



Financial instruments for energy efficiency in the programming period 2014-2020

CAP Troisième Révolution Industrielle
An ESIF/EFSI Investment Platform in
Nord-Pas de Calais (France)

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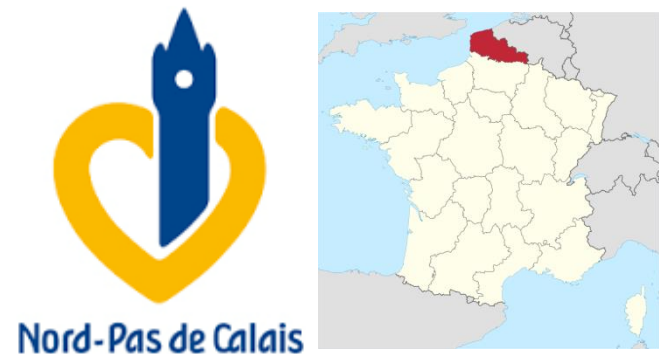
Strategic context

– Background



Introduction of the region (1/2)

- North of France
- Now merged with Picardie to form the Hauts-de-France Region (2015)
- Capital: Lille
- Main cities: Dunkerque, Valenciennes
- Good connections to Paris, Brussels and London



Strategic context

– Background



Introduction of the region (2/2)

- Over 4 million inhabitants: 4th most populated French region
- GDP per inhabitant: EUR 25,700; 17th out of the 27 regions (2014)
- 14% unemployment, compared to 10% at national level (2014)
- Transition Region under Cohesion Policy criteria
- Managing Authority for ERDF, EAFRD, partly ESF (shared with State) and partly implementing body for EMFF (State is the MA)



Strategic context

– Specificity of TO 4



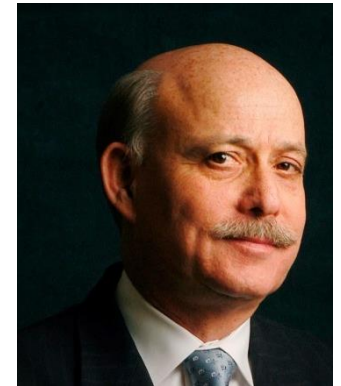
TO 4 in Nord-Pas de Calais and the FI

- TO 4 is the TO with the highest amount in the ERDF-ESF OP (“the OP”): EUR 225m, among EUR 674m for ERDF (33%)
- TO 4 covers topics like research, production, energy efficiency, urban development (incl. social and territorial cohesion) as well as mobility.
- TO 4 is important in Nord-Pas de Calais because greenhouse gas emissions per inhabitant are 30% higher than the national average and the share of renewable energy in energy consumption is 4 times lower than the national average.
- The FI mobilises 6% of TO 4 (*i.e.* 2% of ERDF): EUR 12.5m



Strategic context

– *Specificity of the FI*



CAP TRI intervention logic

- CAP TRI: the first new financial instrument (“FI”) in the region for the 2014-2020 programming period
- A regional ambition: to develop a new economic model by 2050, with an efficient and sustainable use of resources, and support to job creation
- 2013: drafting of the “third industrial revolution” (“TRI”) road map by the MA and the Chamber of Commerce with the support from Jeremy Rifkin
- Main objective: -60% energy consumption, 100% energy from renewables, 4 times less CO₂ emissions
- Other objectives: job creation, economic development, reduction of fuel poverty,
- Other support: EUR 2.5m of ERDF are technical support grants also managed by the fund manager to help develop a pipeline of project

