatory framework and the priorities of the participating programmes (which would generally imply inter alia national or sub-national ring-fencing). In addition, other investor contributions may be foreseen at financial instrument level, for example by national promotional banks (*see Annex 3 for more details on the role of NPBs*).

Chart III



In general, the possible modalities could be as follows:

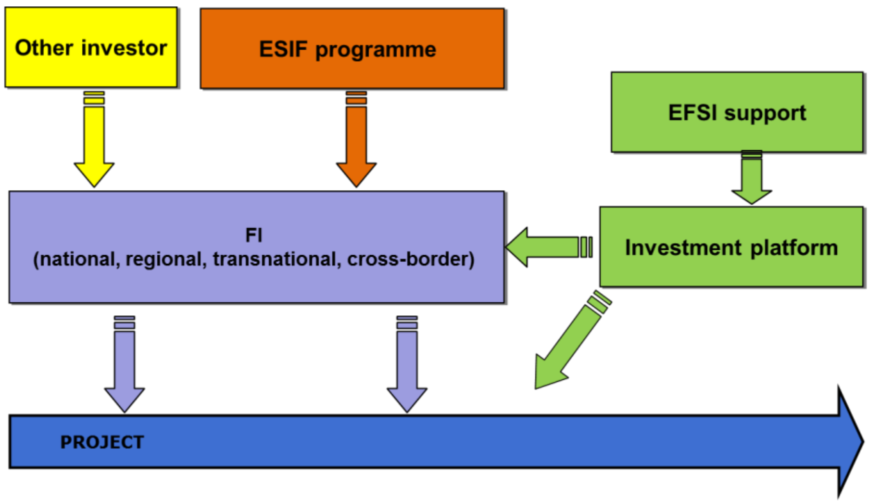
1. the managing authority could set up a **new** investment platform (considered as a financial instrument under CPR) in which EFSI and other investors would invest their resources (*Chart III*);

2. the managing authority could make an ESIF programme contribution into an **existing** investment platform (considered as a financial instrument under CPR) set up with EFSI resources at national, regional, transnational or cross-border level (This may also apply to NPBs). The investment platform would then invest EFSI and distinct ESIF programme contributions in final recipients (other investors may participate) - (*Chart III*);

3. the managing authority could set up a financial instrument (with or without a Fund of Funds) in which the investment platform set up with EFSI support could participate as an investor (at the level of Fund of Funds or financial intermediary) and other investors may also participate (This may also apply to NPBs) - (*Chart IV*);

4. the managing authority could set up a financial instrument with ESIF programme contributions (other investors may participate). The investment platform set up with EFSI support would come directly at project level on a deal by deal basis (*Chart IV*).

Chart IV



SME Window (SMEW)

As part of its contribution to EFSI, the EIB is providing additional EUR 5 billion backed by the EU guarantee to support a number of products managed by the EIF. In particular in the first phase of the EFSI implementation, EIF has so far been engaged in the following:

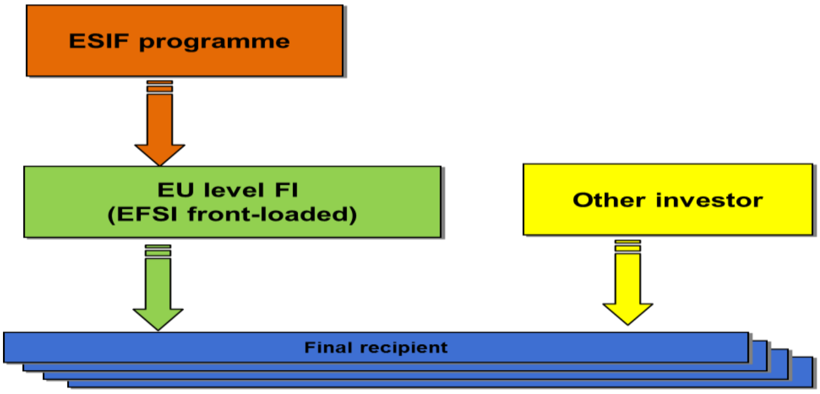
- EUR 1.3 billion have been made available to the EIF in a form of front – loading (i.e. anticipate as of 2015 the 2016-2020 investment capacity) for EU level financial instruments InnovFin SME Guarantee (“InnovFin SMEG”) and COSME Loan Guarantee Facility (“COSME LGF”); and
- EUR 2.5 billion provided by the EIB, under its own risk, to a risk capital mandate managed by the EIF.

