European Commission

European Structural and Investment FUNDS and European Fund for Strategic Investments complementarities

ENSURING COORDINATION, SYNERGIES AND COMPLEMENTARITY

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Ensuring coordination, synergies and complementarity

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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 and SME financing. 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. Investment needs are significant and liquidity is available but many potential investments don't materialise due to several financial and non-financial barriers. Investor confidence is low due to economic volatility, along with regulatory and other uncertainties.

In this context, the Commission has decided to tackle the investment gap by launching the **Investment Plan for Europe** (IPE or Investment Plan) which is based on three pillars: (i) Create the **European Fund for Strategic Investments (EFSI)**[1] in partnership with the European Investment Bank and the European Investment Fund (EIB and EIF, altogether the "EIB Group") with a higher risk-taking capacity in order to mobilise at least EUR 315 billion additional finance for investment over three years; (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 via the European Investment Advisory Hub (EIAH) and provide for a transparent forward – looking pipeline of investment projects in Europe, via the European Investment Project Portal (EIPP); and (iii) Implement regulatory and structural reforms to remove bottlenecks and ensure an investment-friendly environment.

Member States are now starting the implementation of multiannual programmes co-financed by the European Structural and Investment Funds (the ESI Funds) for the 2014-2020 programming period. In total, more than EUR 450 billion[2] will be invested in Europe through ESI Funds in this period.

In the next few years, EFSI and ESI Funds will be able to finance significant levels of investment in Member States and their regions. They are both set to play an essential role in the delivery of European policy objectives. While rationale, design, legislative framework and timeframe for implementation are different, there is considerable scope for ensuring coordination, synergies and complementarity for additional investments.

This brochure provides an overview of these possibilities so that stakeholders are well-informed. Given the early stage of implementation it can be neither exhaustive nor

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1 Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub, and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments, OJ L169, 1.7.2015, p. 1 (the "EFSI Regulation") entered into force on 4 July 2015.

2 This amount does not cover obligatory national co-financing which constitutes part of ESIF programme support.

conclusive, and it is expected to evolve on the basis of the experience drawn from concrete cases and feedback received from the stakeholders.

2 European Fund for Strategic Investments (EFSI)

2.1 What is EFSI?

EFSI is an EU initiative launched jointly by the Commission and the EIB Group to assist in overcoming the current investment gap in the EU by mobilising private financing for strategic investments and SMEs. Legally speaking, EFSI takes the form of a contractual arrangement between the Commission and the EIB, 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 will mobilise EUR 60.8 billion of additional financing by the EIB Group thus further mobilising a total of EUR 315 billion in investment in the Union over the next 3 years (as of mid-2015).

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; and (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. This governance structure shall ensure EFSI's 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.

EFSI has two components to support projects with wide sector eligibility: an Infrastructure and Innovation Window (IIW) to be deployed through EIB and an SME Window (SMEW) to be deployed through the 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[3] (the "CPR") applicable for ESI Funds. The EFSI Regulation and EFSI Agreement (between the EC and the EIB) 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 eligibility, additionality, mobilisation of private capital, consistency with Union policies as well as its economic, technical and financial viability. The EIB standard pricing policies apply to EIB financings supported by EFSI. The approval of use of the EU Guarantee is subject to a decision of EFSI's Investment Committee.

[3] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJ L 347, 20.12.2013, p. 320.

The EIB Group has been carrying out operations under EFSI since Q2-2015. In line with the transitional provisions of the EFSI Regulation, the approval for the use of the EFSI guarantee for these projects was granted by the Commission pending the take up of duty by the Investment Committee members in January 2016.

In order to make finance reach the real economy, the second pillar of the Investment Plan provides for two additional elements:

- The European Investment Advisory Hub (EIAH) is a joint initiative of the European Commission and the EIB. The Hub provides a single access point to wide ranging advisory support for projects and investments engaging with public and private promoters at all levels of the project cycle, from upstream project identification, through to planning and preparation to implementation. The Advisory Hub is managed by the EIB and builds on a network of partner institutions, including national promotional banks. The Advisory Hub started operating on 1 September 2015. Promoters can apply for advisory support by visiting the website: http://www.eib.org/eiah

- The European Investment Project Portal (EIPP) is a brand new web portal enabling EU based project promoters – public or private – to reach potential investors worldwide. The Portal is hosted by the European Commission and is designed in response to investors' desire to see more potential EU investment opportunities in a central information platform. The Portal is currently in a pre-launch phase and is expected to go live in the Spring of 2016. Promoters can already submit projects by visiting the website: http://ec.europa.eu/eipp.