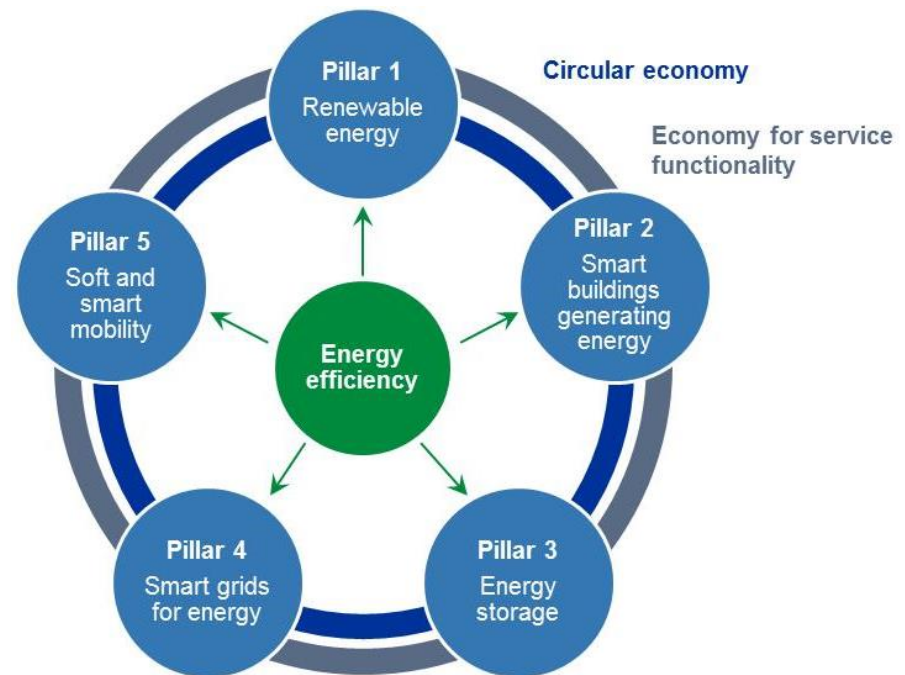


Strategic context

– Specificity of the FI

Overview of the TRI

- Priorities: energy efficiency, renewable energy, circular economy, smart grid and soft mobility
- Stakeholders: MA (the Region), Chamber of Commerce, fund manager, EIB, consultants (for the *ex-ante* assessment)



Strategic context

– *Past and envisaged future*



Experience and lessons learned 2007-2013 (1/2)

- FIs for economic development and support to enterprises:
 - A seed fund: with EUR 10m from the Region, having supported 31 projects
 - A guarantee fund: EUR 5.4 m, enabling 1,736 job creations
 - A repayable aid fund (*“fonds d’avance remboursable doté”*): with EUR 5.7m, having supported 8 innovative projects



Strategic context

– *Past and envisaged future*



Experience and lessons learned 2007-2013 (2/2)

- The “JEREMIE” initiative was analysed but not established due to non-available funding
- 3 main themes over 2007-2013:
 - Urban development
 - Energy efficiency
 - Brownfields
- Experiment without EU funds: the FORIC, a regional debt fund with EUR 2.5m from the Region, for 10 projects supported



Strategic context

– *Past and envisaged future*



FIs in 2014-2020

- Intention to develop FIs in 2014-2020 as a continuation of 2007-2013; especially to finance the TRI road map
- The OP envisages FIs for:
 - TO 3: EUR 57m
 - TO 4: EUR 47.9m



Ex-ante assessment

– Approach



Overview

- An initial study was conducted by the MA and the Chamber of Commerce, and supported by Jeremy Rifkin, regarding TRI in the region, defining the **TRI road map**
- This study showed an existing demand for (equity) financing of EUR 257m. Over 2016-2018, this demand would be of EUR 951m
- Beginning of 2015, the MA launched a call for tender to select a consultant for the *ex-ante* assessment
- The MA selected a consultant with innovation and FI knowledge
- Focus: specifically on TRI, using TO 4 funding for SMEs, mid-caps and projects (Special Purposes Vehicles, “SPVs”)
- Timetable: April to June 2015, with finalisation in September 2015



Ex-ante assessment

– *The study*



Market assessment (1/3) – Market failure, suboptimal investment

- Methodology:
 - A survey conducted by the MA and the Chamber of Commerce addressed 3,170 companies and received 116 answers.
 - Interviews with start-ups and established companies.
- Market failures identified for:
 - Equity (seed, private equity): with a demand of EUR 380m up to 2050
 - Debt (including mezzanine debt) : with a demand of EUR 60m up to 2050
- Need for technical support also identified (Business Plan drafting)

