



# EUROPEAN FUND FOR STRATEGIC INVESTMENTS

## RULES APPLICABLE TO OPERATIONS WITH INVESTMENT PLATFORMS AND NATIONAL PROMOTIONAL BANKS OR INSTITUTIONS

### 1. Purpose of the note

The present paper proposes a set of rules applicable to the EFSI operations with Investment Platforms ("Investment Platforms" or "Platforms") and National Promotional Banks or Institutions ("**NPBs**"), for approval by the EFSI Steering Board, in accordance with EFSI Regulation requirements.

The Regulation (EU) 2015/1017 ("**EFSI Regulation**") calls for EFSI to be governed by a Steering Board, which, for the purpose of the use of the EU guarantee, is to determine, in conformity with the general objectives set out in Article 9(2), "the rules applicable to operations with Investment Platforms and National Promotional Banks or Institutions".

### 2. The role of Investment Platforms and NPBs in the Investment Plan for Europe

The EFSI Regulation places significant emphasis on the role of Investment Platforms within the European Fund for Strategic Investments as a tool for pooling investment projects with a thematic or geographic focus, thereby contributing to the Investment Plan for Europe's objective of mobilising at least EUR 315 billion in additional investment over three years.

Due to their complementary product ranges and geographic reach, NPBs play an important role in the implementation of the Investment Plan for Europe. The EFSI Regulation foresees the possible contribution of third parties including NPBs at three levels:

- Participation at EFSI level, by contributing directly to EFSI in cash or with guarantees (the latter for Member States only), subject to the agreement of the Steering Board, without taking part in EFSI governance.
- Participation in Investment Platforms as sponsors/investors or implementing entities.
- Participation in individual EFSI financed projects as co-financiers.

### **3. Key principles**

#### **3.1 General principles**

The EFSI Regulation (art. 10) provides that eligible instruments for coverage by the EU guarantee are:

- i. EIB loans, guarantees, counter-guarantees, capital market instruments, any other form of funding or credit enhancement, equity or quasi-equity participations in favour of NPBs, Investment Platforms or funds;
- ii. EIB funding or guarantee to EIF enabling it to undertake financing in favour of NPBs, Investment Platforms or funds;
- iii. EIB guarantees to NPBs, Investment Platforms or funds, under a counter-guarantee of the EU Guarantee.

The EIB shall use the EU Guarantee for supporting Investment Platforms and NPBs that invest in operations meeting the requirements of the EFSI Regulation (eligible vehicles), after approval of the Investment Committee (Article 9(5)).

Consistent with the requirements under the EFSI Regulation, the EIB will “apply its rules, policies and procedures as applied to its own risk operations, as amended, modified or supplemented from time to time, and good banking practices” when undertaking EFSI financing, including to NPBs and Investment Platforms.

#### **3.2 Subordination**

In line with the objectives of EFSI and subject to its legal requirements and bankability, EIB will aim to maximise the crowding-in of private sector financing when developing products and project financing structures together with NPBs and in Investment Platforms. For this reason, EIB will focus on the use of various forms of subordination as a preferred way to deploy EFSI support. Subordination could be achieved in different ways depending on the following type of product examples:

- Project Co-financing: EFSI tranches could be contractually or structurally subordinated to NPB/private sector financing tranches.
- Risk Sharing: EFSI risk sharing products could aim at asymmetric risk sharing and delegation models.
- Investment Platforms: EFSI tranches in a given platform should preferably be used as mezzanine or as one of the investors allowing NPBs and or the private sector to contribute on a lower risk level.

While subordination is to be considered a preferred option if viable, EIB will aim to optimise value added in view of the promoters financing needs and overall financing costs. EIB will also apply best banking practice as well as its existing rules and policies as amended, modified or supplemented from time to time, when it comes to transaction structuring, pricing and due diligence also in subordinated transactions.

Furthermore, EIB is aiming to develop new EFSI product including options for subordination with private sector investors and Banks, NPBs and Investment Platforms. The respective product fiches will be available on EIB's website ([www.eib.org](http://www.eib.org)) as soon as they are offered to the market.