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

With EFSI support, the EIB Group will provide financing for economically viable projects, including projects with a higher risk profile than ordinary EIB activities. Emphasis will be put on key sectors identified under Article 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. No grant funding will be provided.

The EFSI Regulation offers the possibility to finance Investment Platforms (to channel a financial contribution to a number of investment projects with a thematic or geographic focus) and operations with National Promotional Banks (NPBs). The EIB shall use the EU Guarantee for supporting investment platforms or funds and NPBs that invest in operations meeting the EFSI Regulation requirements, after approval of the EFSI Investment Committee.

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 projects, which have 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 the Infrastructure and Innovation window) to the EIF (for the SME window) or through EIB Group intermediated institutions (see EIB website). 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)

3.1 What are ESI Funds?

The "European Structural and Investment Funds" or "ESI Funds" is a common designation for five European funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), which operate under a common framework (i.e. the CPR) as well as under fund-specific regulations.

3.2 What are the main features of ESI Funds?

ESI Funds 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 in the fund-specific provisions.

ESI Funds 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 CPR.

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

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

ESI Funds 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.

ESI Funds 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 ESI Funds programme support and how is ESI Funds programme support decided?

The beneficiaries of ESI Funds programme grant support could be public or private bodies or even a natural person[4]. The type of beneficiaries and projects which can be supported derives from the applicable fund-specific regulation and the approved programme being ultimately reflected in the programme implementation. The target final recipients of financial instruments under ESI Funds programmes are identified in the relevant ex-ante assessment of the financial instrument and depend on the objectives of the programme and the agreed strategy. ESI Funds programme support has to comply with the applicable law (including the CPR, fund-specific provisions, national legislation, State aid rules, public procurement rules).

In case of grants, the selection of projects is based on the selection criteria agreed in the respective ESI Funds programme monitoring committee. The programme support is decided by the Managing Authority or the relevant intermediate body. In case of financial instruments, 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 ESI Funds programme supported operations take place?

ESI Funds 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] Under EAFRD and EMFF

4 Combination of ESI Funds and EFSI

4.1 The overall rationale

The rationale of EFSI is to allow the EIB Group to take higher risk and mobilise private capital to provide additional financing for strategic investments and SMEs and mid-caps. ESI Funds programme resources cannot be directly transferred to EFSI, which is an additional and separate mechanism.

ESI Funds programmes should contribute to the achievement of the objectives of the Investment Plan in complementarity with EFSI support, in a way which brings demonstrable added value and also ensures coordination and synergies.

The EFSI Regulation allows Member States to use ESI Funds programme resources (including resources programmed to be delivered through financial instruments) with a view to contributing to the financing of projects receiving EFSI support.

At the same time, the CPR, as the legal basis for the ESI Funds, allows that beneficiaries and final recipients receiving support from grants and financial instruments under ESI Funds programmes may also receive assistance from other instruments supported by the Union budget.

Combination of ESI Funds and EFSI is possible either at individual project or at financial instrument level in cases where the respective applicable eligibility criteria are satisfied. EFSI and ESI Funds programmes may cover different risks and may support different or same parts of the capital structure of a project or layered investment platform (e.g. equity or debt financing) provided that the rules on double funding and preferential remuneration are complied with.

4.1.1 Combination of ESI Funds and EFSI at project level

An operation may receive support from one or more ESI Funds or from one or more programmes and from other Union instruments, provided that the expenditure item included in a request for payment for reimbursement by one of the ESI Funds does not receive support from another fund or Union instrument, or support from the same fund under another programme.

Thus, in case of combination in a single project, the part of the project supported by an ESI Funds programme (consisting of ESI Fund(s) plus the respective national co-financing) cannot receive support from EFSI; otherwise this would constitute double-financing.

This also means that EFSI support to the project cannot count as national co-financing of ESI Funds programme and the EFSI supported part of the project consequently cannot be declared as eligible expenditure for ESI Funds' support.