Ex-ante assessment

– The study



Market assessment (2/3) – Value added

- Qualitative value added estimated:
 - Propose a full range of FIs that cover needs at different development stages
 - Use of existing regional tools to optimise ERDF contribution
 - Use of professional private sector financial intermediaries with TRI and ERDF management knowledge
- Consistency with other forms of public intervention:
 - Consistency with the national Ecotechnologies Fund, that has EUR 150m and co-invest in equity and quasi-equity between EUR 1m and EUR 10m *pari passu* with other investors
 - Relaunch of a regional fund (FORIC) that had EUR 2.5m, closed its investment period in 2015, provided debt financing and was managed by FINORPA



Ex-ante assessment

– *The study*



Market assessment (3/3) – Additional public and private resources

- Potential use of EFSI mentioned in the *ex-ante* assessment
- Need to attract private actors mentioned, especially to create leverage
- Estimated leverage effect in the *ex-ante*: between x4 and x10 depending on the FI (x4 for equity/quasi-equity and up to x10 for a guarantee instrument)

Ex-ante assessment

– *The study*



Delivery and management (1/3) – Proposed investment strategy (implementation options)

- Pillar 1: A fund focusing on TRI and providing equity / quasi-equity for large projects (*future CAP TRI Fund*)
- Pillar 2: A fund providing equity / quasi-equity for smaller projects
- Pillar 3: The creation of TRI sub-funds within existing funds (for guarantee and seed financing)
- Technical Assistance: needed for all 3 pillars to support companies and projects



Ex-ante assessment

– *The study*



Delivery and management (2/3) – Focus on Pillar 1 (the future CAP TRI Fund)

- Equity and quasi-equity for SMEs, mid-caps and SPVs
- To finance industrial projects from EUR 1m to EUR 5m
- Potential:
 - Invest EUR 15m / year for large projects
 - An initial capacity of EUR 50m, increased to EUR 120m later on
 - Invest in 3 to 5 companies or projects per year
- TA for 5-10% of the invested funds *via* technical support grants

Ex-ante assessment

– *The study*



Delivery and management (3/3) – Focus on Pillar 1 (the future CAP TRI Fund)

- Estimated leverage effect: x4
 - EUR 1 of ERDF/national co-financing would leverage EUR 1 from the financial intermediary and EUR 2 in debt
- Financial and outputs indicators mentioned (amounts spent, number of projects supported, etc.)
- Indicators aligned with the TRI road map and the OP (especially TO 4: low carbon projects, circular economy, etc.)
- State aid implications of the proposed FI analysed in a further study with the support of a law firm



Ex-ante assessment

– Recommendations and lessons learnt



Main lessons learnt

- Interest to align the *ex-ante* assessment with an existing general strategy
- The choice of the consultant is important (for appropriate expertise)
- Need for a strong partnership with the regional eco-system
- Interest to perform the *ex-ante* assessment in 2 phases

Learning by doing

Design and set-up

– *Implementation structure*



Implementation options (*recap*)

1. Creation of a new FI with a new fund manager
2. Continuation of an existing regional FI aligned with the TRI road map and the OP
3. Creation of sub-funds within existing FIs

