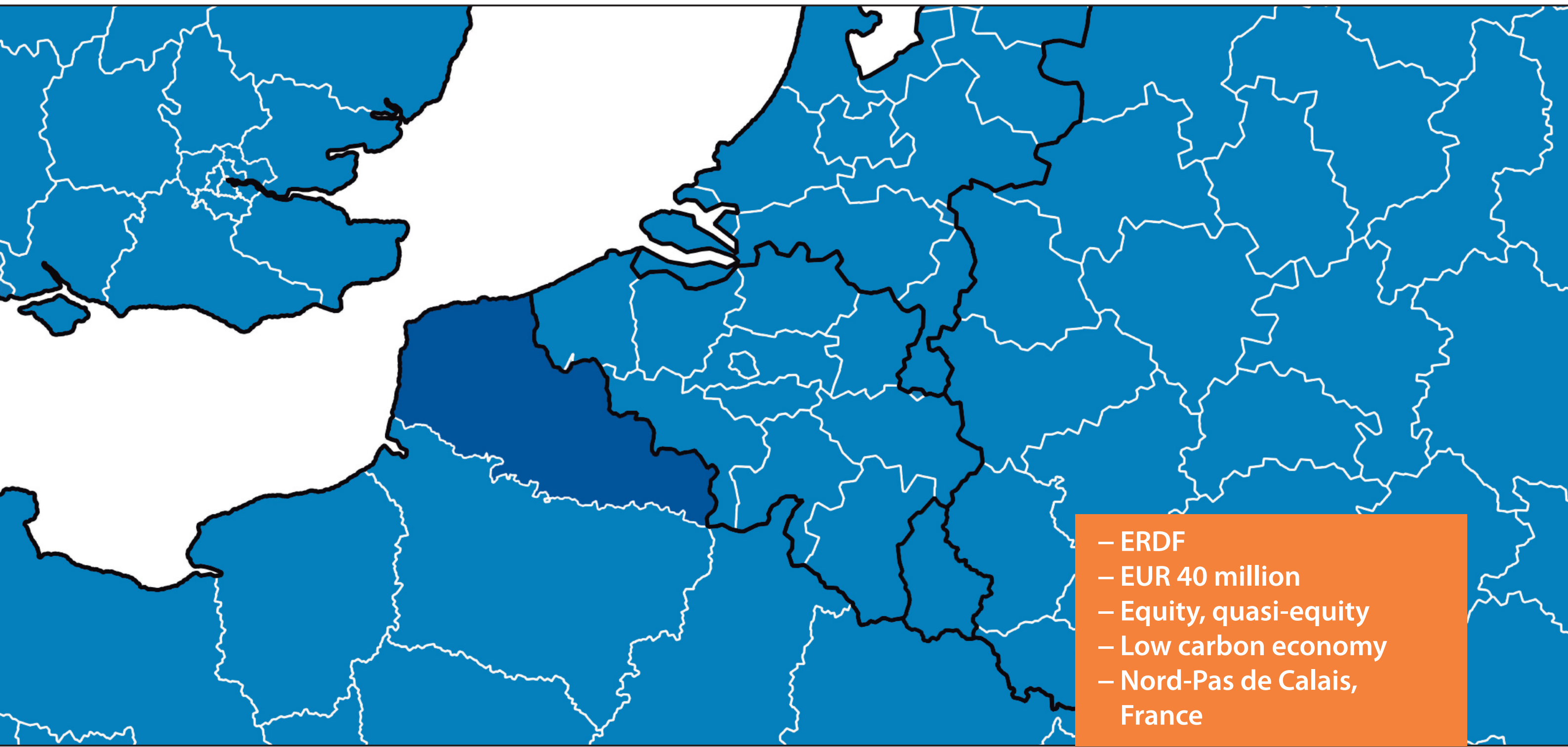

– ERDF
– EUR 40 million
– Equity, quasi-equity
– Low carbon economy
– Nord-Pas de Calais, France

…an ESIF / EFSI regional Investment Platform supporting low carbon economy in France…

CAP Troisième Révolution Industrielle Nord-Pas de Calais, France

Case Study

European Commission

European Investment Bank
The EU bank

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The projects studied in no way anticipate projects that will actually be financed using financial instruments. Neither the European Investment Bank nor the European Commission gives any undertaking to provide any additional information or correct any inaccuracies in it.

Abbreviations

Abbreviation	Full name
AIFM	Alternative Investment Fund Manager
CCI	Chamber of Commerce and Industry
EC	European Commission
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
EIPP	European Investment Project Portal
ERDF	European Regional Development Fund
ESIF/ESI Funds	European Structural and Investment Funds
GDP	Gross Domestic Product
IPE	Investment Plan for Europe (Juncker Plan)
NPB	National Promotional Bank
SAS	Société par Actions Simplifiée (simplified joint-stock company)
SME	Small and Medium-sized Enterprise
SPV	Special Purpose Vehicle
TRI	Troisième Révolution Industrielle (Third Industrial Revolution)

Table of contents

1 Summary

This case study describes a financial instrument called – CAP *Troisième Révolution Industrielle* (CAP TRI) which is supported by the 2014-2020 European Regional Development Fund (ERDF) Operational Programme (OP)[1] of the Nord-Pas de Calais region in France (the 'Region').

The financial instrument was developed, with the ultimate aim of supporting the Region to become the first carbon-neutral French region by 2050. The European Investment Bank (EIB) provided advisory support to the Region from early conceptualisation, through to the design and set-up of the financial instrument.

The Region, as managing authority of European Structural and Investment Funds (ESIF), contributed EUR 15 million of ERDF to the financial instrument, alongside other investors: Crédit Agricole Nord de France (a regional commercial bank) and the EIB, using the guarantee from the European Fund for Strategic Investment (EFSI). The financial instrument therefore starts with initial investment funding of EUR 37.5 million, as well as EUR 2.5 million budget for technical support in the form of grants to help prepare projects for funding from the financial instrument. It has an ambition to reach an overall investment size of EUR 100 million and is, as of November 2016, conducting fund raising among public and private potential investors. CAP TRI's overall objective is to invest equity and quasi-equity into small and medium-sized enterprises (SMEs) mainly, as well as mid-caps and/or Special Purpose Vehicles (SPVs).

CAP TRI is managed by Nord Capital Partenaires (in partnership with Finorpa), a regional fund manager authorised by the French regulator ('*Autorité des Marchés Financiers*') and compliant with the AIFM (Alternative Investment Fund Managers) directive. This fund manager was selected through an open, competitive and transparent procedure carried out under the rules of the Public Procurement Directive 2014/18/EC, following the publication of a contract notice in the Official Journal of the European Union. Alignment of interest is ensured by the financial participation of the fund manager in the financial instrument. The financial instrument has also been developed in compliance with State aid rules.