4.1.2 Combination of support from ESI Funds delivered through a financial instrument and EFSI

In case of combination of support from ESI Funds delivered through a financial instrument and EFSI (e.g. in an investment platform) separate records have to be maintained between the support from an ESI Funds programme and from EFSI. The ESI Funds financial instrument shall be part of an operation with eligible expenditure distinct from the EFSI support.

Thus, as indicated above, EFSI support to the project cannot count as national co-financing of an ESI Funds programme and consequently cannot be declared as eligible expenditure. In such a case national co-financing of an ESI Funds programme could still be provided through another EIB/EIF financial product, either through a Structural Programme Loan or through intervention at project level.

It is possible to consider that any additional resources leveraged and triggered by the combined ESI Funds and EFSI interventions can be treated as national co-financing for the ESI Funds programme: for example, an ESI Funds financial instrument 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 ESI Funds intervention, they can be treated as national co-financing for the ESI Funds programme provided that these resources are paid out to final recipients in line with the applicable rules (CPR, respective ESI Fund programme, national eligibility rules and 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.

The ESI Funds can be used to support the risk-bearing capacity of an EFSI Investment Platform in the form of a "layered fund", and leverage other sources of finance, most notably private investors as well as NPB (see Annex 3 for a more detailed illustration).

4.2 How this will work in practice

(i) ESI Funds and EFSI combination at project-level

ESI Funds may be combined with EFSI support in cases where the respective applicable eligibility criteria are satisfied. Such combination of EU support should result in an overall higher value added of EU funds. In practice, there will also be cases where this complementarity will equally lead to co-investing EFSI supported resources with ESI Funds 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 ESI Funds programme contributions.

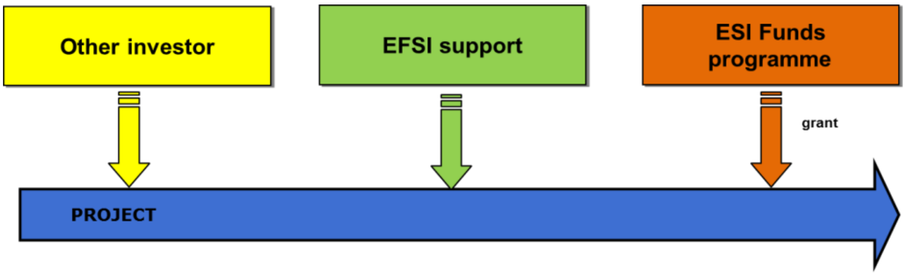
<u>Examples</u>:
1) EFSI and ESI Funds both contribute to a transport infrastructure project, thereby increasing the total number of kilometres funded (either separate parts of the project, or EFSI funds the revenue-generating part of the infrastructure project);
2) EFSI support for parts of projects which are not eligible under an ESI Funds 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 (Article 5).

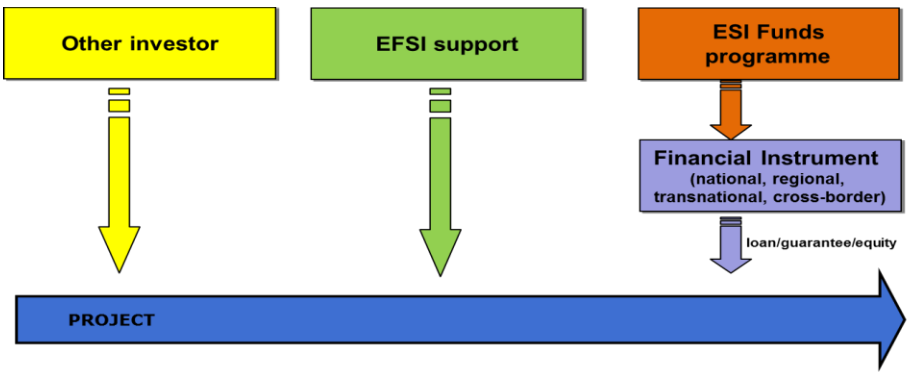
ESI Funds programme support may cover a portion of the project cost. For example, a project has the commitment of the project promoter and/or other investors for the provision of an initial investment amount. In order to close the remaining funding gap, the ESI Funds programme contribution, in the form 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 ESI Funds programme contribution provides support to the project through a financial instrument. In this case, the ESI Funds support may reach the project through a loan, guarantee or equity-type instrument *(Chart II)*.