The above mentioned products provide the possibility of implementing ESIF-EFSI combinations, such as:

1. EU level financial instruments

In this case, as provided for under CPR 38(1)(a), the managing authority would make an ESIF contribution into an EU level financial instrument established and managed in line with the Financial Regulation (title VIII, Articles 139-140). The managing authority would sign a funding agreement with the entrusted body implementing the EU level financial instrument and the ESIF programmes' allocation would then be "placed in a compartment" in the EU level instrument: i.e. ring-fenced and invested in the programme area *(Chart V)*. The CPR and fund-specific rules for ESIF programmes' contribution would in principle apply (eligibility scope, geographical limitation, end-date of eligibility, payments and reporting).

Chart V



In the above described chart, a number of possible schemes could be accommodated. By way of example, an EU level FI providing guarantees (in its increased capacity provided by EFSI front-loading) could be enhanced with ESIF programme resources in a way to increase the overall reach of the instrument concerned.

NPBs could also participate in such schemes, either as risk takers or through the provision of counter-guarantees (in such case, the NPBs would have to apply to the specific programme and qualify as financial intermediaries under the respective open call for expression of interest).

2. Equity-type products

Under this option, ESIF programme resources could be invested alongside EFSI in a co-investment facility for equity investments managed by EIF (and considered financial instrument under title IV of CPR) , with contributions possibly mobilised through EIB Group resources and NPBs (such a facility managed by EIF constituting a financial instrument under the CPR). The facility could be implemented by equity fund managers, who invest in SMEs targeted by EU policy priorities, addressing local market failures in risk capital financing for SMEs. Additional options may entail cross-border investments, adhering to the ESIF programmes' eligibility criteria and CPR rules, through for instance trans-border operating equity funds or investments in internationally operating Fund of Funds structures.

4.3 State aid considerations

Whilst helping each other go further in delivering the Investment Plan, ESIF and EFSI complementary support would also have to ensure that potential State aid elements are properly addressed. EU State aid rules go hand in hand with the Investment Plan's objective of addressing market failures and mobilising private investment.

Projects supported by EFSI may also benefit from financial support (co-funding) by EU Member States, for instance through ESI Funds or financing provided by NPBs. Such co-funding provided to undertakings, unless granted on market terms, may entail State aid which is subject to EU State aid rules.

The Commission will assess EFSI projects with Member State co-funding entailing State aid on the basis of its modernised State aid framework. To facilitate the deployment of EFSI, the Commission will however assess such EFSI projects as a matter of priority, and give it fast-track treatment. The Commission aims to complete its assessment within six weeks of receiving the complete notification from the Member State.

The manner in which State aid rules apply to interventions of NPBs has been clarified in the Commission Communication "Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe" (COM/2015/0361 final).

In case of doubts about the implementation of State aid rules, project promoters or Member States are invited to draw the EIB's attention to such issues. They can also address related questions to the European Investment Advisory Hub (EIAH). Finally, concerned Member States are invited to contact the services of DG Competition as early as possible regarding State aid issues of EFSI projects which are not straightforward, in order to ensure a smooth upstream resolution of such issues, thereby facilitating the fast-track treatment of such projects.

4.4 The project approval process

In order to make it possible to have joint funding of an investment, the process for approval will need to be closely coordinated and the different parties (managing authority, EIB Group, project promoter) will need to work closely together at all stages. As the project approval process will require different approval streams, the management of the respective applications: (i) to the competent ESIF programme body/managing authority for grant funding; (ii) to a financial instrument for financing support (through a financial product); (iii) to an investment platform/NPB for financing support; (iv) to EIB Group for financing support, should therefore go in parallel.