#### **4. Principles for EFSI operations with NPBs**

The working group on enhanced cooperation between the EIB Group and NPBs, which was set up at the request of the September 2014 EU Economic and Financial Affairs Council (Ecofin), made a number of proposals in June 2015. While calling for flexible cooperation models, the group recognises the complementarities between the EIB Group and NPBs, where the latter can bring particular value-added based on their knowledge of the local context, business and investor communities as well as national policies and strategies. Cooperation can take place both on a bilateral and multilateral (e.g. via Investment Platforms) basis. Leveraging private sector resources constitutes a key objective in both cases.

The July 2015 Commission Communication on the role of NPBs also assigns the NPBs an important role and encourages the EIB Group to explore opportunities to develop new modes of enhanced cooperation and products which capitalise on comparative strengths of the NPBs such as their particular expertise and knowledge of the local context and complement it with coverage by EIB Group risk-bearing capacity provided through the EU Guarantee. Recognising the diversity of the NPBs' business model and the heterogeneity of the environment in which they operate (e.g. regulatory, legal and state aid subjects), tailor made approaches are also pursued.

Possible financial products for collaboration, in addition to co-financing at project level, include, among others, risk-sharing products, securitisation structures, venture capital funds, and co-investing in/with Investment Platforms, etc.

Synergies between the EIB Group and the NPBs can be envisaged across the entire project cycle including technical due diligence, as relevant for any particular proposal. This might include the possibility for "full delegation" from the EIB to NPBs, and some level of "mutual recognition" of technical due diligence when co-financing projects. To respond in an efficient and timely way to a larger number of smaller financing requests with different financial products, the EIB is putting in place a dedicated 'rating desk' substantially committed to NPB operations.

Finally, cooperation on EIAH / advisory services and staff exchanges should complement the financial cooperation to disseminate best practices across all institutions, including new and smaller NPBs.

## 5. Principles for EFSI Investment Platforms

Investment Platforms are co-investment arrangements structured with a view to catalysing investments in a portfolio of projects (as opposed to individual projects) with a thematic or geographic focus. Investment Platforms are a means to aggregate investment projects, reduce transaction and information costs and provide for more efficient risk allocation between various investors.

According to the EFSI Regulation, Investment Platforms<sup>1</sup> 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; and*
- (c) *Thematic Platforms that group together investment projects in a given sector."*

Investment Platforms can comprise a wide variety of products, which makes them an attractive tool to

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<sup>1</sup> Ref. Regulation (EU) 2015/1017 Art.2(4)

respond to market needs. Well-designed Investment Platforms have the potential to attract investment from and to combine resources from different parties, in particular NPBs, institutional investors and Sovereign Wealth Funds (SWFs), and thus boost the leverage and impact of EIB Group EFSI financing.

Investment Platforms can, where appropriate, bring together co-investors, public authorities, experts, education, training and research institutions, the relevant social partners and representatives of the civil society and other relevant actors at EU, national and regional levels. This may take place within existing fora, e.g. macro-regions, networks, stakeholders groups.

Platforms can benefit from EIB Group EFSI financing under both the Infrastructure & Innovation (“**IIW**”) and SME window (“**SMEW**”).

To benefit directly from EIB Group EFSI financing, the proposed Investment Platforms shall comply with the EFSI Regulation requirements, e.g. in terms of additionality, sectorial and geographic eligibility, reporting, accountability and evaluation.

Guidance on the Statistical treatment of NPBs under the Stability and Growth Pact (SGP) and on EU State aid rules is included in the 2015 Communication on NPBs<sup>2</sup>. As highlighted in that Communication, EU State aid rules go hand in hand with the Investment Plan's objective of addressing market failures and mobilising private investment. Many operations implemented by NPBs (e.g. in the SME and RDI sectors) will be covered by block exemptions, *de minimis* rules or specific State aid guidelines and will thus not be subject to a detailed ex ante State aid assessment.

a) *Focus on market failures and crowding-in*

A central objective of Platforms is to facilitate the crowding-in of investors, including NPBs, towards financing a portfolio of projects. Platforms should be structured to effectively and efficiently address market failures, and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants. Thus, EIB Group EFSI financing to Platforms should be used to support projects that are complementary to existing instruments or activities, including those of EIB Group or NPBs.

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<sup>2</sup> Communication from the Commission to the European Parliament and the Council "Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe" (COM(2015)361 of 22 July 2015).