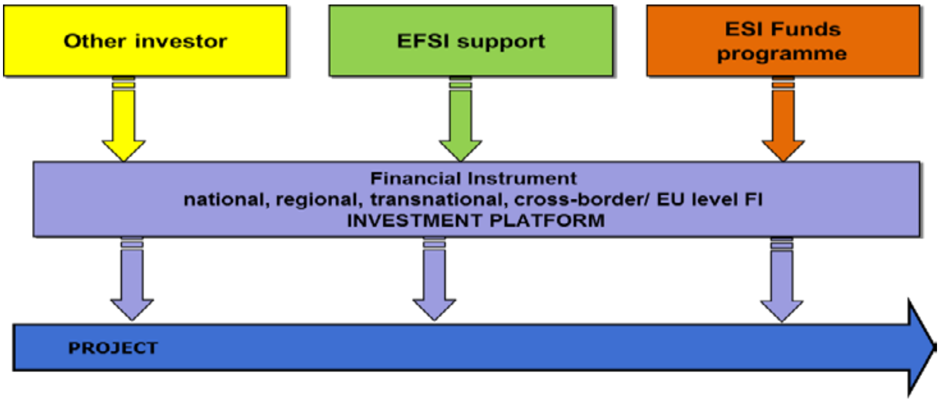
Chart II



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

ESI Funds 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 (*pls refer to EFSI Rules applicable to operations with Investment Platforms and National Promotional Banks or Institutions, approved by the EFSI Steering Board*). Such financial instruments and investment platforms could be set up at national, regional or supra-regional level. The use of ESI Funds programme resources would have to be in line with the ESI Funds regulatory framework[5] and the priorities of the participating programmes (which would generally imply inter alia national or sub-national geographical restrictions). In addition, other investor contributions may be foreseen at financial instrument level, for example by national promotional banks (*see Annex 2 for more details on the role of NPBs*).

<u>Chart III</u>



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*) including in the form of a layered fund (see Annex 3);

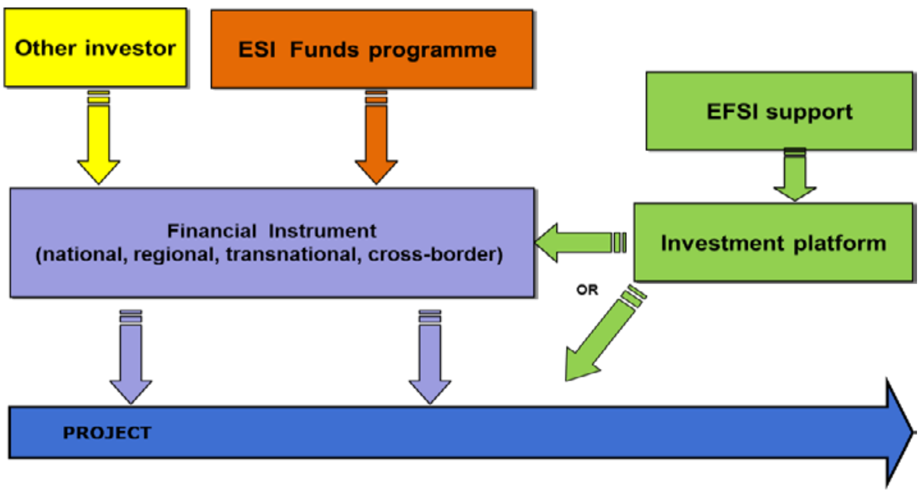
2. the managing authority could make an ESI Funds programme contribution into an **existing** investment platform (considered as a financial instrument under CPR) set up with EFSI resources at national, regional, transnational or cross-border level (This may also apply to NPBs). The investment platform would then invest EFSI and distinct ESI Funds 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 ESI Funds programme contributions (other investors may participate). The investment platform set up with EFSI support would intervene directly at project level on a deal by deal basis (*Chart IV*).

[5] Including obligatory ex-ante assessment

Chart IV



SME Window (SMEW)

EFSI is providing additional EUR 5 billion, out of which EUR 2.5 billion are backed by the EU guarantee, to support a number of debt and equity 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 providing portfolio guarantees to intermediaries - 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.

