



Combining ESIF and EFSI programmes, including case studies

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What is EFSI?

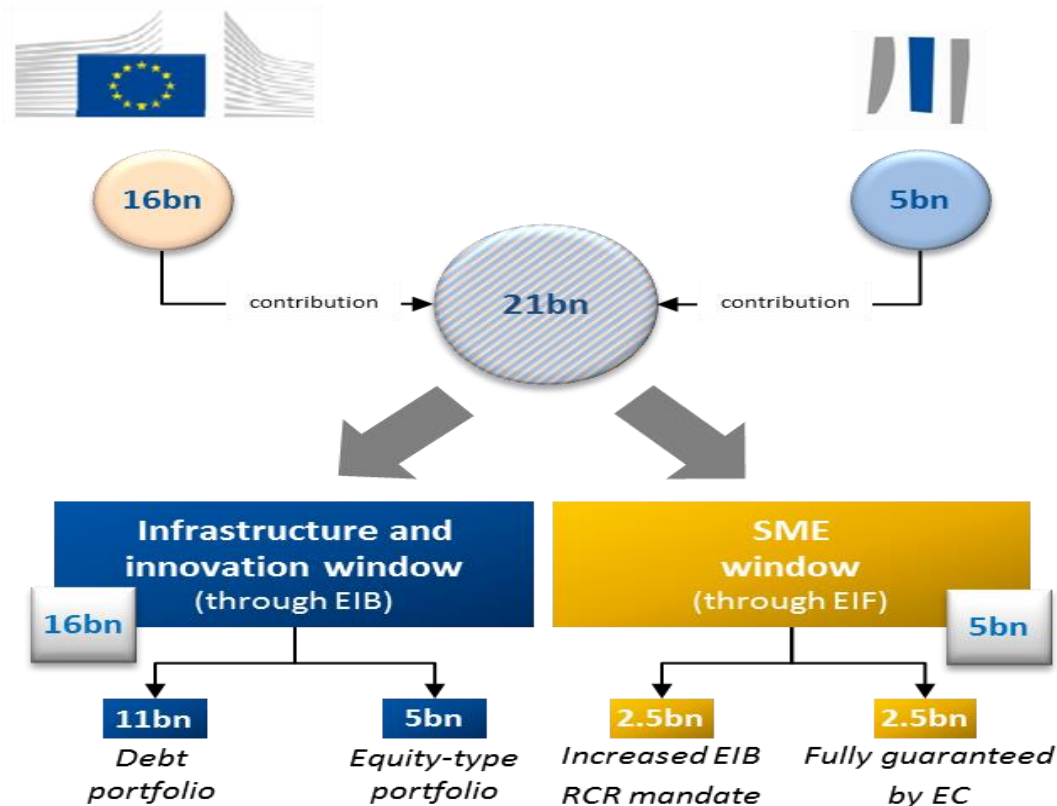


EFSI is an EU initiative launched jointly by the European Commission and the EIB Group and forms an integral part of the Investment Plan for Europe

- Aims to assist in overcoming the current investment gap in the EU by mobilising private financing for strategic investments and SMEs
- EFSI takes the form of a contractual arrangement between the Commission and the EIB, consisting of a EU guarantee of EUR 16bn and an EIB capital contribution of EUR 5bn
- EFSI is aiming to mobilise 315bn for investments in Europe
- EFSI has its own governance structure
- Standard EIB due diligence procedures apply



What is EFSI?



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Opportunities exist to combine support from

EFSI with ESIF in financial instruments



European Structural & Investment Funds (ESIF)

- EUR 454bn to be invested for 2014-2020
- 500 ESIF programmes around the EU28
- ESI Funds
 - **European Fund for Regional Development (ERDF) and Cohesion Fund (CF)**
 - **European Agricultural Fund for Rural Development (EAFRD)**
 - **European Social Fund (ESF)**
 - **European Maritime & Fisheries Fund (EMFF)**
- ESI Funds can invest using both grants and financial instruments

European Fund for Strategic Investment (EFSI)

- Allocated EUR 16bn EU guarantee + EUR 5bn from EIB funds
- EUR 315bn to be mobilised in 3 years
- Debt, equity and guarantees
- No geographical allocations
- Focus amongst others on:
 - Transport, energy and the digital economy
 - Environment and resource efficiency
 - Human capital, culture and health
 - Research, development and innovation
 - Support to SMEs and mid-caps



Why combine EFSI and ESIF?