Annex 1

Application for EFSI support - how it will work

Project selection

To benefit from EFSI support projects need to go through the standard EIB due diligence as well as an assessment by the EFSI Investment Committee to decide whether they are eligible for backing under the EU guarantee. In particular, projects need to be:

- Economically and technically viable
- Matching the eligible sectors applicable
- Consistent with the EU policies and contributing to one or several objectives set out in the EFSI Regulation
- Mature enough to be bankable
- Provide additionality
- Maximise where possible the mobilisation of private sector capital

How should promoters present their projects for EFSI financing?

Project promoters should follow the usual EIB loan application procedures and may also submit their proposals to the Investment Project Portal (IPP)[7]. SMEs interested in EFSI transactions financed by the EIF should refer to relevant information on EIF financial intermediaries.

In general, no special formalities are involved for the submission of applications to the EIB for individual loans. Project promoters are required simply to provide the Bank's Operations Directorate with a detailed description of their capital investment together with the prospective financing arrangements. Initial contacts to discuss a proposed project can be in any form, by telephone, fax, e-mail or letter. The project promoter should provide sufficient information to allow the EIB to assess whether the project adheres to EIB lending objectives and has a well-developed business plan.

As regards project appraisal, this is to be carried out by the EIB's internal teams of experts in close cooperation with the project promoter. Criteria for a typical EIB appraisal are tailored to each specific project. Results are included in the project report to the Board of Directors for a financing decision.

For further details please visit the relevant website: www.eib.org.

[7] The IPP is expected to be launched in Q1 2016. This will give increased visibility and may attract the interest of private investors.

<u>Annex 2</u>

Investment platforms

A Definitions - Examples

Article 2 of Regulation (EU) 2015/1017 ("EFSI Regulation") provides that:

(4) "investment platforms" *means special purpose vehicles, managed accounts, contract-based co-financing or risk-sharing arrangements or arrangements established by any other means by which entities channel a financial contribution in order to finance a number of investment projects, and which may include:*

(a) national or sub-national platforms that group together several investment projects on the territory of a given Member State;

(b) multi-country or regional platforms that group together partners from several Member States or third countries interested in projects in a given geographic area;

(c) thematic platforms that group together investment projects in a given sector;

An investment platform is therefore understood as an entity, with or without legal personality, which is expected to, directly or indirectly (through or without the selection of financial intermediaries):

(a) invest into a group of several investment projects;

(b) invest into projects following a grouping of potential partners focussing on the same geographical area; or

(c) invest into projects with a concrete thematic/sectorial orientation.

It is understood that investment platforms could be receiving (managing) funds and further selecting financial intermediaries for financing/investing in projects (Fund-of-Funds) or could be receiving funds for direct support of projects (financial intermediaries). Therefore, the "direct" or "indirect" investment process would depend on the form of the investment platform.

It is also understood that investment platforms may, inter alia, be established by a Member State (in particular under "national or sub-national" and "multi-country or regional" above).

Investment platforms may in parallel receive EIB or other support (outside the scope of the EFSI) subject to the EFSI requirements for additionality being assured and adequate intercreditor provisions being established.

B Dimensions

a) Geographical dimension

One important characteristic of the investment platform will be the eligible geographical location of the supported projects. The definition clearly indicates that investment platforms can cover a wide range of possible geographical coverage, both within the EU and third countries:

i. **A national platform (single-country platform)** that can support projects on the territory of a single Member State
ii. **A multi-country platform** supporting projects situated in a group of Member States and third countries. A platform could cover the whole of the EU (all 28 Member States)
iii. **Regional platform** supporting projects in a given Region within a single Member State
iv. **A Multi-regional platform** would support projects in several different regions. Such regions could be either all in a single Member State or in several different Member States

b) Product dimension – What will the platform offer to the market/projects?