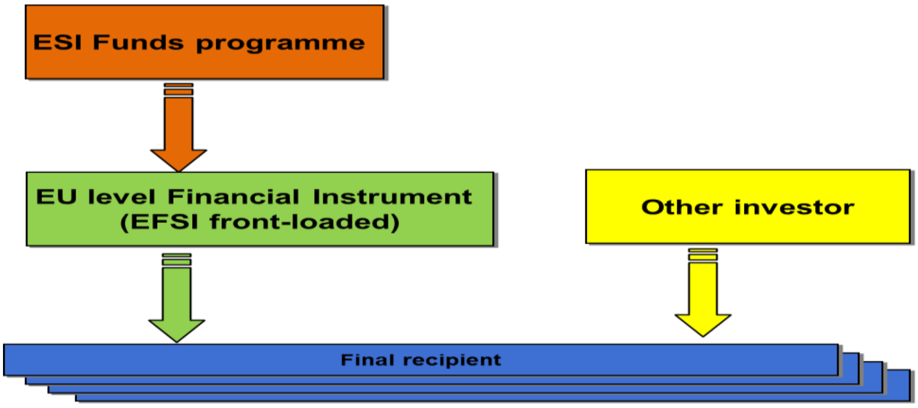
The remainder will be used to deploy EFSI financial instruments that will be developed and launched progressively starting from 2016, such as an equity platform, an uncapped uncollateralised guarantee, etc.

The above mentioned products provide the possibility of implementing ESI Funds-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 ESI Funds contribution into an EU level EFSI frontloaded 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 entity implementing the EU level financial instrument and the ESI Funds 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 ESI Funds programmes' contribution also apply (eligibility scope, geographical limitation, end-date of eligibility, payments and reporting).

Chart V



In chart V above, a number of possible schemes could be accommodated. By way of example, an EU level financial instrument providing guarantees (in its increased capacity provided by EFSI front-loading) could be enhanced with ESI Funds 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, ESI Funds programme resources could be invested alongside EFSI in a co-investment facility for equity and quasi-equity investments managed by EIF (and considered financial instrument under CPR), with contributions mobilised through EIB Group resources and possibly through NPBs. The facility could be implemented by equity fund managers, who invest in SMEs in their Early and Growth stages targeted by EU policy priorities, addressing market failures in risk capital financing for SMEs. Additional options may entail cross-border investments, adhering to the ESI Funds 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, ESI Funds 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.

EFSI-supported EIB interventions do not constitute State aid and are not subject to State aid consistency controls. However, 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 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). These rules include the principle that financial transactions which are not invested both on own resources and at own risks cannot be considered as private in nature for the purpose of state aid policy.

In case of doubts about the implementation of State aid rules, project promoters 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: should therefore go in parallel.

The respective approval processes include:
(i) decision on the use of ESI Funds by the competent ESI Funds programme body/managing authority for grant funding or financial instrument support;
(ii) For the IIW, EIB governing bodies' approval, following approval by EFSI's Investment Committee on the use of EU Guarantee and EIB due diligence, both for individual projects and for Investment Platforms.
(iii) For SMEW and related EIF products, EIF's standard processes and due diligence apply.

Annex 1

Application for EFSI support – how it will work

Project selection

To benefit from EFSI support under the IIW, 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
- Contributing to one or more of EFSI eligible objectives
- Consistent with the EU policies and contributing to one or several objectives set out in the EFSI Regulation
- 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 by contacting EIB's local office, where available, or headquarters.

In general, project promoters are required to provide the Bank's Operations Directorate with a detailed description of their capital investment together with the prospective financing arrangements. 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.

Following a positive outcome of EIB's due diligence, the project will be submitted to the EFSI Investment Committee for approval on the use of the EU Guarantee, and then to the EIB Board of Directors.

For further details please visit the relevant website: www.eib.org. Project promoters and Managing authorities could apply for advisory support to structure projects or investment platforms to EIAH: www.eib.org/eiah

SMEs interested in EFSI transactions financed by the EIF should refer to relevant information on EIF financial intermediaries. For further details please visit the relevant website: www.eif.org

Annex 2

Member States contribution to national promotional banks and/or EFSI investment platforms[6]

Participation of Member States in 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 the 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[7] 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 typically 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.

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

[7] 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 and EIB's board approval, the Bank will provide financing with EFSI support subject to successful finalisation of the agreed term and conditions with the relevant counterpart(s); in case of a negative opinion by the EFSI Investment Committee, 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.