- EFSI and ESIF support mutual objectives
- Limited ESIF resources in more developed regions, can be augmented with EFSI and attract private investors (usually at project level). Also no need for national co-financing.
- Can collectively be deployed to tackle investment gaps at regional and/or national level, creating delivery synergies and efficiencies.
- Assisting in the deployment of EFSI in less developed regions, using ESIF to lower the risk profile of projects and/or facilitate more affordable funding, especially for longer term payback projects (e.g. energy efficiency).
- Mobilise large volumes of development finance for growth and jobs – generating critical mass and creating greater impact.
- Can be deployed to address different risks and support different parts of the capital structure of a project or layered investment platform to provide efficient financing solutions.



Useful points to consider when combining EFSI with ESIF



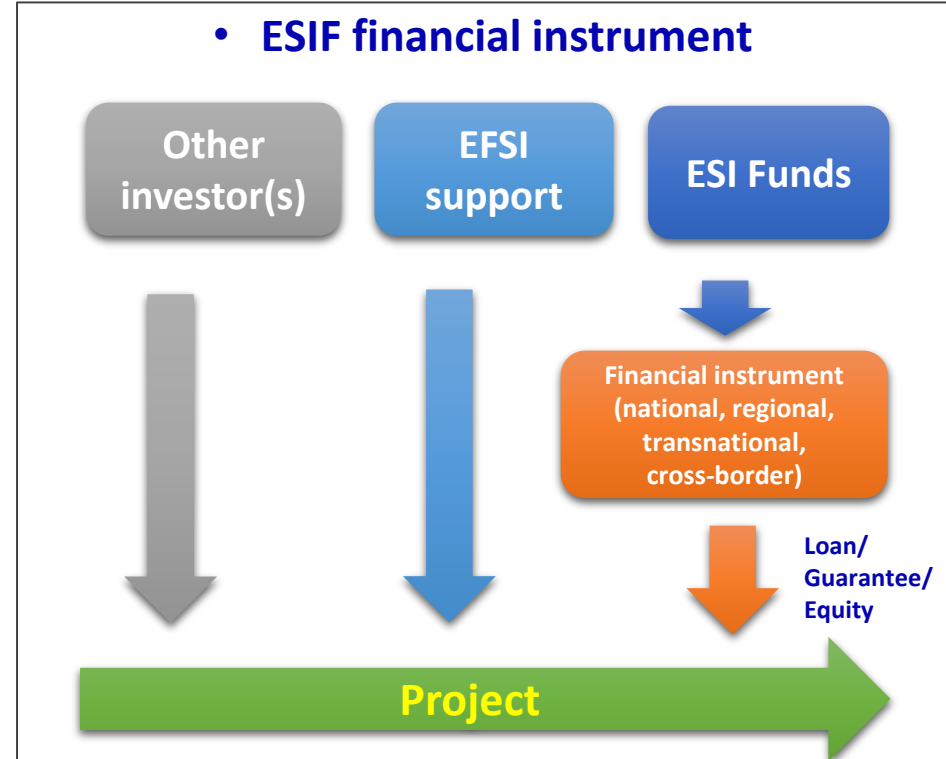
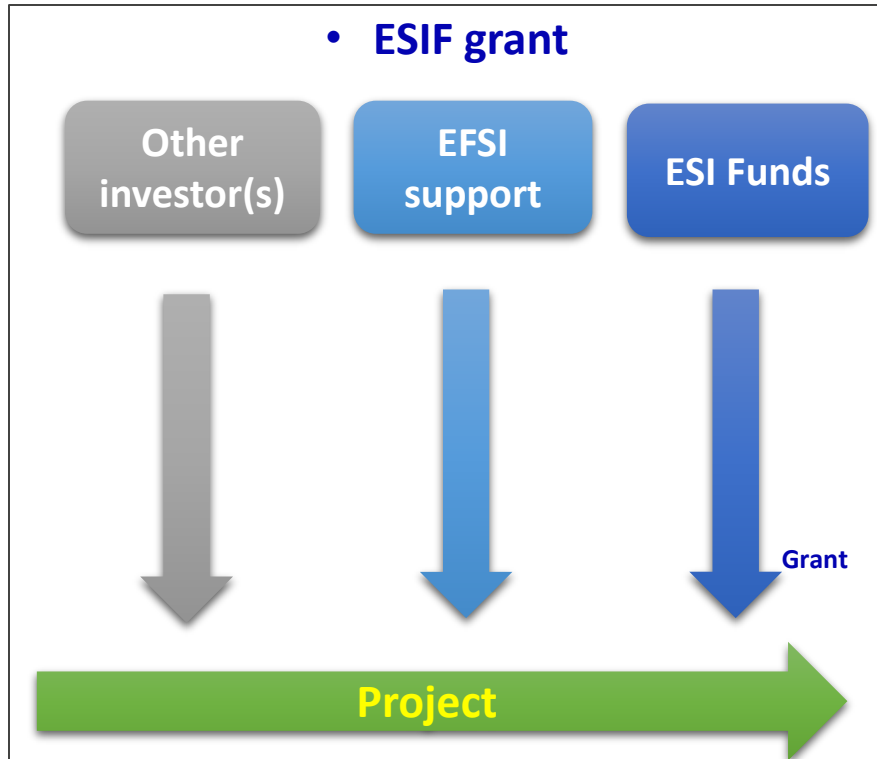
- Respective eligibility criteria must be adhered to and there must be no double financing of the same expenditure items
- Separate records have to be maintained between the support from an ESIF programme and from EFSI
- State aid rules will apply to the ESIF contribution but State aid considerations do not apply to the EFSI backed EIB intervention
- EFSI support to a project cannot count as **national** co-financing for ESIF
- Combining EFSI with ESIF is possible:
 - ✓ at project level
 - ✓ for individual financial instruments
 - ✓ through investment platforms