An investment platform with EFSI support will be able to provide all types of financial support to projects in the market; reflecting the wide scope of financial products that the EIB can provide with EFSI support. This can include:

i. Equity and quasi-equity investment in projects
ii. Loans to projects (senior loans, subordinated / mezzanine loans)
iii. Guarantees to projects
iv. Guarantees and/or counter-guarantees to intermediaries
v. Combination of the above

The products offered by the platform to the market (the front market-facing side of the platform) are not to be confused with the way how the EIB will support the platform (the "back-office", funding side of the platform) – see point d).

c) Sectorial dimension

The investment platforms could also have a pre-defined sectorial focus. Such focus will need to fit within the wide list of eligible sectors under the EFSI regulation. Concretely the platforms could have the following focus (Reg. (EU) 2015/1017, Art. 9, EFSI sectors and objectives):

i. Mono-sector focus, i.e. "energy efficiency" or "renewable energy generation" or "broadband"
ii. Multi-sector focus, i.e. "social infrastructure investment and energy efficiency"

d) Type of EFSI support towards the platform

The EIB, with the EFSI support, can provide various types of support to the investment platforms (to the funding side of the platforms). The EIB could provide the following support:

i. Loan to the investment platform (senior or subordinated)
ii. Equity or quasi equity investment in the capital structure of the platform
iii. Guarantee towards the platform's delivery of financing to projects (guarantee of loans given by the platform to projects)
iv. Guarantee and/or counter-guarantee to intermediaries' financing activity towards projects

The nature of the EFSI support is not to be confused with the products that the platforms could provide to the market as the two are not necessarily linked. For example, EFSI can provide an equity investment to an investment platform that will provide debt finance to projects.

An important note: EIB will perform its standard due diligence in respect of any proposed EFSI operations, to determine their economic, technical and financial viability. EFSI operations will be priced in accordance with the EIB's standard pricing policy. EFSI operations are not subsidized financing / grants.

e) Proportion of the total funding of platforms that will be provided by EFSI

It is not known today what level of funding the various investment platforms will require from EFSI. On the EFSI side, the Steering Board did not make any decisions in that respect.

However, the current EIB investment guidelines for infrastructure funds could serve as an indication. EIB's investment in a fund is limited to 25% of a fund, with a target participation of between 10% to 20%.

In its normal project lending activity, the EIB usually does not exceed 50% of the eligible costs.

f) Sponsors of platforms – Who will drive the set-up process?

Each investment platform will need to be set-up by an organization that will be the driving force in the creation of the platform. One needs to establish the investment needs, the sectorial and geographical focus, the business case, the sources of funding, the risk-sharing agreements, decision-making rules, etc. The term **platform sponsor** can be used to describe such organization. The sponsors will usually come up with the investment idea for the platform to deliver. Often, they will provide part of the funding for the platform's activities. Sometimes they could even take care of the management of the platform (see point g). Any institution or a group of institutions can become a platform sponsor. We would expect to see the following types of entities as platform sponsors:

i. National Promotional Banks
ii. Government agencies
iii. Commercial Banks and other lending institutions
iv. Investment Funds and Investment Companies
v. Corporates
vi. Body implementing ESIF programme financial instrument
vii. Sovereign Wealth Funds

<u>An important note</u>: It is not foreseen that the European Commission will play the role of platform sponsor, i.e. being the driving force of the launch of investment platforms. The Commission could however participate in the setting up of platforms by way of advisory and assistance. Also, the European Investment Advisory Hub (EIAH) could provide assistance to sponsors who seek help with their tasks.

g) Managers of platforms

Each investment platform will need an entity that takes care of the day to day management and the business of analysing financing requests from project promoters, assessing their eligibility, the economic rationale, the financial robustness and viability, etc. Normally, a

platform manager would ensure this role. The platform managers could in certain situations be the same organization as the one initiating the platform's launch (the platform sponsor) and/or could also be the same entity as the one that provides funding to the platform. However, one can envisage various scenarios as to who will ensure the role of platform manager:

i. Platform sponsor
ii. Independent fund manager chosen by the investors in the platform (funding providers)
iii. National Promotional Bank
iv. Commercial Bank

An important note: It is not foreseen that the European Commission or an Executive Agency will play the role of platform manager.