Annex 3

Example of a "Layered Fund": Combination of ESIF Funds and EFSI in an Infrastructure and Innovation window Investment Platform

The ESI Funds can be used to support the risk-bearing capacity of an EFSI Investment Platform in the form of a "layered fund", and leverage other sources of finance, most notably private investors as well as NPBs.

The combination of ESI Funds and EFSI should be used to support operations which could not have been carried out, or not to the same extent, without this combination and should maximise the mobilisation of private sector capital.

Key principles

The layered fund would typically be structured in 3 classes of risk, clearly segregated in terms of risk and return (in line with the "like risk, like reward" principle):

- Senior debt tranche (low risk-taking): to leverage private and institutional investors and open to NPBs.
- Mezzanine tranche: financed by EIB (using EFSI if additional according to EFSI Regulation, e.g. if falling under "special activities" classification of the EIB). Open to NPBs and private investors.
- First-loss-piece / Equity tranche (high risk-taking): financed by ESI Funds or other national/regional public budget funds. Open to NPBs and private investors.

The remuneration and/or reimbursement of the First-loss-piece / Equity tranche will only take place after remuneration and/or reimbursement for the Senior tranche holders and the Mezzanine tranche holders respectively, as per normal market practice.

The ESI Funds would be committed as first-loss-piece coverage, clearly distinct from the use of EFSI resources via separate records and covering distinct expenditures: in practice, ESI Funds would only be used to absorb the first losses arising from underlying projects up to the limit of the committed amount, whereas EFSI resources would only be used to absorb further losses, clearly distinct from those covered by the ESI Funds.

The "layered fund" could be revolving for a given timeframe. The resources (both capital and returns) paid back to the layered fund and attributable to ESI Funds (after remuneration and/or repayment of financiers intervening in less risky tranches or with higher seniority) should be reused according to CPR art. 44:

a) for further investments through the same instrument or other instruments in accordance with the specific objectives under a priority,

b) where applicable, to provide "preferential remuneration" (in the form of asymmetric reward sharing within the same risk class/layer) to private investors, or public investors operating under the market economy investor principle. For the avoidance of doubt, since the EIB, when supported by the EU guarantee under EFSI, intervenes in a separate risk class, it does not benefit from such preferential remuneration attributable to ESI Funds[8].

c) where applicable, reimbursement of management costs incurred and payment of management fees of the financial instrument.

Projects financed by the layered fund

The layered fund could provide debt and/or equity type of financing to the portfolio of targeted projects.

The targeted projects financed by the layered fund would typically be further co-financed by private sector entities at senior level (debt) or *pari passu* (equity).

Leverage

The combined use of ESI Funds and EFSI can be sought in cases where there is a market failure in risk-absorption capacity and where EIB/EFSI risk-pricing would not make it sufficiently attractive to finance projects mobilising other private or public (eg NPBs) sources of funds. The combined use of ESI Funds and EFSI must be structured in an efficient and synergetic way.

Private sector capital mobilised in the layered structure, i.e. by private investors in one of the risk tranches of the layered fund, must be clearly specified at the stage when ESI Funds and EFSI are committed to the fund.

Private co-investment at project level can be estimated, and would be contracted as and when individual project investments are made by the fund.

If ESI Funds are invested *pari passu*[9] with private investors within the same risk class of the "layered fund" or at project level and the aggregated private investment is of real economic significance (generally 30%), this normally indicates that ESI Funds operate in line with market conditions and does not constitute State Aid.

If, however, State Aid is involved in ESI Funds, it could still be compatible, provided it is *inter alia* limited to the minimum necessary (i. e. proportionate) in order to attract the required size of private investment. Financial transactions which are not invested both on own resources and at own risks cannot be considered as private in nature for the purpose of State Aid policy.

Process flow

If the layered fund is newly created and uses ESI Funds, it should be subject to the ex-ante assessment for ESI Funds financial instruments prescribed under the CPR.

The approval of the use of ESI Funds is the responsibility of the Managing Authority.