Project and financial instrument level combinations



An eligible project could receive funding from ESIF (grant or financial instrument) and from EFSI and possibly also from other investors attracted by ESIF and EFSI



Investment platforms



- ESIF and EFSI may be combined in either new or existing investment platforms
- An investment platform involves channeling financing to a number of projects with a specific geographic or sector focus
- Investment platforms can comprise a wide range of products - which makes them an attractive tool to respond to market needs
- Thematic platforms are possible with either:
 - Mono-sector focus, e.g. 'energy efficiency' or 'renewable energy generation' or 'broadband' or
 - Multi-sector focus, e.g. 'social infrastructure investment and energy efficiency'
- Platforms can be managed by a variety of sponsors including national promotional banks (NPBs), government agencies, EU bodies; commercial banks and other lending institutions; investment funds and/or companies



Investment Platform

– Definition



“means a special purpose vehicle, managed account, contract-based co-financing or risk-sharing arrangement or arrangement established by any other means by which entities channel a financial contribution in order to finance a number of investment projects.

Investment platforms may include:

- (i) National or sub-national platforms that group together several investment projects on the territory of a given Member State;
- (ii) Multi-country or regional platforms that group together partners from several Member States or third countries interested in projects in a given geographic area; or
- (iii) Thematic platforms that group together investment projects in a given sector.”

Article 2, EFSI Regulation N°2015/1017



ESIF/EFSI combination – Rationale



- ESIF and EFSI may be combined in new or existing investment platforms
- Limited ESIF resources in more developed regions, can be augmented with EFSI to pilot FIs and attract private investors (usually at project level) by offering them with improved risk / return profiles to their contributions.
- Assisting in the deployment of EFSI in less developed regions, using ESIF to lower the risk profile of projects and/or facilitate more affordable funding, especially for longer term payback projects (e.g. energy efficiency).
- Using ESIF as grants, as well as FIs to help with project identification, preparation and affordability constraints.



Investment platforms and financial instruments



The ESIF/EFSI Complementarities Brochure notes the following possible combinations:

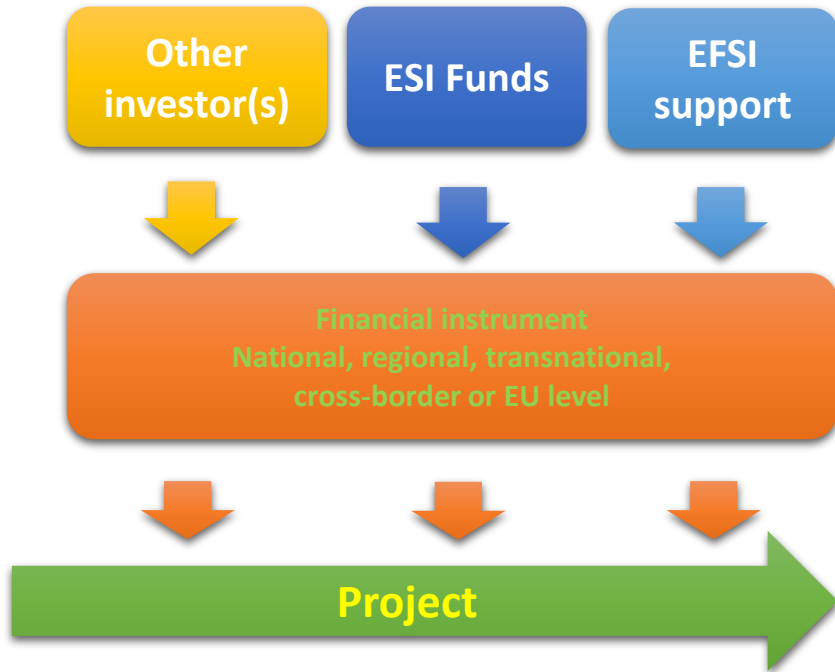
1. MA could set up a new investment platform in which EFSI and other investors would invest their resources including in the form of a layered fund. The EFSI (and co-financing) element of the investment platform would be considered to be a financial instrument
2. MA could make an ESI Funds programme contribution into an existing investment platform set up with EFSI resources (and other private sector investment) at national, regional, transnational or cross-border level. The EFSI (and co-financing) element of the investment platform would be considered to be a financial instrument
3. MA could set up a financial instrument (with or without a Fund of Funds) in which the investment platform set up with EFSI support could participate as an investor (at the level of FoF or F. Int.)
4. MA could set up a financial instrument with ESI Funds programme contributions. The investment platform set up with EFSI support would intervene directly at project level on a deal by deal basis