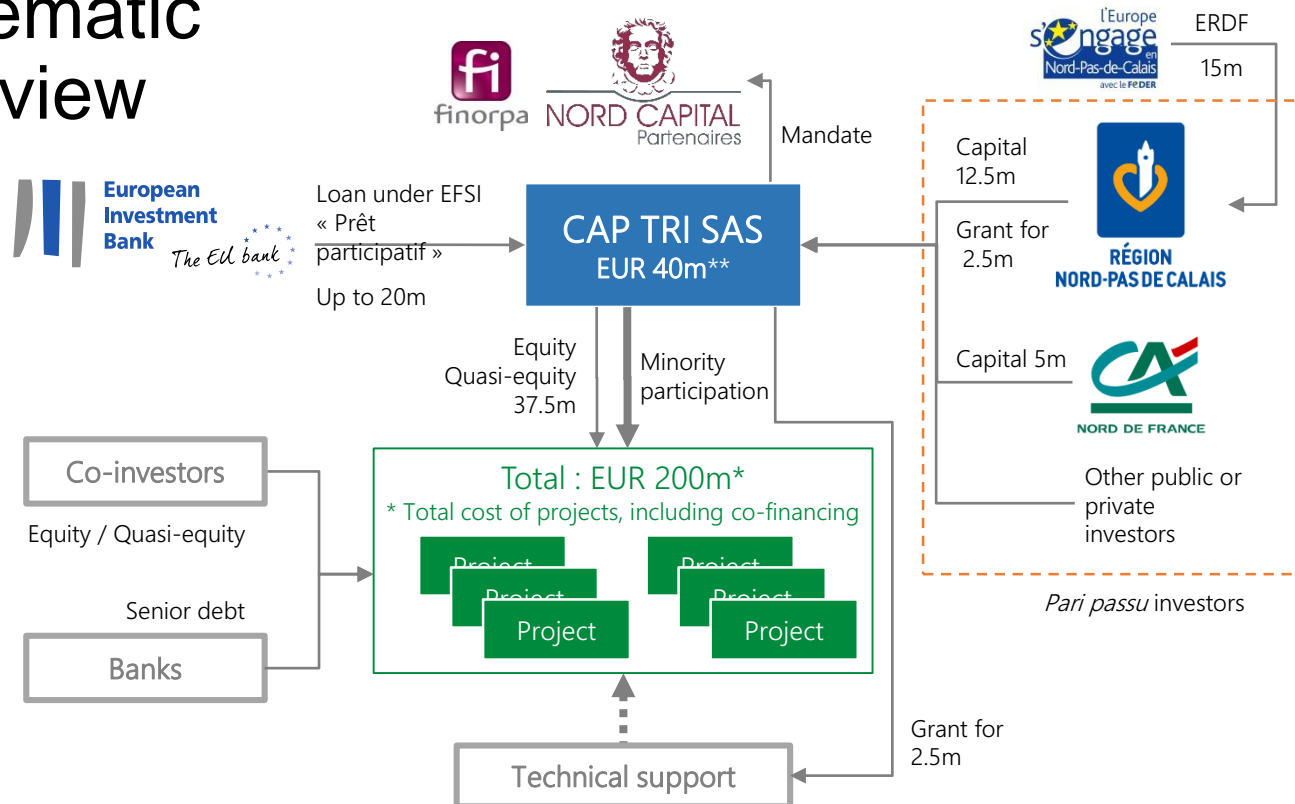
Option 1 was favoured because:

- It was showing a clear political priority
- It enabled the fastest implementation
- Option 2 was not completely disregarded and chosen by the MA for another FI
- Option 3 was considered too complicated