CAP TRI is expected to generate a portfolio of investments of EUR 200 million in total at project level, thus 16 times the contribution from the ERDF OP. This will be achieved by systematically seeking co-investment at project level for at least 50% of the project amount. As of November 2016, the financial instrument has already discussed with more than 60 project promoters; 30 of projects have been analysed in detail, two projects will be presented to the Consultative Investment Committee and two projects already passed the Consultative Investment Committee in view of being financed by the end of 2016.

CAP TRI is the first public-private financial instrument combining resources from ESIF, with EIB funding guaranteed by EFSI, and private investors.

1 Priority Axis 3: 'Driving the regional energy transition', and Thematic Objective 4: 'Shift towards low carbon economy'.

CAP Troisième Révolution Industrielle Nord-Pas de Calais (CAP TRI SAS)

THE FINANCIAL INSTRUMENT

Funding source and financial size

EUR 37.5 million total resources: EUR 12.5 million - ERDF; up to EUR 20 million - EIB investment guaranteed by the EFSI; EUR 5 million - Crédit Agricole Nord de France

Type of financial products

Equity and quasi-equity

Thematic focus

Low carbon economy (Thematic Objective 4)

Timing

2015-2031
First investment period: seven years (2016-2022)
Life-time of the financial instrument: open end, with possible exit after 15 years

Partners involved

Nord-Pas de Calais region[2] (managing authority)
Nord Capital Partenaires SAS in partnership with FINORPA (fund manager)
CAP TRI SAS (investment fund)
Crédit Agricole Nord de France (regional commercial bank and parent company to the fund manager, private co-investor)
EIB (lender with a mezzanine loan supported by the EFSI guarantee)

Type of final recipients

SMEs, Mid-caps, SPVs

ACHIEVEMENTS

Absorption rate

Investments under preparation

Co-financing

Part Crédit Agricole Nord de France *pari passu* with ERDF in the capital of the financial instrument and part private investors at project level (for at least 50% of each project amount)

Expected return

7% Internal Rate of Return (after fees) over the next 15 years

Re-investment

Funding is expected to start returning to the financial instrument from investments from 2023 onwards

Main results (as of November 2016)

CAP TRI was officially launched in December 2015
Meetings with more than 60 project promoters held since the launch of the financial instrument
30 projects have been analysed in detail, two projects will be presented to the Consultative Investment Committee soon and two projects already passed the Consultative Investment Committee in view of being financed by the end of 2016

2 Now Hauts-de-France.

2 Background and objectives

The Nord-Pas de Calais region is located in the north of France and has a population of over four million people (making it the fourth most populated region in the country[3]). Lille metropolis is the main urban area of the region (2.6 million inhabitants[4]), and benefits from good transport connections to Brussels, Paris and London (via high-speed train).

With a Gross Domestic Product (GDP) per inhabitant of EUR 25 700 in 2014[5], the region ranks 17th out of the 27 French regions[6] and classifies as a 'transition region' under the EU Cohesion Policy criteria. The unemployment rate was 14% in 2014 (compared with a national average of 10% for France).[7]

The region has traditionally been heavily industrial, with a focus on coal mines and the steel sector. It also has the highest percentage of 'brownfield' sites in the country. In addition, the region is one of the highest consumers of energy in the country. As a result, greenhouse gas emissions per inhabitant are 30% higher than the national average.[8] In addition, in 2008, the share of renewable energy for the region was around four times lower than the national average (3% against 12%).[9]

In 2013, the managing authority (the 'Region") and the regional Chamber of Commerce and Industry (CCI) jointly published a road map for the regeneration of the area known as the '*Troisième Révolution Industrielle*' (TRI). It targets 'zero carbon emission' by 2050, by which time energy needs in the region would be totally reliant on renewable energy sources. This energy transition initiative will also hopefully result in job creation, economic development, reduction of fuel poverty and more sustainable energy supply and usage.

The TRI road map details the following investment priorities: energy efficiency, renewable energy, circular economy, smart grid and soft mobility. For each investment priority, working groups have been formed which include experts and businesses operating in the region to support the development and implementation of the road map.

3 Eurostat, Population on 1st January by age, sex and NUTS 2 region, data of 2014, data extracted on 15th July 2016.
4 Eurostat, Population on 1st January by age, sex and NUTS 2 region, data of 2014, data extracted on 15th July 2016.
5 Eurostat, Gross domestic product (GDP) at current market prices by NUTS 2 regions, data of 2014, data extracted on 15th July 2016.
6 Since 1st January 2016, France is composed of 18 regions, including 12 regions in continental France. The Nord-Pas de Calais Region was merged with Picardie (a region south of Nord-Pas de Calais). The territory covered by Picardie is not concerned by CAP TRI.
7 Eurostat, Unemployment rates by sex, age and NUTS 2 regions, Age: 15 years or over, data of 2014, data extracted on 15th July 2016.
8 Regional Scheme for Territorial Planning and Sustainable Development (*Schéma Régional d'Aménagement et de Développement Durable du Territoire*), 2014, data of 2008, source: Ministry for Environment, Sustainable Development for Transport and Housing. Greenhouse gas emissions per inhabitant in Nord-Pas de Calais are about 11 million tonnes carbon dioxide (CO2) equivalent while they are 8.5 on average in France.
9 Regional Scheme for Territorial Planning and Sustainable Development (*Schéma Régional d'Aménagement et de Développement Durable du Territoire*), 2014, data of 2008, source: Ministry for Environment, Sustainable Development for Transport and Housing.

Similar to most European regions, SMEs and mid-caps in Nord-Pas de Calais are currently facing difficulties in accessing finance for various reasons, i.e. they are perceived to offer unattractive financial return on investment, there is a lack of available long-term capital and technology, and/or market risks are often considered too high by financiers. A recent poll launched by the Region and the CCI showed a need for financing (mainly equity) of approximately EUR 257 million, based on existing demand. By extrapolating this existing demand, potential demand within the 2016-2018 time frame is estimated to reach EUR 951 million.[10]

As part of its response to these market failure issues and the financing gap, the Region earmarked EUR 15 million of ESI Funds from its ERDF OP to set up a financial instrument – CAP TRI – aiming to support the TRI road map and invest in projects with high socio-economic and environmental returns. In December 2014, the Region appointed the EIB to provide advice to support the design and set-up of the financial instrument, including the ensuing procurement of a suitable fund manager. The Region also undertook an ex-ante assessment in order to assess the market failures related to the TRI road map, analyse the financing needs of the future final recipients and evaluate the potential value added of the proposed financial instrument, amongst other aspects required by an ex-ante assessment.