h) Other non-EFSI providers of funding

No maximum or minimum level of participation/ticket size by EFSI towards an investment platform has been established to date. The current EIB own risk investments in funds represent between 10% and 20% of the funding needs of each individual fund. Clearly, a strong majority of the funding of platforms will have to come from non-EFSI sources. The various envisaged sources could be:

i. Sponsors could provide funding – as equity, quasi equity or debt
ii. Banks could lend to the platforms
iii. Capital markets – platforms could issue equity or debt securities that would be purchased by investors
iv. National Promotional Banks could provide funding under various formats (debt, equity)
v. ESIF programme resources contributed to an investment platform considered a financial instrument under CPR
vi. National, regional or local governments – equity, debt

i) Possible legal structures of platforms

Investment Platforms could be set up as legal entities under different forms. There is no exhaustive list of eligible legal structures under which investment platforms can be set up, therefore the list is only indicative. The choice of the legal structure in certain cases pre-judges as to the form of support the platform can receive[8] (funding) or the format of support it can provide to the market (market facing):

[8] For example ESIF programme contribution needs to take a form of contribution from managing authority into a financial instrument under CPR

a) Special Purpose Vehicle

A dedicated investment fund or other similar corporate structure form is established with a specific investment strategy, diversification obligations, and target financial return. The fund's Special Purpose Vehicle can take various legal formats depending on the country of domiciliation: SICAV, FCPR, ELTIF, investment trust, etc.

b) Managed account

The various providers of funding decide together on an investment strategy and entrust their funds directly with an entrusted entity / manager. There is no need to create a new legal entity or vehicle. The entrusted entity then deploys the funds in line with investment strategy. The entrusted entity does not necessarily need to provide financing along the funds made available to it nor does it need to share into the risk.

c) Contract-based co-financing

The various providers of funding decide together on an investment strategy and by the way of a contract make their funds available to an entity active in the financing market. Each time that the entity will finance an eligible project, a portion of the finance will come from the funds made available (co-financing). There is no need to create a new legal entity or vehicle. The entity active in the financing market deploys the funds in line with investment strategy and has to deploy some of the financing (sharing of risk).

d) Risk-sharing arrangement

The various providers of funding decide together on an investment strategy and entrust their funds directly with an entrusted entity / manager on a risk-sharing basis. The risk sharing could be tailor made. There is no need to create a new legal entity or vehicle. The entrusted entity then deploys the funds in line with investment strategy and shares into the risk of the investment platform's operations.

j) Approval by Investment Committee of investment platform's operations for the use of the EU Guarantee

The Investment Committee can approve the use of the EU Guarantee for an Investment Platform in two ways:

a) The whole EFSI contribution to a platform is approved with a certain financing amount

On the basis of the investment guidelines of the platform, the platform is approved as a whole and a certain financing amount is provided with the EFSI support. There is no need for the investment platform to seek Investment Committee approval for each and every underlying individual operations of the platform.

b) Each underlying operation requires an Investment Committee approval

The Investment Committee may decide that it wishes to individually approve the attribution of the EU Guarantee for each individual underlying transaction of the platform.

The Steering Board shall specify policies regarding EFSI Guaranteed Operations making use of Investment Platforms and determine rules applicable to operations with Investment Platforms.

k) Under which window of EFSI will platforms be able to receive support?

There are no specific provisions either in the EFSI regulation or in the EFSI agreement specifying that investment platforms should be used only under a certain window of EFSI. In this respect, under the Infrastructure and Innovation Window, it is more likely that investment platforms will receive funding under the Debt Sub-Window. However nothing prevents investment platforms from receiving support under the Equity Sub-Window, in particular if the platforms take the form of equity investment funds. Therefore, it may be the case that an investment platform is set up with two distinct compartments, hence receiving funding both from the Infrastructure and Innovation Window as well as the SME Window.

It should be noted that one of the products envisaged under the EFSI SMEW encompasses an equity instrument in the form of an equity investment platform involving EIF and NPBs. However, support under the SMEW will be limited to the specific products (debt, equity and securitisation instruments) designed by the Commission and EIF and subsequently approved by the EFSI Steering Board. Consequently, no other products in the form of an investment platform are contemplated under the SMEW for the time being. Nonetheless, additional support to SMEs provided by investment platforms could be considered under the Infrastructure and Innovation Window provided that the requirements set out in Article 6 the EFSI Regulation are met.