Design and set-up

– Implementation structure

Schematic overview



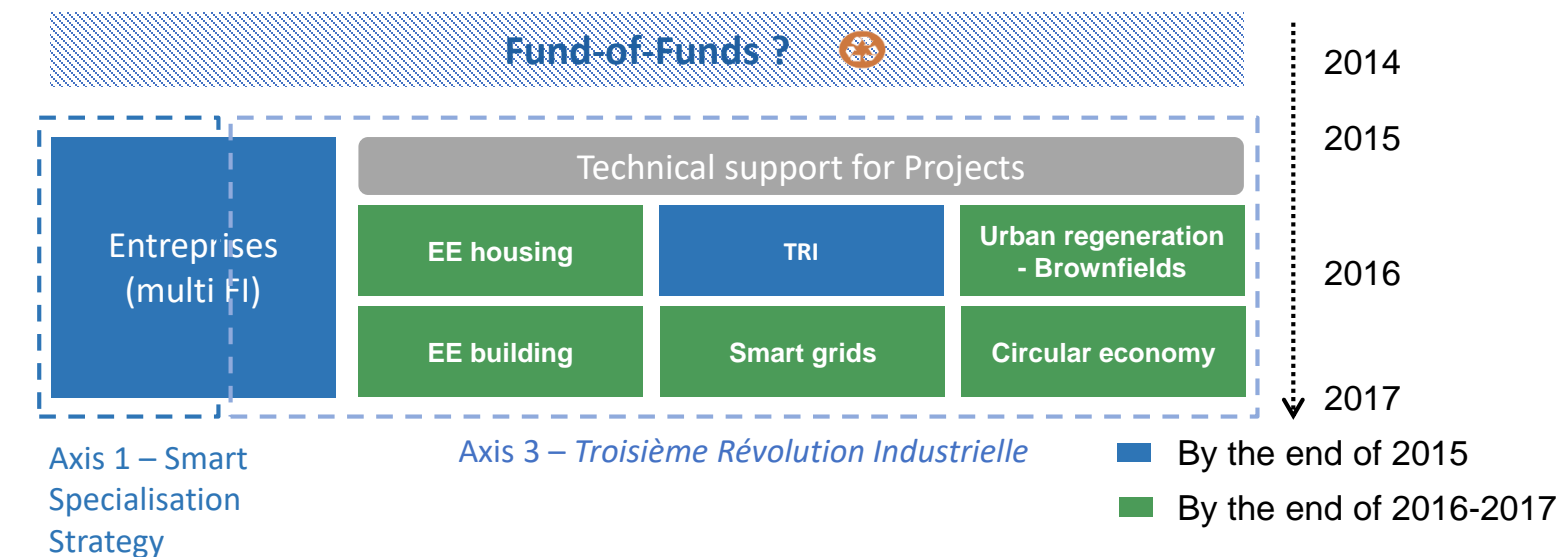
** The objective is to reach a total of EUR 100m thanks to new public and/or private investors

Design and set-up

– Implementation structure

Why not a Fund of Funds structure?

- A FoF was first envisaged with several FIs but since the TRI was top priority, a specific FI was implemented, with no FoF



Design and set-up

– Main objectives of the FI



Growth

Increase development and competitiveness of companies, by growing their capital (equity)

Long-term

Be a long-term shareholder and take part in the decision-making of companies and projects

Local

Close relationship between the team (based in the Region) and the companies' directors

Investments

CAP TRI is expected to generate a portfolio of investments of **EUR 200m** in total at project level, thus 16 times the contribution from the ERDF Operational Programme