10 Région Nord-Pas de Calais, CCI Région Nord de France, 2015, '*La Troisième Révolution Industrielle en Nord-Pas de Calais, Le besoin de financement des entreprises*', June 2015.

3 Set-up of the financial instrument

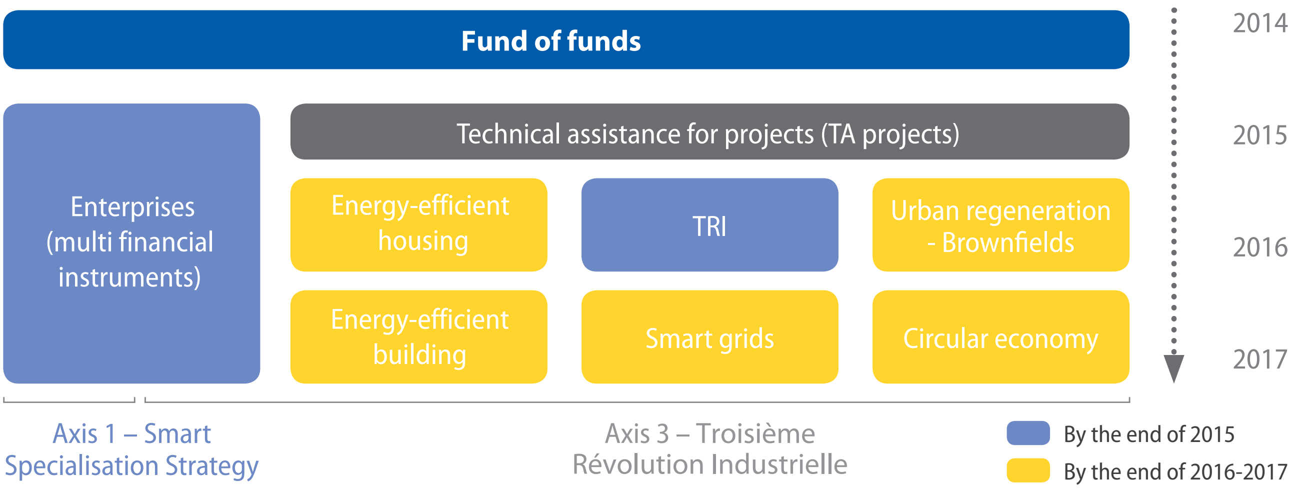
This section charts the development of the financial instrument from early concept stage, through design and set-up, and eventually on to implementation.

3.1 Design and set-up

The Region had already gained experience in implementing financial instruments during the 2007-2013 programming period, with financial instruments focused mainly on SME financing (including Venture Capital and growth financing) and renewable energy projects.

For the 2014-2020 programming period, the Region had initially envisaged the creation of several financial instruments covering different investment areas, including SMEs, energy efficiency in housing and public buildings, urban regeneration and industrial brownfield, as well as smart grids. These financial instruments were initially going to be implemented through a fund of funds and structured as illustrated in Figure 1 below.

Figure 1: Initial design considered for a fund of funds, including CAP TRI



Source: Nord-Pas de Calais Region, EIB 2016.

As part of the development process, the Region undertook an ex-ante assessment (see Box 1). At that time, the TRI was one of the most advanced road maps prepared by the Region and it was considered a top priority which would benefit the regional economy. Thus it was considered that an initial focus on the design and set-up of the financial instrument focusing on the TRI was merited and that it would create a positive momentum for the development of further financial instruments using ESI Funds for other investment areas considered in the ERDF OP of the Region.

Box 1: Key features of an *ex-ante* assessment for financial instruments

Article 37(2) of the Common Provision Regulation (CPR) requires, in the context of a Programme, financial instruments using ESI Funds during the 2014-2020 programming period to be designed on the basis of an ex-ante assessment which identifies market failures or sub-optimal investment situations, respective investment needs, possible private sector participation and resulting value added of the financial instrument in question. Article 37(2) also establishes the key features of this ex-ante assessment for financial instruments.

As mentioned in the Guidance for Member States on Article 37(2) CPR – Ex-ante assessment[10], *'the overall objective of the ex-ante assessment is to assess the rationale for an financial instrument against prevalent market failure and to ensure that the financial instrument will contribute to the achievement of the Programmes and European Structural and Investment Funds objectives.* [It] *will assist managing authorities in having a sound basis for their decision-making in using financial instruments and in setting up an effective financial instrument.* […] *Therefore, the* ex-ante *assessment requirement in the CPR should not be looked at only as a mere legal obligation but also as a tool to support implementation from a sound financial management perspective.* […] *The* ex-ante *assessment needs to be completed before any Programme contribution is made (i) for the setting up of a new financial instrument or (ii) for an existing financial instrument and it is also applicable regardless of the implementation option chosen [EU-level instruments, national/regional level instruments (tailor made instruments, off the shelf instruments)], being the only exception the contribution to the SME Initiative* [where the contribution is based on an ex-ante assessment carried out at Union level]'.

Still mentioned in the Guidance for Member States on Article 37(2) CPR – Ex-ante assessment, *'it has to be borne in mind that the body implementing the fund of funds or the financial instrument, as appropriate, is only a beneficiary in the logic of the Programme and that all the relevant management tasks and the final responsibility stay with the managing authority. Therefore, it is important that MAs understand well the findings and conclusions of the ex-ante assessment'*.

To support managing authorities conduct ex-ante assessments, a joint initiative of the European Commission and the EIB Group developed a methodology and produced manuals.

Manuals for ex-ante assessments are available online:
https://www.fi-compass.eu/resources/product/64.

More information:
https://www.fi-compass.eu/sites/default/files/publications/EC_Guidance-Member-States-Ex-ante%20 assessment_0.pdf.

Source: European Commission, EIB, 2016.

The ex-ante assessment was carried out by a consultancy company called Technopolis over a three month period. Technopolis analysed the economic and policy context of the Region, as well as the supply and demand for financing in the low carbon economy. The identification of market failures and financing gaps, via the ex-ante assessment process, convinced the Region to initiate the structuring of the financial instrument and earmark EUR 15 million of ESI Funds from its ERDF OP for 2014-2020. It was intended that this would be supplemented with a potential funding contribution from the EIB and other private sector investors.[11]

11 https://www.fi-compass.eu/sites/default/files/publications/EC_Guidance-Member-States-Ex-ante%20assessment_0.pdf.