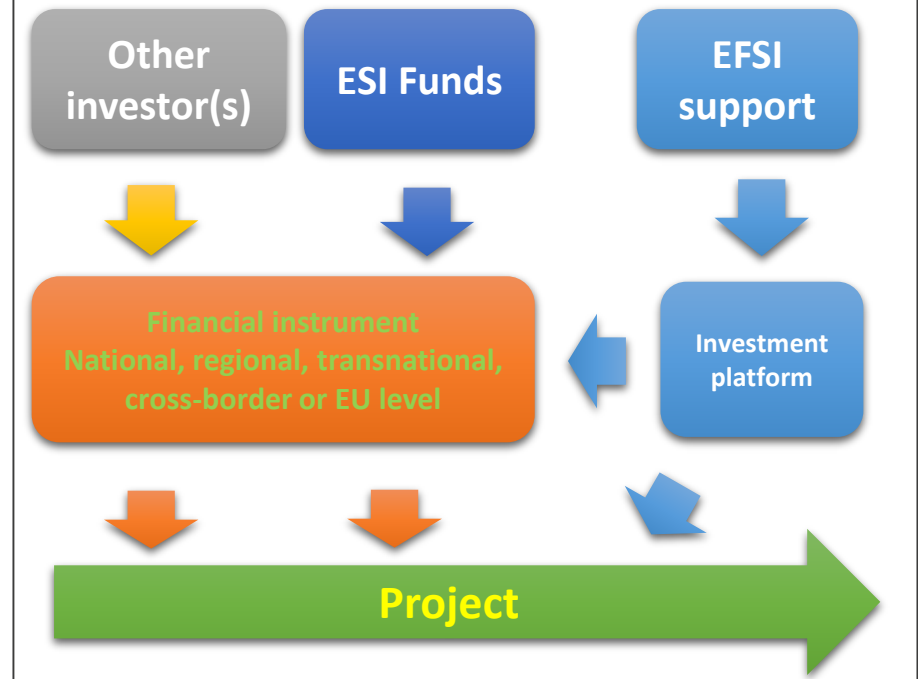
Investment platform options



• External investment platform



• Integrated investment platform

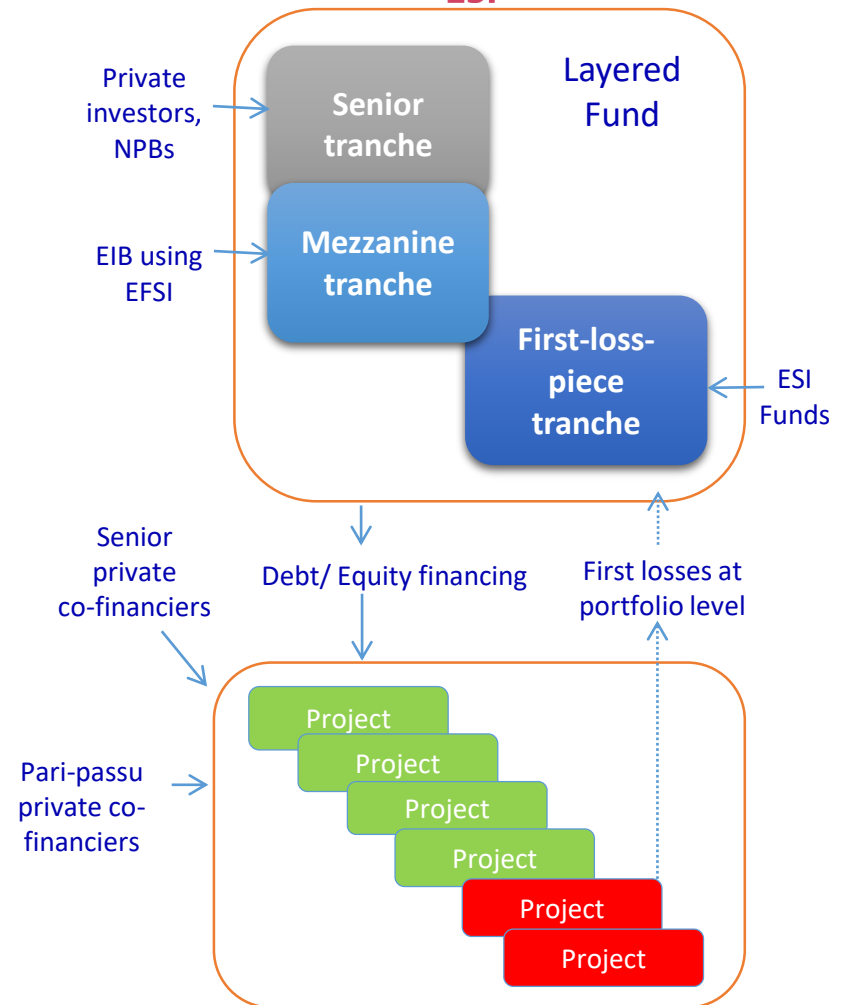


'Layered Fund' opportunities

Typically structured in 3 segregated classes of risk ('like' risk 'like' return)

1. **Senior debt tranche** (low risk) - private and institutional investors and NPBs
2. **Mezzanine tranche** - financed by EIB (using EFSI if additional according to EFSI Regulation, e.g. if falling under 'special activities' classification of the EIB). Open to NPBs and private investors
3. **First-loss-piece / Equity tranche** (high risk-taking): financed by ESI Funds or other

➤ **Could provide debt and/or equity financing to portfolios of targeted projects**