Complementarity with existing market operators may take many forms, such as the focus on a market-segment or financial product that is scarcely served, offering of top-up or credit-enhancing financial instruments, etc. Similarly, Investment Platforms or NPBs that target projects that are at an earlier stage than where the existing market operators normally engages are very attractive, as such early engagement facilitates the maturing and preparation of projects.

For the creation of new Platforms, a "**market study**" is recommended (typically by an entity appointed by the Platform sponsors) to identify the market potential and needs, as well as the related promoters' and investors' requirements, and should accompany the proposal for EFSI financing request, via the EIB. This study is necessary if EU financial instruments are concerned, as part of their ex-ante evaluation. The evaluation by the EIB of proposals for EIB EFSI financing to Platforms shall put particular emphasis on the estimated ex-ante value added and the envisaged business plan of the proposed Platforms.

The EFSI Investment Committee shall put particular emphasis on approving the use of the EU Guarantee for the benefit of those Platforms that crowd-in a wide range of investors, notably NPBs, SWFs and private sector, and have a transformational impact in its target markets. EIB Group EFSI financing of Platforms shall seek to crowd-in a wide range of capital providers/investors (including public and private sector) to EFSI projects. Counterpart specific Platforms are permitted but not encouraged. Similarly, Platforms or transactions with NPBs that serve as pathfinders for future investments in a given market are encouraged.

#### *b) Geographic scope*

The Platforms can cover a wide range of possible geographical scope of related projects:

- i. **A national Platform (single-country Platform)** supports projects on the territory of a single Member State;
- ii. **A multi-country Platform** supports projects situated in a group of Member States and non-EU Member States. A Platform could cover the whole of the EU (all 28 Member States);
- iii. **Regional Platform** supports projects in a given region within a single Member State;
- iv. **A multi-regional Platform** would support projects in several regions, either in a single Member State or in several different Member States.

#### *c) Thematic scope*

The Platforms can have a pre-defined thematic (sectorial) focus, supporting the eligible objectives under

the EFSI Regulation (Art. 9). Platforms could have either:

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

*d) Type of products provided by the Platform*

A Platform that benefits directly from EIB Group EFSI financing may provide any type of financial support to projects as long as the EIB Group EFSI financing is channelled to projects that comply with EFSI eligibility and additionality criteria. The type of products provided may include:

- i. Equity and quasi-equity investment in projects or funds;
- ii. Loans to projects (based on principles under §3.1);
- iii. Guarantees to projects;
- iv. Guarantees and/or counter-guarantees to intermediaries.

Advisory services could complement the Platforms' financing and are encouraged to be implemented via EIAH whenever necessary to maximise synergies and impact.

*e) Type of EIB Group EFSI financing to the Platforms<sup>3</sup>*

The EIB Group, with the benefit of the EU guarantee, can provide various types of support to the Investment Platforms, in line with EFSI Regulation (art. 10), such as:

- i. Loan to the Platform (based on principles under §3.1);
- ii. Equity or quasi-equity investment or financial commitment in or through the Platform;
- iii. Guarantee towards the Platform's delivery of financing to a portfolio of eligible projects (partial guarantee of loans given by the Platform to projects).

The EIB Group will perform its standard due diligence in respect of any proposed EFSI operations, which would be tailored to the type of EIB Group support to the Platform.

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<sup>3</sup> 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.

*f) Proportion of the total Platform financing provided by EIB Group EFSI financing*

The level of EIB Group EFSI financing will vary depending on specific Investment Platforms' structuring, and should seek to maximise the ratio between third party funds, in particular private sector capital, and EIB Group EFSI financing.

The existing EIB policy of investment in equity funds could serve as an indication for the IIW. In this line of its business, the EIB can invest up to 25% of the fund in terms of final participation share. The target participation range is situated between 10% to 20% of the fund.

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

*g) Sponsors of Platforms*

Any institution or a group of institutions can become a Platform sponsor, such as:

- i. National Promotional Banks or Institutions
- ii. EIB Group or other International Financial Institutions (e.g. the EBRD and the World Bank Group)
- iii. Government agencies, EU Institutions, agencies or bodies
- iv. Commercial Banks and other lending institutions
- v. Investment Funds and Investment Companies
- vi. Corporates
- vii. Managing Authorities of European Structural and Investment Funds (ESIF)
- viii. Sovereign Wealth Funds or third country entities

The Platform sponsor(s) need 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 Platform sponsor(s) would typically decide on the risk/return profile, the remuneration criteria for the investors, and the eligible entities which can propose projects to the Platform ("**project promoters**") and the Platform's internal project selection process. They can include public or private entities.