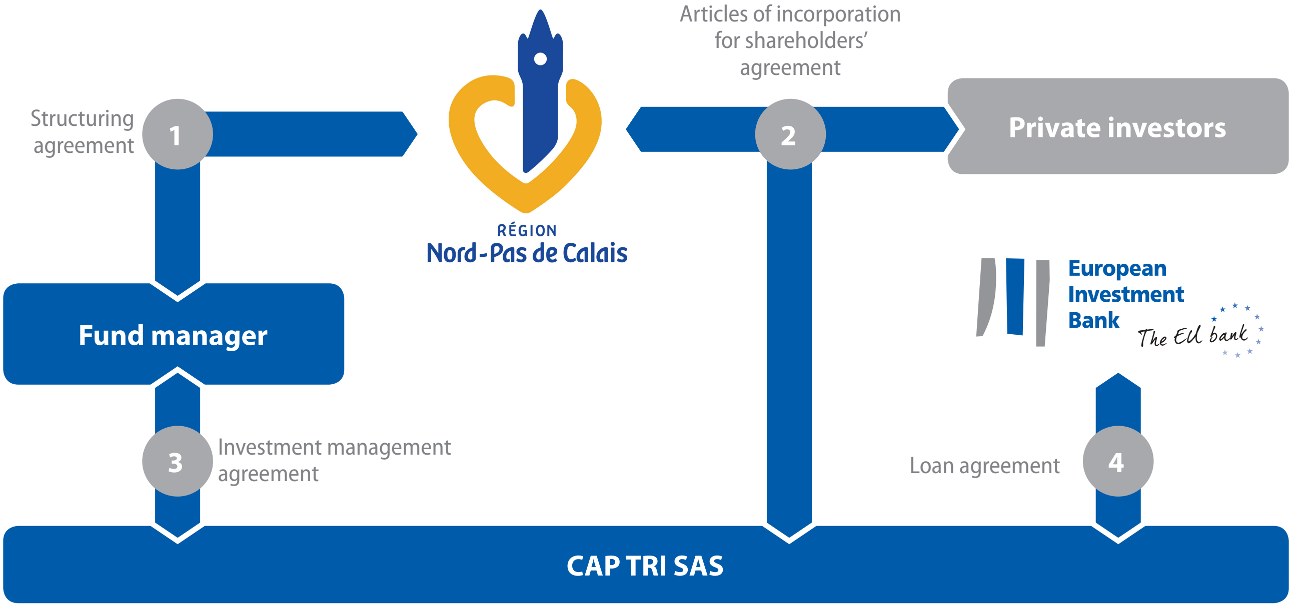
In parallel with the launch of the ex-ante assessment, the Region worked with the EIB to discuss and reflect best practices regarding the design, set-up and governance of other financial instruments elsewhere in Europe. In line with the requirements of the CPR and the AIFM directive, the Region then decided to procure the fund management of the financial instrument and defined a set of requirements for the fund manager in order to support the selection process including:

- an experienced and established team, demonstrating strong knowledge of the region and its market;
- a proposal for an investment strategy for the financial instrument, building upon the parameters proposed in the ex-ante assessment, showing a clear understanding and approach to the low carbon economy investment challenges in the region;
- a strategy for co-investment at the financial instrument level (including a commitment to the financial instrument for a minimum of EUR five million originating from the fund manager's own resources or from other private investors attracted by the fund manager) as well as at the project level;
- a business plan demonstrating a reasonable financial return expectation commensurate with the risk to be taken by the financial instrument;
- a good understanding of the technical support needs and method of delivery;
- clear and well-established procedures regarding key tasks including management, monitoring, reporting, conflict of interest management, and quality control; and
- a performance-based and competitive remuneration structure for the fund manager.

Following the publication of a contract notice in the Official Journal of the EU, the Region received two offers from established fund managers, and, after evaluation, selected the most attractive proposal. The Region then appointed a legal advisor and, with the support of the EIB, negotiated the legal structure, finalised the financial instrument's investment strategy and business plan, the due diligence of the fund manager and secured the necessary internal approvals of the Region to make its investment.

The legal structure of the financial instrument was designed to be both compliant with national regulations and CPR requirements, and to reflect good market practice. It involved the incorporation of a new commercial company (CAP TRI) by the fund manager, and the signature of an investment management agreement between the fund manager and CAP TRI, as well as other agreements with private investors.

Figure 2: Agreements established for the implementation of CAP TRI[12]



Source: Nord-Pas de Calais Region, EIB, 2016.

All agreements were signed in December 2015, in line with the initial envisaged timetable (see Annex in Section 6).

The EIB was able to invest in the financial instrument thanks to the benefit of the EU guarantee from the EFSI. EFSI is part of the Investment Plan for Europe (IPE), a policy initiative presented by the President of the European Commission Jean-Claude Juncker in November 2014 to overcome the European investment gap by mobilising private financing for strategically important investments. The box below presents the main features of EFSI.

12 The relevant agreements collectively address the requirements for a Funding Agreement as per Article 38(7) of the CPR.

Box 2: Key features of the EFSI

As mentioned in the European Commission brochure 'European Structural and Investment Funds and European Fund for Strategic Investments – Complementarities'[13], EFSI is *'an EU initiative launched jointly by the Commission and the EIB Group*[14] *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)'*. EFSI then aims to *'complement and be additional to ongoing EU programmes and traditional EIB activities'* (Regulation (EU) 2015/2017, called EFSI Regulation[15]). *'The EFSI should be part of a comprehensive strategy designed to address uncertainty surrounding public and private investments and to reduce the investment gaps in the Union'* (EFSI Regulation). This strategy is the IPE which has three pillars:

- EFSI;
- European Investment Advisory Hub (EIAH)[16]; and
- European Investment Project Portal (EIPP).[17]

'The EFSI should support a wide range of financial products, including equity, debt and guarantees, to best accommodate the needs of the individual project [and] act as a catalyst for private finance [...] and [. . .] as a means of further enhancing cohesion across the Union' (EFSI Regulation). No grant funding is provided via EFSI. EFSI is neither a financial instrument under the Financial Regulation applicable to EU level budgetary operations nor under the definition of the CPR applicable for ESI Funds. It has two components:

- an Infrastructure and Innovation Window (IIW) to be deployed through EIB; and
- a SME Window (SMEW) to be deployed through the European Investment Fund (EIF) to support SMEs and mid-caps.