Investment platforms and financial instruments



Of which
EUR 15.1bn
signed

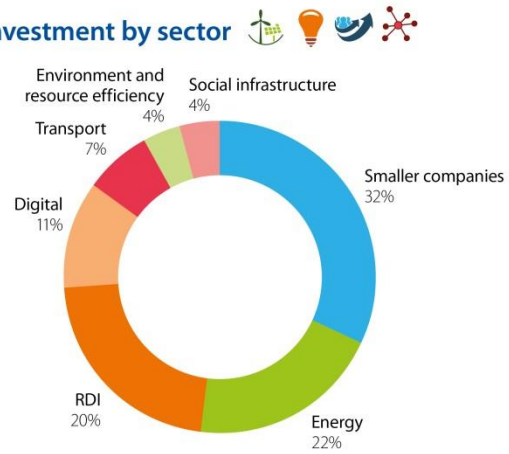
EIB Group figures

As of 15/11/2016



EUR 27.5bn
* EIB-approved: EUR 19.8 bn
EIF-approved: EUR 7.7 bn

EFSI investment by sector



385 approved transactions in 27 of 28 EU countries



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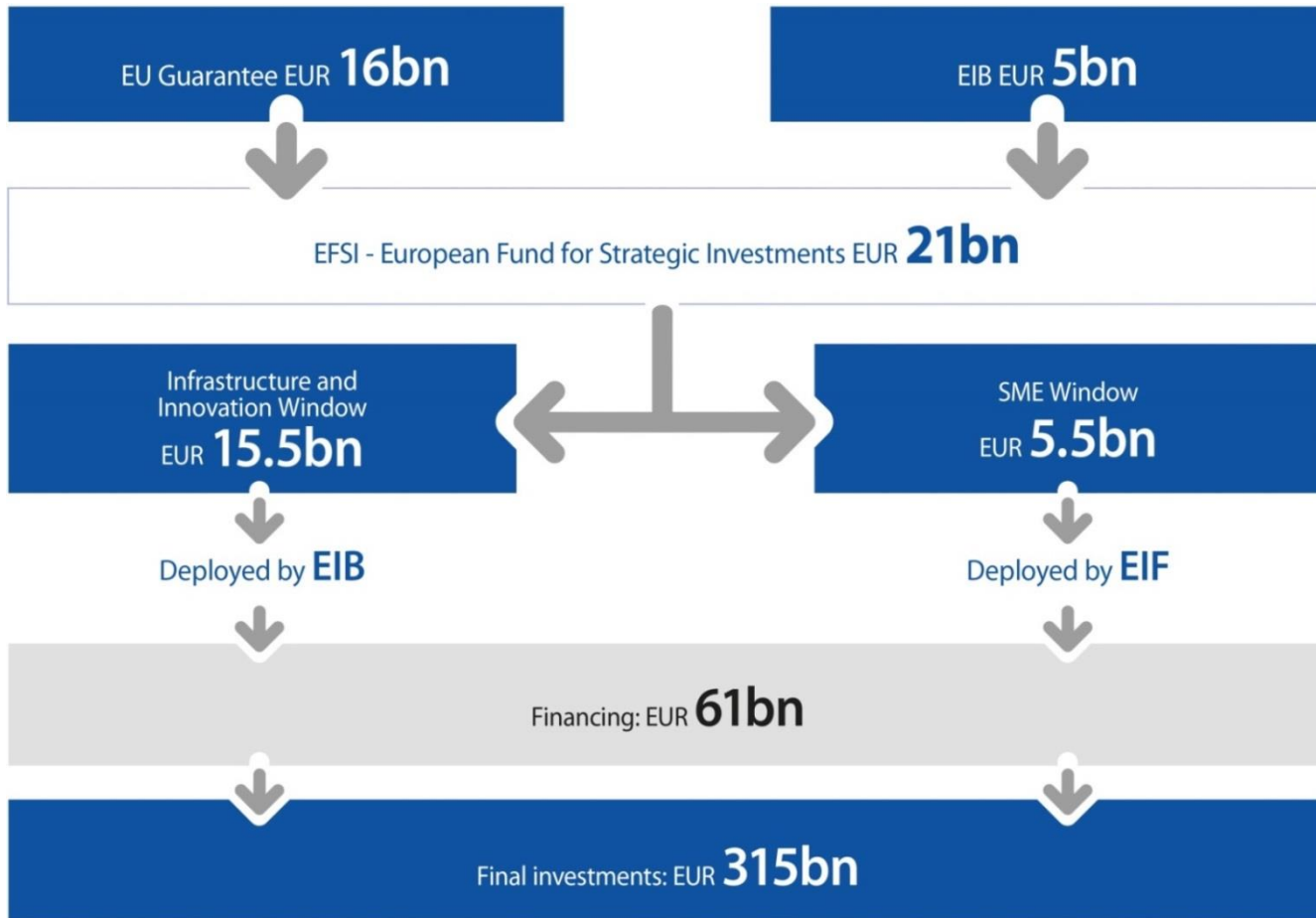
**EstFund –
ESI Fund and EFSI combination
in Estonia**



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European Fund for Strategic Investments (EFSI)



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EFSI SME Window

ESIF Co-investment Window (RCR)



- Special EUR 200m window enabling EIF co-investments with ESIF resources via risk capital fund-of-fund structures.

“ESIF Co-Investment Window”

means a dedicated window under the RCR Mandate aimed at financing ESIF Investment Structures, as further detailed in Section 12 of the Strategic and Operational Guidelines

“ESIF Investment Structures”

means an Investment Structure where there are at least the following two investing parties: (i) the EIF, investing ESIF resources on behalf of the relevant managing authority of a Member State, and (ii) the EIF, investing RCR under this Mandate Agreement, and where the EIF also acts as the manager of such Investment Structure

- Unique blending of ESIF and EFSI resources, leveraging up the impact
- Estonia and Sweden served as a pilot, but further interested countries lining up – Czech Republic, Greece, French region, etc



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What is EstFund?