The Platform sponsor(s) would typically provide part of the initial funding for the Platform's activities. The Commission and/or the EIB Group could also participate in the setting up of Platforms by way of

advisory and assistance, including via the EIAH.

#### *h) Platform Manager*

Each Investment Platform needs an entity ("**Platform Manager**"), which 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.

The Platforms sponsors/founders typically appoint the Platform manager through an adequate selection process, and decide on its remuneration, which should be performance-based and ensure alignment of interests.

The role of Platform manager could be taken by:

- i. Independent fund manager
- ii. NPB
- iii. EIB (on limited circumstances) or EIF
- iv. Commercial Bank
- v. Platform sponsor.

#### *i) Other non-EFSI providers of funding*

On top of EIB Group EFSI financing, a significant portion of the funding of Platforms will have to come from other sources, such as:

- i. Sponsors providing equity, quasi equity or debt
- ii. Banks' lending
- 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. National, regional or local governments – equity, debt
- vi. EU budget funds.

These could include also support from programmes co-financed with European Structural and Investment Funds (ESIF), provided that their use is in line with the ESIF regulatory framework and the priorities of the participating programmes, which would often imply inter alia national

or sub-national ring-fencing. In particular, the Investment Platform would be considered as a financial instrument set up under CPR and compliant with the provisions under title IV of CPR. Please refer to specific guidance by the Commission on combination of ESI Funds and EFSI financing.

*j) Possible legal forms of Platforms*

Platforms could be set up under different forms, such as:

**i. Special Purpose Vehicle (SPV)**

A dedicated investment fund is established with a specific manager, investment strategy, diversification, target risk profile and financial return, remuneration, etc. The fund's Special Purpose Vehicle can take various legal forms such as: ELTIF (European Long Term Investment Fund), SICAV (*Société d'investissement à capital variable*), FPCI (*Fond professionnel de capital investissement*), investment trust, etc.

**ii. Managed account**

The various providers of funding decide together on an investment strategy and entrust their funds directly with a selected Platform manager, which manages the funds via a dedicated account. There is no need to create a new legal entity or vehicle. The entrusted entity then deploys the funds in line with the agreed 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.

**iii. 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 part of the financing.

**iv. 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 the risk of the Investment Platform's operations.

*k) Submission and Approval process under EFSI Infrastructure and Innovation Window*

Under the **Infrastructure and Innovation Window**, Platforms can receive financing under the Debt Sub-Window, and/or under the Equity Sub-Window.

The Platform sponsors (e.g. NPBs or others) are expected to contact the EIB to share their Platform financing requests.

Following the appropriate EIB analysis (which may vary depending on the type and extent of financial support required), the Platform financing request under IIW is submitted by the EIB to the EFSI Investment Committee, which verifies compliance of the proposed financing to the Platform with EFSI Regulation. Particular attention should be paid to the value-added of the Platform, especially in terms of additionality and crowding-in private investors.

EFSI operations through Platforms may be single operations or portfolios of operations. The EFSI Investment Committee can approve the use of the EU Guarantee for EIB EFSI financing under the IIW to a Platform in three ways, listed below. The type of EFSI Investment Committee approval to be contemplated is an integral part of the proposal of EIB to the EFSI Investment Committee.

**i. The use of the EU Guarantee is approved ex ante for the whole EIB financing to a Platform**

On the basis of the investment guidelines of the Platform, the use of the EU Guarantee is approved ex ante for the whole EIB financing to the Platform. There is no need for the EIB to seek EFSI Investment Committee approval for each and every underlying individual operations of the Platform. This is typically the case when the projects are clearly identified or the eligibility criteria of the Platform provide reassurance that the projects will be selected in full compliance with EFSI Regulation.

**ii. The use of the EU Guarantee for the EIB EFSI financing to a Platform requires the approval by the Investment Committee of each underlying operation**

The Investment Committee may approve the use of the EU Guarantee for each individual underlying transaction of the Platform. In order to ensure a smooth operational functioning of the Platform, this should be limited to justified cases for instance of particular uncertainty or sensitivity, or in case the intermediaries are not yet known.