With EFSI support, the EIB and the EIF may provide financing for economically viable projects that have a higher risk profile than ordinary EIB Group activities. Emphasis is put on key sectors, namely: (i) research, development and innovation; (ii) energy; (iii) transport; (iv) support to SMEs and mid-caps; (v) information and communication technologies; (vi) environment and resource efficiency; as well as (vii) human capital, culture and health (Article 9, EFSI Regulation).
EFSI has its own governance structure, which consists of:

- a Steering Board with EC and EIB representatives deciding inter alia on the overall strategic orientation, the rules applicable to operations with Investment Platforms (IPs) and National Promotional Banks (NPBs)[18] and the risk profile of EFSI; and
- an Investment Committee composed of eight independent experts and the Managing Director. The Investment Committee assesses and approves the use of the EU guarantee for individual operations and be accountable to the Steering Board.

As presented in the European Commission brochure on ESIF-EFSI complementarities[19], *'the EU guarantee is granted on a portfolio basis; not on a project basis. The EIB [performs] 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'*. 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'*. It has both a thematic (TRI-focused sectors) and a geographical focus (the Nord-Pas de Calais region). Finally, it has to be noted that in September 2016, the Commission issued a legislative proposal to extend the guarantee amount and duration of EFSI until the end of 2020 (in terms of approvals) and 2022 (in terms of signatures), hence aligning it broadly with the time duration for instruments supported by ESIF.

Source: European Commission, EIB, 2016.

13 http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/efsi_esif_compl_en.pdf.
14 The EIB Group consist of the EIB and the EIF.
15 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1017&from=FR.
16 http://www.eib.org/eiah.
17 https://ec.europa.eu/eipp/desktop/en/index.html.
18 Such as Bpifrance and Caisse des Dépôts et Consignations (CDC) in France.
19 Please see the EC brochure on ESIF-EFSI complementarities for further information on Investment Platforms: http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/e si_esif_compl_en.pdf.

Without the support from the EU guarantee under EFSI, the EIB could not have invested in CAP TRI in the way it did. According to EIB's Credit Risk Policy Guidelines, the provision of a mezzanine loan in the CAP TRI Investment Platform would not have occurred, or not to the same extent, without the EU guarantee under EFSI, because:

- it is both a financial instrument and an Investment Platform aiming to finance energy efficiency projects with a high risk profile;
- the investments made by the Investment Platform are expected to be in the form of equity or mezzanine debt products, which are inherently riskier than standard senior loans and the final counterparts are expected to be sub-investment grade; and
- the type of financing provided by the EIB is a mezzanine loan with very advantageous characteristics for the financial instrument (such advantageous characteristics would not have been possible without the EFSI guarantee). These advantages are then passed on to the final recipients in terms of increased access to finance and better conditions.

In addition to these characteristics, the EIB's mezzanine loan supported by the EFSI guarantee help the financial instrument to attract other private investors. The financial instrument is currently fund raising to reach an investment total of EUR 100 million. The combination of ESIF-EFSI allows to reach critical mass and to finance different tranches of the capital structure of the Investment Platform. The EIB participation enabled by EFSI will have a signalling effect to attract other investors.

3.2 State aid

CAP TRI has been developed on a State aid compliant basis. This is based on the following characteristics.

At the level of the shareholders/private investors:

- the shareholders are investing by way of equity on a *pari passu*[20] basis, with no preferential treatment, upward remuneration or downside protection from the ESIF contribution, the investment is on market terms and in accordance with the Market Economy Investor Principle;
- private investment at the level of the financial instrument is important, and agreed before the Region's commitment; and
- EIB financing under EFSI does not constitute State aid. EIB is providing funding in line with the parameters prescribed for a layered structure in the ESIF-EFSI complementarities brochure.

At the level of the fund manager:

- the fund manager has been selected through an open, competitive and transparent procedure, including its remuneration structure proposed;
- the fund manager's remuneration is based on market practice, with both a base and a performance remuneration component;
- alignment of interest is ensured thanks to the fund manager's financial participation in the financial instrument via its parent banking group (Crédit Agricole); and
- there is no remuneration to the fund manager to administer the technical support grant.

20 Situation where a transaction is made under the exact same terms and conditions by public and private investors, with private investor contribution which has economic significance and with simultaneous interventions by both types of investors.

At the level of the final recipients:

- the financial instrument always takes minority shares in the final recipients/projects and intervenes along with private co-investors;
- the financial instrument invests on market terms since it will invest with at least an equal amount of private sector investment in each final recipient/project and will only take minority stakes in these final recipients/projects; and
- each investment will be subject to full due diligence and proven economic and financial viability.

The technical support grant element is an aid which falls within the *de minimis* limits.

3.3 Governance

The governance structure includes three levels, and is typical for similar fund management arrangements, namely:

- a Supervisory Board, which supervises the financial instrument's activities, and validates the accounts proposed by the fund manager;
- a Consultative Investment Committee, which provides an opinion on the investment/reinvestment projects; and
- the fund manager, which is fully responsible for the investment decisions (as well as reinvestment, exit, conversion or reimbursement of convertibles bonds), to prevent any conflict of interest and to ensure that investments are made on a profit-driven commercial basis.

The following figure indicates the composition and responsibilities of each level of the governance structure.