Annex 3

Member States contribution to national promotional banks and/or EFSI investment platforms[9]

Participation of Member States to Investment platforms

In the context of EFSI, the Commission welcomes contributions from Member States to the Investment Plan whereas many private investors have already expressed interest for their participation (such as sovereign wealth funds, pension funds, commercial banks). Member State contributions via national promotional banks or institutions are also expected where the latter have the expertise to carry out the Investment Plan on the ground and ensure the most efficient use of public resources. Moreover, the EFSI Regulation provides that Member State contributions, either directly by Member States or through national promotional banks classified in the general government sector or acting on behalf of a Member State, into the EFSI could also be effected through thematic or multi-country investment platforms established for the implementation of EFSI.

Definition

Article 2 of Regulation (EU) 2015/1017 ("EFSI Regulation") provides that: ***(3) "national promotional banks or institutions"*** *means legal entities carrying out financial activities on a professional basis which are given a mandate by a Member State or a Member State's entity at central, regional or local level, to carry out development or promotional activities*.

NPBs may in parallel receive EIB or other support (outside the scope of the EFSI) subject to the EFSI requirements for additionality being assured and adequate intercreditor provisions being established.

Contribution of NPBs

The detailed arrangements of NPBs benefiting from EFSI loans or investments will have to be agreed with the EIB and be approved by the EFSI Steering Board. From an operational aspect, NPBs hold a significant role in their national constituencies both in financing projects but also in providing technical assistance[10] to projects. In the EFSI context, NPBs may participate in different forms: (i) directly as a financial intermediary of EFSI loans; (ii) through contributions at investment platform level – create or participate in investment platforms, and (iii) through contributions at project level – financing alongside EFSI loans or investments.

EIB contribution, with EFSI support

If EIB is to finance projects with EFSI support, these should either have a higher risk profile (compared to standard EIB activity) or have particularly high catalytic effects and value added thus complying with the additionality criteria. Projects will always have to be subject to standard EIB due diligence. EIB standard pricing policies apply to all EFSI financings. No grant funding is provided.

[9] In Annex 2, the several dimensions of investment platforms are presented and a number of concepts are clarified.

[10] The EIB is working closely with a core group of National Promotional Banks to define an overall framework for their cooperation with EIAH (knowledge sharing, local point of entry and technical assistance support) in the context of the Investment Plan implementation.

It is understood that when project promoters approach EIB the latter will have to follow an internal due diligence procedure prior to approving the projects and request the EFSI Investment Committee to approve such projects as eligible for receiving the EU guarantee (subject to meeting required criteria).

Examples of roles of NPBs and Investment platforms

Case 1 – Direct approach of EIB

It is understood that a project promoter approaching directly EIB would have to undergo a standard due diligence. Should EIB decide that the project is eligible to receive financing with EFSI support (higher risk profile and/or additionality) the opinion of the EFSI Investment Committee will be requested. In case of a positive opinion, EIB will provide financing with EFSI support subject to successful finalisation of the agreed term and conditions with the relevant counterpart(s); if negative, the projects may nevertheless be considered, with modifications, for support by EIB under other mandates / initiatives (if eligible) or under EIB's own-risk.

Case 2 – Indirect approach through an NPB

A Member State has committed public resources to a selected NPB to support projects at national level. In this case, project promoters may approach the NPB and the latter may offer support either through its own resources or by intermediating EFSI financing (loans or guarantees). In this case, the NPB is obliged to follow its internal appraisal procedure and meet any additional criteria requested by EIB in the context of the EFSI financing and its standard due diligence.

Case 3 – Indirect approach through an investment platform

- A Member State to set up an investment platform

This could take the form of a Fund-of-funds, which in turn would have to select financial intermediaries, or it could be a financial intermediary directly supporting projects. Selection procedure would have to respect public procurement rules of the respective Member State. The appraisal procedure will be similar to the one under Case 2.

- Private investors to set up a thematic/sectorial investment platform

Member States could support the setting up of an investment platform by private investors on the basis of a thematic (multi-regional) project portfolio. The latter would request EIB financing with EFSI support on a project-by-project or portfolio basis.