Design and set-up

– *Investment Priorities*



Renewable energy

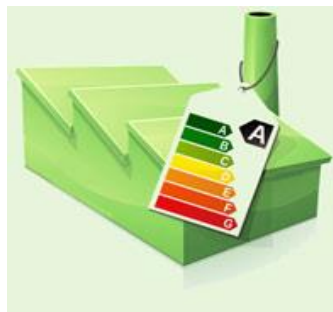
Energy management

Smart mobility

Energy efficiency

Circular economy

Sharing economy

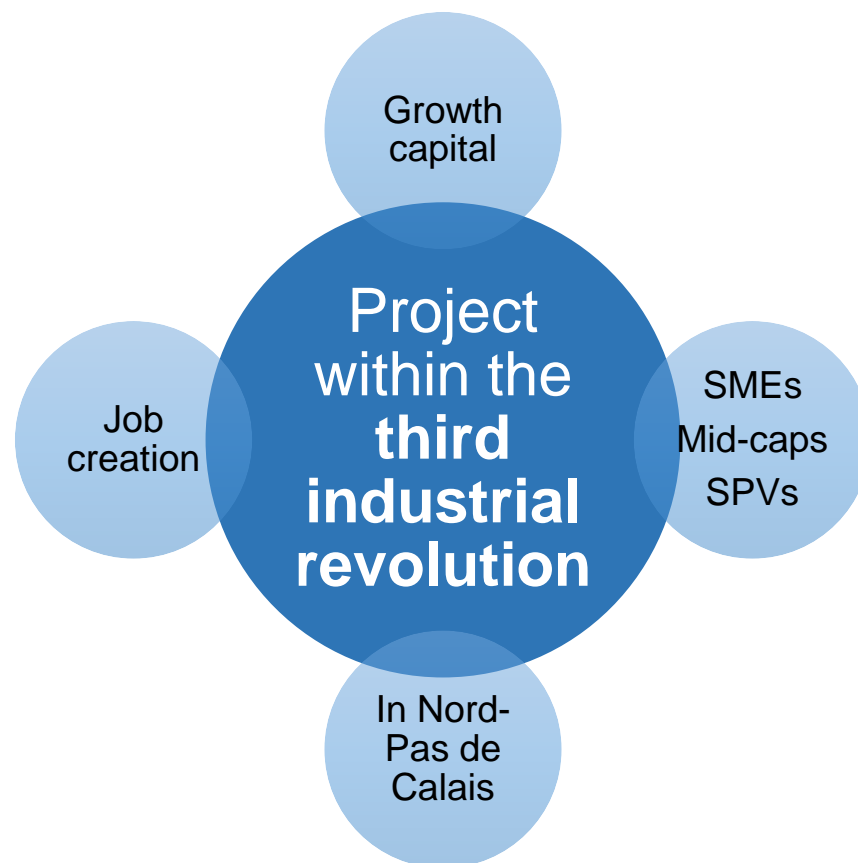


 #ficompass



Design and set-up

– *Investment criteria*



Design and set-up

– Main characteristics of the FI



Maturity

Growth capital

Positioning

Minority interest

Horizon

5 to 9 years

Investment size

Above
EUR 1.0m*

Type of funding

Ordinary shares
Preference shares
Convertible bonds

Technical Support

EUR 2.5m

* Up to EUR 10m through co-investment



Design and set-up

– *Technical support grants*



Technical support mechanism (1/3)

- Follows the conclusions of the *ex-ante* assessment (with EUR 2.5m from ERDF)
- Channelled by the fund manager *via* the FI under one single operation with separate accounts
- Addressed to final recipients which will receive financing from the FI later on (hence help final recipients as well as pipeline development)
- Two types of advisory services (no technical support after investment from the FI):

Expertise to **label** the project as “TRI”
(**flash expertise**)

Technical support to **monitor/follow**
project developments until financing

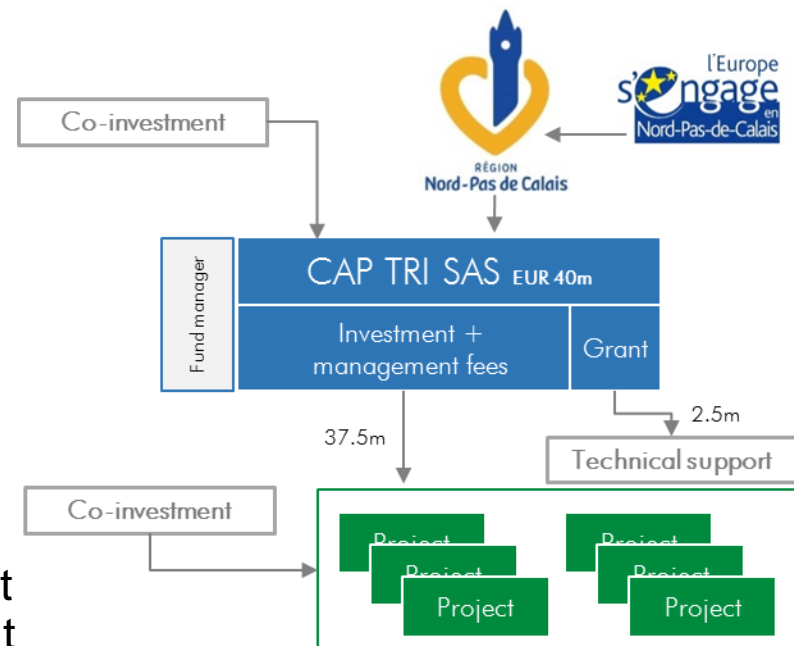


Design and set-up

– *Technical support grants*

Technical support mechanism (2/3)

- Maximum amount per final recipient is EUR 100,000 (final recipient may co-finance)
- Fund manager selects an advisory service provider each time (open and transparent procedure) and assesses at least 3 proposals
- As of September 2016, 2 technical support assignments have been launched for about EUR 5,000 each
- Technical support in the form of a grant **paid directly to service providers but for the benefit of the final recipients**