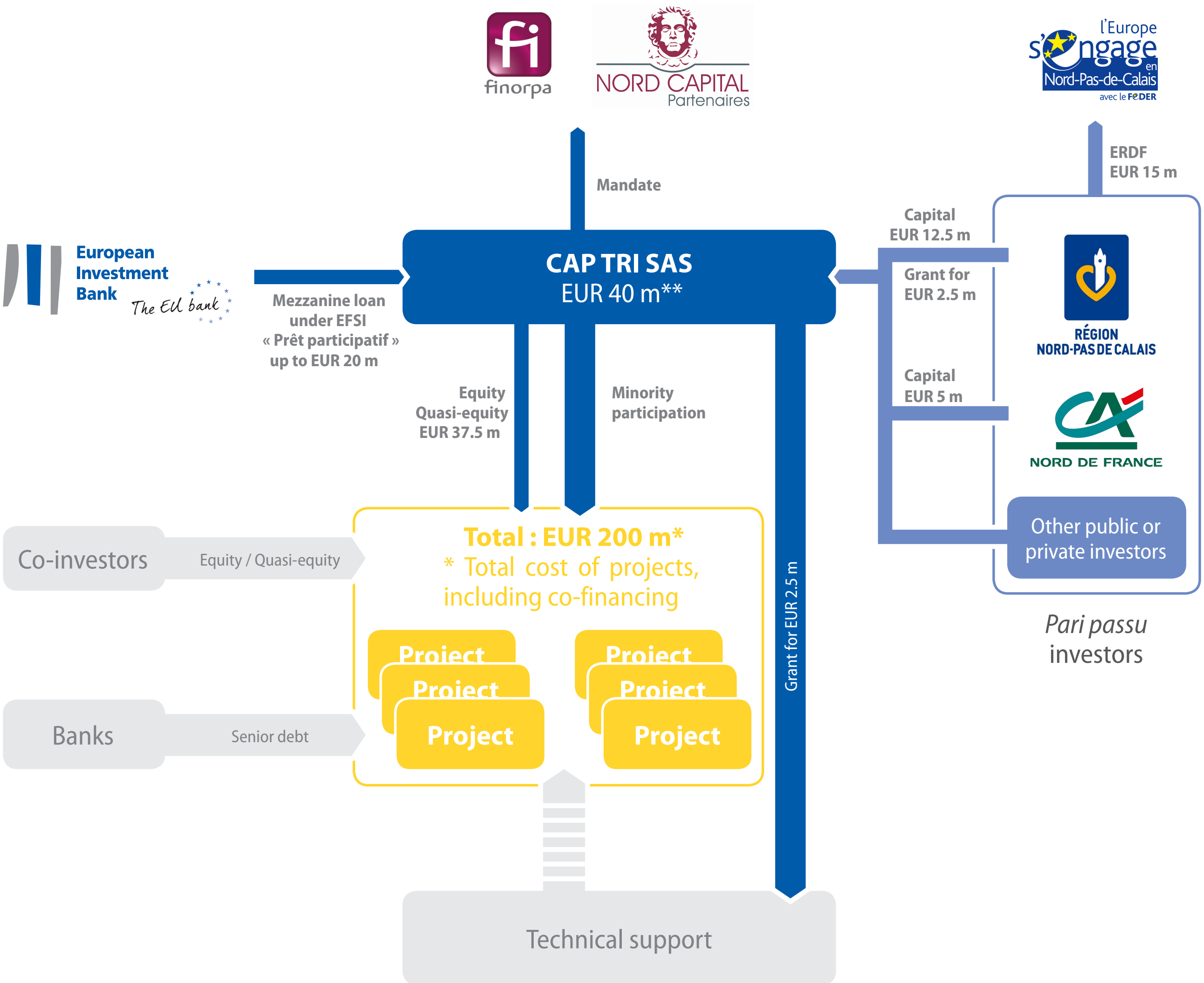
Figure 3: Governance structure of CAP TRI

Source: Nord-Pas de Calais Region, EIB, 2016.

3.4 Implementation

The selected proposal led to the development of the following implementation structure.

Figure 4: Implementation structure of CAP TRI



**The objective is to reach a total of EUR 100 million thanks to new public and/or private investors

Source: Nord-Pas de Calais Region, EIB, 2016.

4 Investment strategy

This section presents the main aspects of the investment strategy of the financial instrument, finalised in December 2015, following the conclusions of the ex-ante assessment. The proposed investment strategy presented in the ex-ante assessment concluded that three options were possible for developing financial instruments to achieve the objectives of the TRI road map:

- the creation of a new financial instrument, with a new fund manager;
- the continuation of an existing regional financial instrument whose objectives are aligned with the ERDF OP and the TRI road map (with EUR 12 million to be invested in quasi-equity financing); and
- the creation of sub-funds within existing financial instruments (with EUR 48 million for a guarantee instrument and EUR six million for seed and early stage financing).

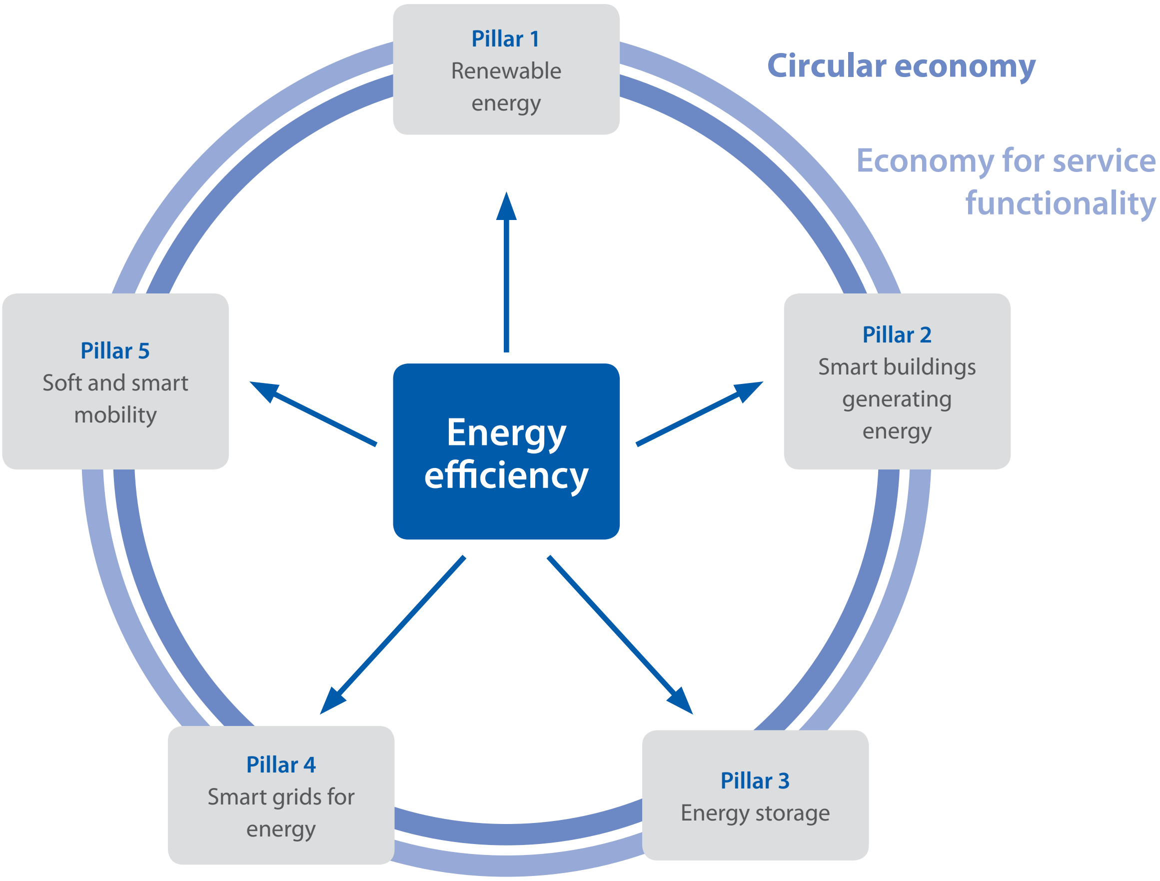
The first option was favoured by the managing authority and CAP TRI was created. The second option was not completely disregarded and was chosen by the managing authority for another financial instrument which will mainly invest in public sector projects. The third option was considered too complicated.