**iii. A combination of the above**

In case where part of the projects are clearly identified, whereas future ones are less clear, it is possible for the Investment Committee to approve the use of the EU Guarantee for the EIB EFSI financing in respect of the portfolio of well-identified projects, and ask submission of future operations (either individually or grouped) at later stages as they become mature.

*l) Submission and approval process under the SME Window*

Under the **SME Window**, Platforms can receive funding (debt, equity and securitisation instruments).

The Platform sponsors (e.g. NPBs or others) are expected to contact the EIF to share their Platform proposals.

The Platforms proposals will be reviewed by the Commission and EIF and subsequently submitted for approval of the EFSI Steering Board and the Managing Director, after consulting the EFSI Investment Committee.

*m) Reporting, Accountability and Evaluation, Anti-Fraud Measures and Excluded Activities*

The Platform manager and/or (where relevant) the Platform shall enter into an agreement with the EIB or EIF to define the responsibilities, and reporting to the EIB or EIF to ensure compliance with EFSI Regulation art. 16, 17, 18, 21 and 22.

## **6. Illustrative structure for EIB Group EFSI operations with Platforms and NPBs**

The Annex 1 provides a number of stylised structures of Platforms that have the potential to contribute to the Investment Plan for Europe's objective of generating EUR 315 billion in additional investment. They are provided for illustrative purposes only and do not in any way limit the scope of Platforms that can be considered.

### **1. EIB Group as cornerstone investor in the Platform**

Concept: support EFSI operations that on account of size, specialization, etc. cannot be serviced directly by EIB Group. The EIB Group could support the activities of Platforms sponsored by 3rd parties by participating in its fundraising as cornerstone investors.

Characteristics:

- EIB Group could support EFSI operations that on account of their size, level of specialization, etc. are presently not being serviced by the EIB Group. Examples of such operations might include small scale project finance transactions and medical technology.
- EIB Group already has teams that appraise and manage debt and equity investment funds, especially in the infrastructure finance, climate change, mid-caps, SMEs and VC.
- As a cornerstone investor, the EIB Group would be able to exert influence on the choice of themes that are supported, improving their alignment with the EFSI eligibility criteria.
- The Platform would benefit from the EU Guarantee under EFSI, via the EIB.
- Funding support for Platforms and its investors, which may comprise SWFs, NPBs and other institutional investors.
- Consistent with the requirement under the EFSI Regulation the EIB will “*apply its rules, policies and procedures as applied to its own risk operations, as amended, modified or supplemented from time to time, and good banking practices.*” It is conceivable that the EIB Group investment in the Platform would benefit from the credit enhancement of a First Loss Piece provided by a third-party.

- For example, the EIF may set up a Joint EIF-NPB Equity Platform under Phase 2 of EFSI SME Window. This would include an interactive NPB forum bringing potentially numerous NPBs together. As and when operational, such Platform could be expanded to other activities of EIB Group.