Design and set-up

– *Technical support grants*



Technical support mechanism (3/3)

- The technical support budget also finances “**independent expert assessment**”, compulsory for each project prior to its presentation to the Consultative Investment Committee. These are energy efficiency and environmental performance assessments; in quantitative and qualitative terms
- After Consultative Investment Committee and Supervisory Board decisions, final recipients have to conduct **financial and legal audits** (technical support grants cannot be used here)
- Fund manager does not charge **management costs/fees** for grants management
- If the final recipient receives financing from the FI, **it does not have to repay the technical support grant**
- These technical support grants fall in the ***de minimis*** limits



Design and set-up

– Selection of body implementing the FI (F. Int.)



Overview – State aid (1/3)

- CAP TRI was developed on a State aid compliant basis
- At the **level of the shareholders** / investors:
 - Invest by way of equity on a ***pari passu*** basis (as “*investisseurs avisés*”), no preferential treatment, upward remuneration or downside protection from the ESIF contribution, and investment on market terms and in accordance with the Market Economy Investor Principle;
 - **Private investment** at the FI level is important, and agreed before the MA’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.



Design and set-up

– *Selection of body implementing the FI (F. Int.)*



Overview – State aid (2/3)

- At the level of the **financial intermediary**:
 - Fund manager selected through an **open, competitive and transparent procedure**, including its remuneration structure proposed;
 - **Remuneration (management fees) based on market practice**, with both a base and a performance remuneration component;
 - Alignment of interest thanks to the fund manager's financial participation in the FI *via* its parent bank (Crédit Agricole); and
- The financial intermediary does not charge **management costs/fees** for technical support grants



Design and set-up

– *Selection of body implementing the FI (F. Int.)*



Overview – State aid (3/3)

- At the level of the **final recipients**:
 - Always takes **minority shares** in the final recipients/projects and **intervenes along with private co-investors**;
 - **Invests on market terms, with private sector investment** in each final recipient/project; and
 - Each investment is subject to **full due diligence** with proven economic and financial viability.
- The **technical support grant** is an aid falling in the *de minimis* limits



Design and set-up

– *Selection of body implementing the FI (F. Int.)*



Entity selected (1/4) - Results

- The MA administrated the selection procedure
- The selected Fund Manager is:
Nord Capital Partenaires SAS, in partnership with FINORPA, and the private investor Crédit Agricole Nord de France



Design and set-up

– *Selection of body implementing the FI (F. Int.)*



Entity selected (2/4) – Selection process

- Selection in line with the Common Provisions Regulation (“CPR”), Article 7 of the 480/2014 directive, and the AIFM (Alternative Investment Fund Manager) directive
- Open and transparent procedure to select the fund manager between July and November 2015
- Contract notice published in the Official Journal of the EU
- Two offers of good quality received, final selection by the MA

Design and set-up

– *Selection of body implementing the FI (F. Int.)*



Entity selected (3/4) – Selection requirements

Experienced and established **team** (with regional knowledge)

Investment strategy with clear understanding of the TRI

Co-investment at FI level of EUR 5m, and strategy to co-invest at project level

Business plan with reasonable financial return (as per the risk)

Understanding of **technical support** needs and method for delivery

Clear **procedures**: management, monitoring, reporting, conflict of interest, quality control

Performance-based and competitive **remuneration structure**



Design and set-up

– *Selection of body implementing the FI (F. Int.)*



Entity selected (4/4) – Finalisation

- A legal advisor and the EIB helped the MA finalising:
 - The legal structure of the FI;
 - The FI's investment strategy and its business plan;
 - The due diligence of the fund manager.
- Lessons learnt:
 - Need for alignment between different and sometimes complex regulations



Design and set-up

– *Funding agreement MA-F. Int.*



Investment strategy and business plan (1/2)