4.1 Objectives

The financial instrument has a number of objectives.

Firstly, the financial instrument aims to contribute to the TRI road map, defined by the Region. This road map aims to reduce, by 2050, energy consumption in the region by 60%. In that respect, the financial instrument aims to finance projects that fit within the five pillars of the TRI road map: (i) renewable energy, (ii) smart buildings generating energy, (iii) energy storage, (iv) smart grids for energy, and (v) soft and smart mobility. The TRI road map is also structured around three horizontal axes: (i) energy efficiency, (ii) circular economy and (iii) economy for service functionality (‘*économie de la fonctionalité*’). These pillars and horizontal axes form the investment priorities of the financial instrument, as illustrated in Figure 5 below.

Figure 5: Pillars and horizontal axes driving CAP TRI



Source: Nord-Pas de Calais Region, 2015.

Secondly, in terms of financing objectives, the financial instrument aims to support SMEs and mid-caps to modernise their equipment and machinery in view of improving their energy efficiency and/or the development of renewable energy projects. In line with this, the financial instrument adheres to the Principles for Responsible Investment established by global investors and supported by the United Nations[21] in view of incentivising investors to consider the environmental, social and governance principles of the companies they invest in.

The fund manager (i.e. Nord Capital Partenaires in partnership with Finorpa) is responsible for implementing the investment strategy.

4.2 Financial products, terms and final recipients

With funds under management in the financial instrument amounting to EUR 40 million, including EUR 2.5 million for technical support grants, the financial instrument will be able to provide investments into underlying projects, totalling a portfolio of projects of around EUR 200 million.

The financial products provided by the financial instrument consist of equity or quasi-equity financing ('prêts participatifs') for amounts usually ranging between EUR one million and EUR five million per underlying investment (some exceptions to this are permitted). The financial instrument envisages financing between three and six SMEs or mid-caps per year with an average amount of EUR three million, resulting in a total volume of finance between EUR 10 million and EUR 18 million

21 More information available at: http://www.unpri.org.

per annum. The financial instrument will only take minority stakes in the SMEs/mid-caps/projects in which it invests and envisages exits after five to nine years.

The financial instrument is meant to attract and, to the best extent possible, foster co-financing with other investors. The latter may either be Nord Capital Partenaires and Finorpa (via funds other than CAP TRI), or other regional and national investment funds.

Final recipients are SMEs, mid-caps or SPVs which need to comply with the following criteria:

- develop a project requiring growth capital financing;
- work in at least one of the sectors (except finance) contemplated by the TRI road map;
- have its headquarters or subsidiary in the region, be willing to establish a subsidiary in the region, or be willing to develop a project in the region;
- have a coherent project with a clear strategy based on a market analysis and presented in a structured business plan;
- respect rules related to financial transparency;
- contribute to an inclusive, innovative and sustainable growth;
- not experiencing financial difficulties as per the EU regulation on State aid or needing rescuing/restructuring.

When assessing the projects of the potential final recipients, the fund manager will need to consider criteria linked to the TRI road map (including e.g. share of renewable energy produced or volume of CO2 emissions avoided) as well as additional criteria related to environmental, economic and social/societal impact. Some criteria are qualitative and others are quantitative. Within the context of the TRI road map, the fund manager will assess the number of pillars or horizontal axes covered by each project, the extent to which it contributes to the TRI road map and how this project interconnects the pillars/horizontal axes thereof. In relation to the environmental, economic and social/societal impact, several factors will have to be assessed, and a hierarchy between these factors was been defined in the investment strategy.

4.3 Technical support

The technical support provided via CAP TRI follows the conclusions of the ex-ante assessment, which identified a strong need for such assistance. This grant scheme totals EUR 2.5 million and is financed from ERDF resources. It is channelled by the fund manager via the financial instrument, as made possible by the CPR for the 2014-2020 programming period. The funds devoted to investment and to technical support are combined in one single operation (see Figure 6 below).[22] As required by the CPR, the fund manager keeps separate accounts for each form of support, i.e. the provision of equity and quasi-equity investment on the one hand and the provision of grants for technical support on the other.

22 For more information on the combination of financial instruments and technical support grants using both ESI Funds, please see the EC Guidance Note 'CPR_37_7_8_9 Combination of support from a financial instrument with other forms of support': https://www.fi-compass.eu/sites/default/files/publications/GN0144%20-%20Article%2037%20%287-9%29%20 CPR%20-%20Combination%20of%20support.pdf.

Technical support consists of technical advisory services for the preparation of the prospective investment by the final recipients (including process optimisation and proof of concept support) as well as financial/legal advice (including business plans drafting, market analyses, and company (re)structuring). This support is targeted at final recipients that should also receive investment from the financial instrument at a later stage.[23] In this way the technical support is used to assist final recipients and build pipeline for the financial instrument. Overall, two types of technical support are proposed:

- An expertise to label the project as a 'CAP TRI project' (i.e. a flash expertise). This expertise is mandatory for every project to be financed by the financial instrument at a later stage.
- A technical support to monitor/follow the project developments up to the financing received by the financial instrument. The fund manager decides on whether to support a project with this second type of technical support taking into account: (i) the quality of the management team, (ii) the compliance of the projects with the TRI, and (iii) the technical and financial maturity of the project.

Both types of technical support must occur prior to being financed by the financial instrument. Due to regulatory constraints, no technical support may occur after investment from the financial instrument. As of November 2016, two technical support assignments have been launched for about EUR 5 000 each. The maximum amount for technical support per final recipient is EUR 100 000. The latter may also co-finance the advisory services received.

To provide technical support, the fund manager selects an advisory service provider each time such service is needed. These advisory service providers are selected via an open and transparent procedure. In that process, the fund manager has to assess proposals from at least three different service providers. The approval of the Consultative Investment Committee of CAP TRI is needed for the provision of technical support to each individual project where this support exceeds a cost of EUR 25 000.

Each project considered as relevant and complete is presented to the Consultative Investment Committee. It is analysed and documented by an independent expert who assesses the energy efficiency and environmental performance of the project, including its impact in quantitative terms. The technical support budget is used to finance these independent expert analyses (being up to 20% of the funding, or EUR 500 000 out of the EUR 2.5 million in total).

Following the opinion of the Consultative Investment Committee and the decision of the Supervisory Board, the fund manager conducts or requires the final recipient to conduct financial and legal audits meant to complete the investment decision. The technical support grants cannot be used to finance such audits.