EUR 48m

EUR 12m

EE with ESIF

EIF with EFSI

FoF Manager

EIF

**EstFund Initiative
(ESIF Investment Structure)**

Min 30-40%
from Private
Investors

Venture Capital
Fund

Expansion
Capital Fund

Business Angel
Co-investment
Fund

At least EUR 95m expected to be invested

SMEs

Estonian
SME Community



Investment
decisions made
by fund
managers



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EstFund process and timeline



- Funding Agreement signed – March 2016
- Investment Board established – April 2016
- Investment Board approval of the call – June 2016
- Launch of call for fund managers Eols – June 2016
- Fund manager Eols arrive – end-August 2016
- Approval of the state aid scheme – September 2016
- Selection process:
 - ✓ Eligibility check – September 2016
 - ✓ 1st screening – October 2016
 - ✓ 2nd screening – November/December 2016
 - ✓ Due diligence – December 2016/January 2017
- Fund managers selected – Q1 2017
- Private fundraising – in parallel, to launch funds by end-2017



Main investment criteria



Team

- Experience (track record) in the targeted or comparable investment area
- Well-balanced team, complementing each other in terms of skills and experience, with a proven ability to work together
- Appropriate participation and market standard incentivizing measures for the whole team

Fund

- Coherent investment strategy with Estonia focus
- Commercially viable fund size to ensure the team's stability and the fund's investment capacity
- Commercial investment approach
- Clear legal and tax structure for the fund, including market standard terms and conditions*

Private fundraising

- The team is capable to attract private investors to the fund

*within applicable rules



Funds under EstFund: Targeting different market segments



➤ **Expansion Capital Fund**

Invest in expansion-stage companies looking to expand to new products or markets, grow in existing market or strengthen export capability

➤ **Venture Capital Fund**

Invest in innovative high-growth early stage companies

➤ **Business Angels Co-investment Fund**

Co-invest with business angels and other non-institutional investors as co-investors into companies from seed to expansion stage



Funds under EstFund: Expansion Capital Fund



- **Investor composition**
 - ✓ Up to 60% of the fund - EUR 15m from EstFund
 - ✓ At least 40% of the fund – to be attracted from private investors and team
- **Investment strategy**
 - ✓ Invest EUR 0.5m-3m in expansion-stage SMEs looking to expand to new products or markets, grow in existing market or strengthen export capability
 - ✓ Investments in EU, with amount at least equal to 110% of EstFund contribution invested in Estonia
- **Preferential private investor treatment**
 - ✓ If justified to enable private fundraising, otherwise equal terms
 - ✓ Net return on ESIF investment capped at 6% p.a. for the benefit of private investors



Funds under EstFund: Venture Capital Fund



- **Investor composition**
 - ✓ Up to 70% of the fund - EUR 30m from EstFund
 - ✓ At least 30% of the fund – to be attracted from private investors and team
- **Investment strategy**
 - ✓ Invest EUR 50k-3m in innovative high-growth early stage SMEs
 - ✓ Investments in EU, with amount at least equal to 100% of EstFund contribution invested in Estonia
- **Preferential private investor treatment**
 - ✓ If justified to enable private fundraising, otherwise equal terms
 - ✓ Net return on ESIF investment capped at 6% p.a. for the benefit of private investors



Funds under EstFund: BA's Co-investment Fund



- **Investor composition**
 - ✓ 100% of the fund - EUR 15m from EstFund and team commitment
 - ✓ At least 50% attracted as co-investments on deal-by-deal level
- **Investment strategy**
 - ✓ Invest EUR 50k-1m with business angels and other non-institutional investors as co-investors into SMEs from seed to expansion stage
 - ✓ Investments only in Estonia
- **Preferential private investor treatment**
 - ✓ Not foreseen



ESIF, EFSI, EstFund: Recap of the main points



- ✓ Estonian EU Structural Fund resources leveraged up with EFSI resources
- ✓ Several clearly identified market gaps - segments with insufficient private activity, fitting into Estonian government strategy to strengthen innovative economy
- ✓ Fund-of-funds model, achieving three goals:
 - Short/medium-term – increase supply of equity capital to enterprises and start-up
 - Long-term – nurture private fund management teams, increasing the level of private market supply of equity capital in future
 - Strategic – leverage in private investors at fund level, multiplying impact
- ✓ EIF co-investment extra comfort to private investors => higher leverage
- ✓ Knowledge transfer to KredEx acting in a supervisory role, whilst EIF has the executive management role





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