- Investment strategy in line with the TRI road map, the OP (TO 4) and the *ex-ante* assessment
- Several objectives related to:
 - Low carbon economy
 - Financing support to SMEs and mid-caps to help them modernise their equipment and machinery, improve their energy efficiency as well as develop renewables energy projects
- In line with the Principles for Responsible Investment established by global investors and supported by the United Nations



Design and set-up

– *Funding agreement MA-F. Int.*



Investment strategy and business plan (2/2)

- Key features:
 - EUR 37.5m for investment with an objective to reach EUR 100m in the FI
 - EUR 2.5m for technical support
 - Provides equity and quasi-equity financing
 - Finances SMEs, mid-caps and SPVs
 - Expects to generate a portfolio of investments of EUR 200m in total at project level, thus 16 times the contribution from the ERDF OP (EUR 12.5m)
 - 7% Internal Rate of Return expected after fees and over the next 15 years
 - First investment period: 7 years (2016-2022)
 - Returns to the FI from 2023 onwards (divestments are reinvested into the FI)
 - Life-time of the FI: open end, with possible exit after 15 years

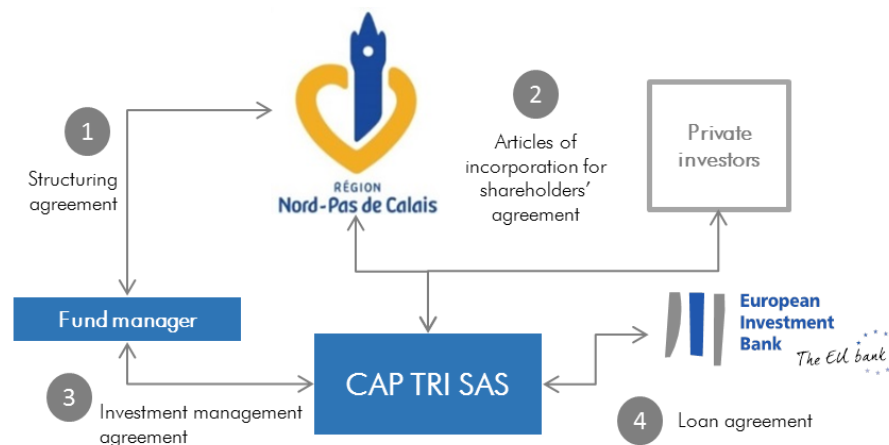


Design and set-up

– Funding agreement MA-F. Int.

Governance and management

- Legal structure compliant with national regulations and CPR
- Incorporation of a new commercial company (“CAP TRI”) by the fund manager
- Signature of an investment management agreement between the fund manager and CAP TRI
- Other agreements with private investors



Implementation (overall)

- MA-F. Int.



Challenges, recommendations, lessons learnt

- The process to set-up a FI remains complex, especially when combining multiple tools (such as ESIF and EFSI)
- In addition to political will, financial and regulatory aspects are essential and therefore require professional support
- Knowledge and skills of the fund manager are crucial. Its selection and following involvement in setting up the FI are key success factors

Implementation

– Overall lessons learnt



Overview from the MA's viewpoint

Key success factors

Strong **political consensus** around the creation of the FI

Common agreement, willingness and commitment to **take risks** and conduct a pilot FI

Legitimacy of the **TRI road map** for the region

Support from the EIB and a law firm

Robust and transparent **fund manager selection process**

Main challenges

New legal environment (incl. ESIF/EFSI combination)

Technical aspects, including: design and set-up of the FI, involvement of diverse financing sources, EISF/EFSI combination, fund manager selection, involvement of private co-investors

Tight timetable: 1 year between the inception in December 2014 and the FI's implementation in December 2015





financial instruments
added value **ERDF** funding agreement
governance revolving **ESF** capacity building
EU guidance
technical support seminars leverage
co-financing financial intermediaries microfinance
ex-ante assessment
investments **ESIF** fi-compass case studies
final recipients
business plan **Thank you** thematic objectives
advisory services guarantees banks loans **EaSI** equity
private investors life cycle combination of support
conferences factsheets
EAFRD fund of funds **EMFF** investment strategy
managing authorities manuals **CF**