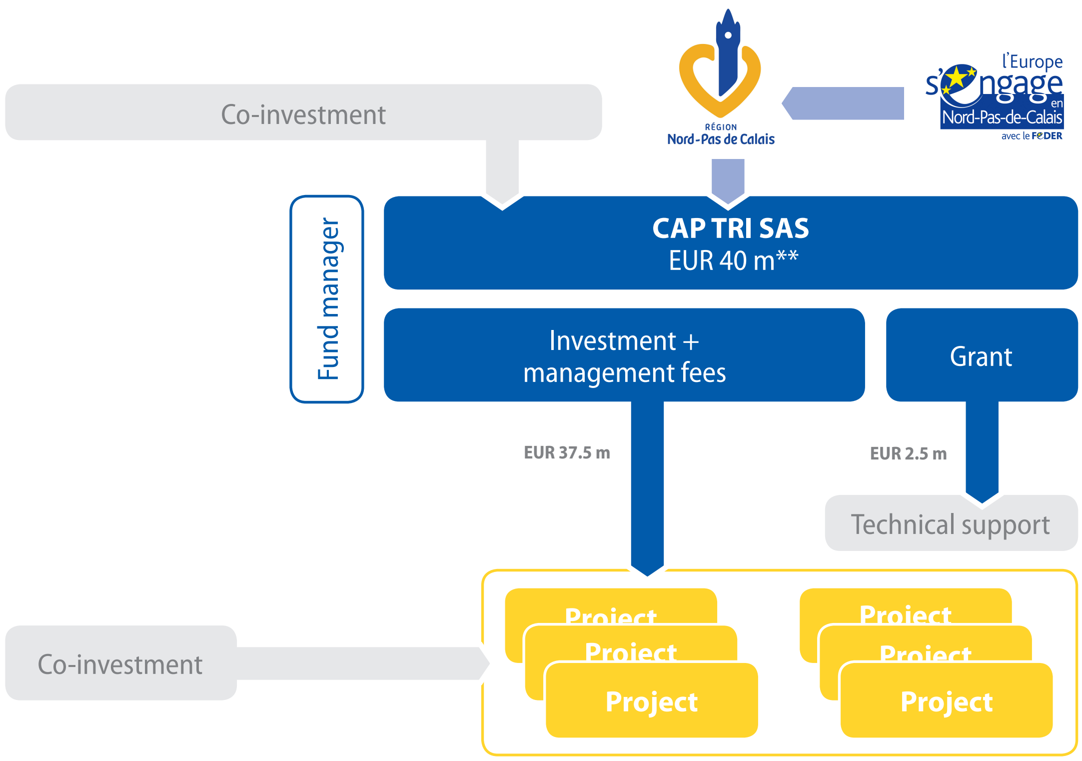
As foreseen in the EU regulations and further specified in associated guidance notes, the grants for technical support are provided to the advisory service providers, and not to the SMEs or mid-caps final recipients directly. The fund manager does not charge management costs or fees for the management of the technical support grants. In case the final recipient receives equity or quasi-equity financing from the financial instrument, it does not have to repay the technical support grant received previously.

23 There is a possibility that the final recipients who receive technical support grants may not be ultimately financed by the CAP TRI Fund. In this situation, the technical support grants provided will not be declared as eligible expenditure.

Technical support is provided in line with de minimis aid rules defined at EU level and the national regulations related to State aid. In that context, the final recipients have to declare to the fund manager all support received under the *de minimis* rules over the current year and the past two fiscal years in order for their application to be assessed. The fund manager annually informs the final recipients of the amount of *de minimis* aid they have received as technical support.

The combination of investment and technical support grants is illustrated in Figure 6 below.

Figure 6: Combination of investment and technical support grants in CAP TRI



Source: Nord-Pas de Calais Region, EIB, 2016.

5 Lessons learned

5.1 Main success factors

The main success factors for the design and set-up of CAP TRI have been:

- a strong political consensus around the creation of the financial instrument;
- a common agreement, willingness and commitment to take risks and conduct a pilot financial instrument;
- the legitimacy of the TRI as a road map strategy for the Region and of CAP TRI as the tool to finance this strategy;
- the EIB support provided to the managing authority for following-up/coordinating the design and set-up of the financial instrument; and
- a robust and transparent fund manager selection process that enabled the efficient development of the investment strategy and the delivery of co-investment at the level of the financial instrument.

5.2 Main challenges

The main challenges encountered have been:

- a new legal environment (especially considering the combination of ESIF and EFSI financing), implying different sets of criteria with which CAP TRI had to comply;
- the technical aspects of setting-up the financial instrument, notably:
  - the design and set-up of a financial instrument aiming at financing a sectoral investment strategy (i.e. low carbon economy);
  - the involvement of diverse sources of financing and actors;
  - the design and set-up of a financial instrument managed by a private sector fund manager that had to be selected *via* an open, competitive and transparent selection procedure; and
  - the involvement of private co-investors.
- the tight timetable: there was one year between the inception in December 2014 and the financial instrument's implementation in December 2015.

5.3 Outlook

This case study provides food for thought on many aspects. Indeed, CAP TRI:

- is the first regional Investment Platform combining ESIF and EFSI funding;
- is a living example of an Investment Platform providing an investment financing alongside technical support grants – a novelty made possible by the CPR; and
- highlights the EIB advisory services provided to managing authorities in parallel with potential co-investment (here with a co-investment/blending via EFSI), namely: (i) coordination and supervision of the ex-ante assessment, (ii) support in fund structuring/design, and (iii) support in fund manager selection.

6 Annex – Timetable of CAP TRI

The table below provides an overview of the timeline of CAP TRI's set-up.

Date	Action taken
June 2014	The Region adopts the TRI road map.
December 2014	The Region signs an advisory contract with EIB for structuring the financial instrument.
January to March 2015	Vision of the Region is translated into a strategic road map and objectives. Terms of Reference for the ex-ante assessment are drafted.
April to June 2015	The ex-ante assessment is performed by an external/independent consultant. In parallel, the proposed governance and management solutions for the financial instrument are further developed.
July 2015	The contract notice for the selection process of the fund manager is launched.
September 2015	Dialogue with potential fund managers is performed. One fund manager is selected by the managing authority after a thorough due diligence process. Potential private investors start due diligences of the fund manager.
November 2015	Private investors and EIB approve their respective investments in the financial instrument.
December 2015	Agreements are signed between the Region, the fund manager and the other investors in the financial instrument.
April 2016	First Investment Committee is organised.
November 2016	More than 60 project promoters have been met. 30 projects have been analysed in detail. Two projects will be presented to the Consultative Investment Committee soon and two projects already passed the Consultative Investment Committee in view of being financed by the end of 2016.

Notes

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