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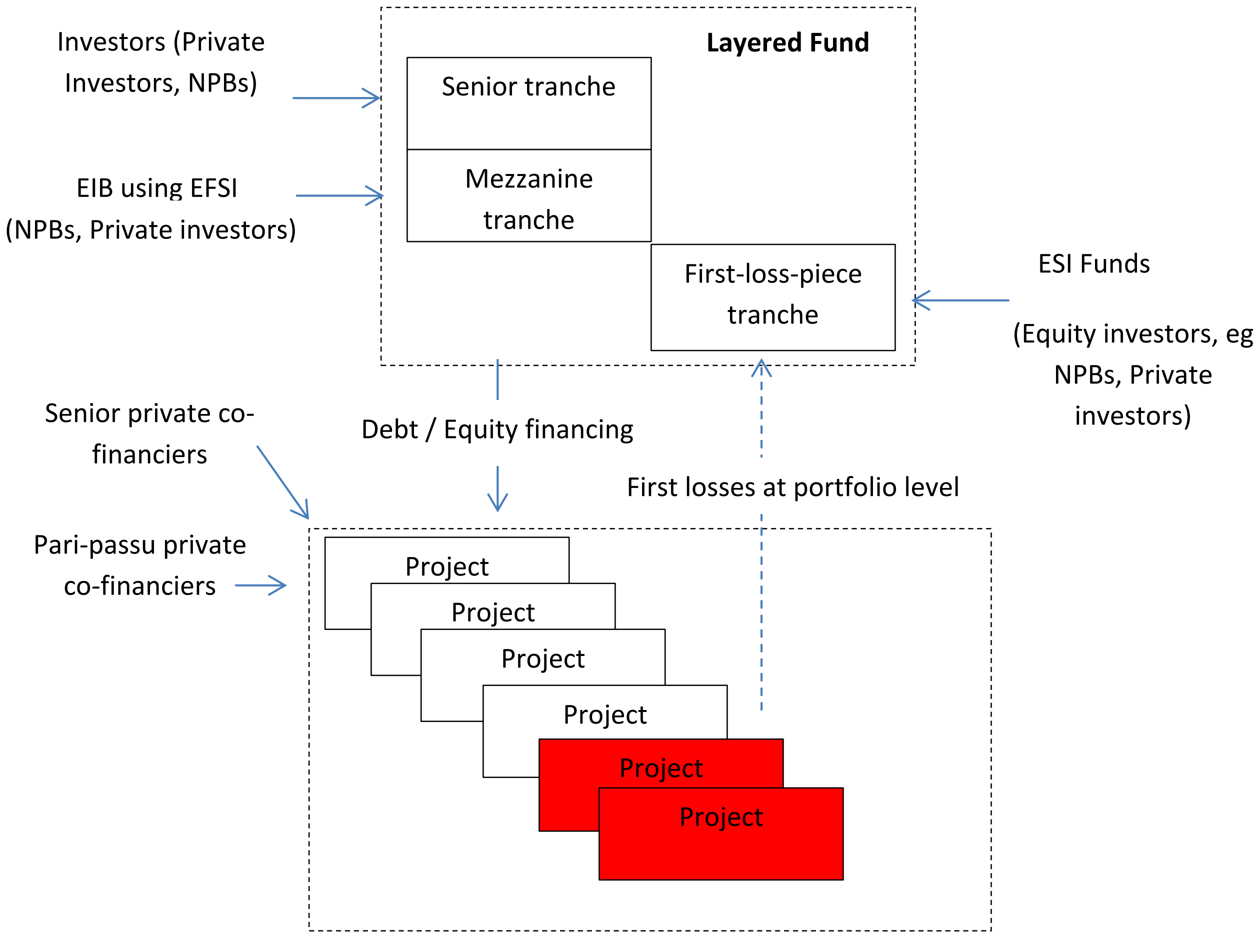
[8] This does not prevent the EIB to receive risk-commensurate revenues according to its level of seniority in the layered fund (i.e. at mezzanine level), in line with market practice.

[9] The same level of risk and rewards and the same level of subordination in relation to the same risk class ("like risk, like reward" principle).

The approval of the use of the EU Guarantee under EFSI is the responsibility of the EFSI Investment Committee, following EIB due diligence, under the Infrastructure and Innovation window.

The approval of individual projects is the responsibility of the layered fund governance (typically the Fund manager or the Investment Committee appointed by the investors).

Chart. Illustrative scheme of "layered fund" combining ESI Funds and EFSI



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