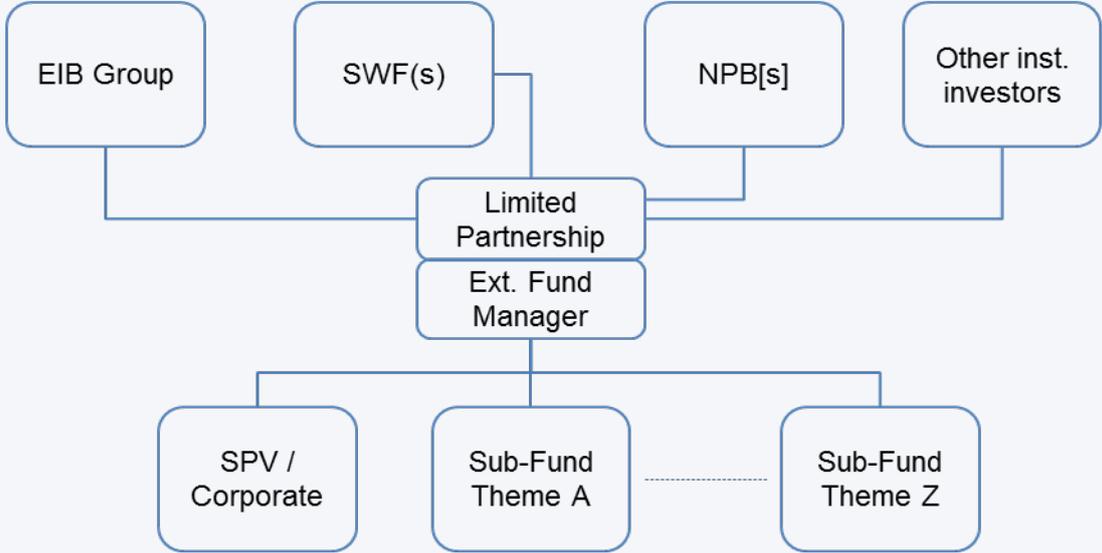


Figure 1: EIB Group as a cornerstone investor to an IP

**2. An Investment Platform combining EFSI, ESI Funds, NPBs and possibly private investors to provide equity and mezzanine financing to projects and corporates**

A possible structure could be to pool investments from EFSI, ESI Funds, NPBs and private investors to provide equity and mezzanine financing to projects (including corporate projects) in priority sectors. These products would be designed to have a particularly strong catalytic potential for the other investors, in particular from the private sector, and can thus represent an effective use of the EFSI resources.

The EIB Group would provide mezzanine financing (using EFSI), depending on the risk-return profile of the portfolio, in combination with ESIF funds or other public budget funds, and leveraging NPBs and private sector.

A similar structure, building on the experiences of the Marguerite fund, could also be implemented in the infrastructure sector. Further examples of existing Platforms that could inform future projects include the European Energy Efficiency Fund (EEEF) and the European Fund for Southeast Europe (EFSE, providing financing to MSMEs).

EIB would normally be expected to invest in the Platform pari passu with comparable co-investors, in particular NPBs or, as the case may be, the EBRD and other IFIs.

### **3. A small municipal infrastructure fund aimed at institutional investors and SWFs**

This Investment Platform, to be set up by a public/regional authority and managed on commercial grounds by a professional fund manager, would bundle small municipal or rural infrastructure projects to make them accessible to institutional investors and SWFs. Depending on the risk-return structure of the underlying portfolio, EIB could invest into a limited portion of the portfolio alongside other investors preferably at a subordinated level, thus facilitating the private and SWF investment. Alternatively, the EU Guarantee may also be used to support an EIB guarantee granted to an Investment Platform, subject to the approval by the Investment Committee.

### **4. A regional cross-border Platform**

A regional cross-border Platform could pool resources from EFSI, EIB, NPBs and possibly private investors in markets affected by market failures (e.g. climate action and resource efficiency investments or SMEs). The Platform would be professionally managed on commercial terms. Credit enhancement from a subordinated ESI Funds' tranche (possibly complemented with an EIB Mezzanine loan under EFSI) could be used to lift the risk profile of the senior tranches while the multi-NPB, multi-country participation would enhance portfolio diversification relative to a single Member State market. This structure would also help spread best practices developed by EIB across NPBs. It could thus include a technical assistance component, especially when implemented in regions with relatively new NPBs, such as South-eastern Europe.

Participation of other IFIs, such as the EBRD and World Bank, in their relevant countries of operation should be encouraged. Where appropriate, other IFIs may also act as sponsors of such an Investment Platform.

### **5. A Platform providing partial loan guarantees to SME portfolios from several public and private institutions**

This type of Platform is designed to alleviate the risk on long term corporate loans and thus increase partner institutions' risk-taking capacity by freeing up resources to support lending to SMEs and other priority projects. A similar structure, involving a single NPB (Hrvatska Banka za Obnovu i Razvitak (HBOR) of Croatia), was approved by the EIB Board in September 2015 and the use of the EU guarantee under EFSI was approved by the European Commission in January 2016. The structure provides a guarantee to cover up to 50% of credit risk associated with a pre-selected portfolio of corporate loans outstanding on the intermediary's balance sheet, conditional upon new loans to be provided by the Intermediary to midcaps and eligible promoters of other priority projects. It is an example of enhanced cooperation with an NPB and could in the future be expanded into an Investment Platform including multiple NPBs and also commercial banks.