European Fund for Strategic Investments (EFSI)

EFSI 2.0 – New Opportunities for Cities & Regions?

Matthieu Bertrand, EFSI Mandate Officer, Mandate Management, Operations Directorate, EIB

Lunchtime briefing, Committee of the Regions, Brussels, 9th July 2018
On track to reach the €315bn initial target in July

**EIB Group figures**  As of 12/06/2018

EFSI investment by sector*

- Smaller companies 28%
- RDI 22%
- Energy 22%
- Digital 11%
- Transport 9%
- Social Infrastructure 4%
- Environment and resource efficiency 4%

**EUR 294.2bn**
Total investment related to EFSI approvals

**EUR 58.9bn**
Approved EFSI financing***

*** EIB-approved: EUR 44.4bn
  EIF-approved: EUR 14.5bn

**Target by 2020 EUR 500bn**

**EFSI investment relative to GDP***
Darker colours signify higher investment

- High speed internet access for 15 million households
- Better health care for 30.6 million people
- Renewable energy for 7.4 million households

*based on approved operations
EFSI impact on EIB activities

LG distribution of New Signatures

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<th>Year</th>
<th>Additional Activity following Capital Increase</th>
<th>EFSI</th>
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<td>2012</td>
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<td>2016</td>
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<td>2017 - Expected</td>
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Increase of share of risk financing

D- and below = "SFF" / Special Activities  Total EIB lending
Impact of EFSI on EIB products

New products
• Link and de-linked risk-sharing products, both funded and unfunded
• Mezzanine investments
• Securitisations
• Quasi-equity products
• More risk appetite with same products

New areas for Equity Funds
• Funds with long term focus
• Smaller Funds focusing on niche markets
• Funds established in cooperation with regional authorities

New forms of cooperation
• Investment Platforms
• Various forms of co-financing arrangements with NPBs
• Cooperation on pipeline monitoring and due diligence
• Partial and Full delegation models for risk-sharing

~80% of EIB counterparts under EFSI are new to EIB
EFSI extension

Reinforced Additionality
- Address market gaps and sub-optimal inv. situations
- SA and cross-MS as strong indication of Additionality

More Transparency
- Rationale for IC approvals and Scoreboard will be made public and accessible
- Publication shall not contain commercially sensitive information

Enhanced coverage
- New EFSI objectives: (i) cohesion and (ii) sustainable agriculture, forestry, aquaculture & fisheries
- More focus on on NPB/IP cooperation and on small projects financing
- Increased role for the EIAH

Reinforced Climate Action
- Soft target of 40% of IIW EFSI financing (excluding SMEs & Small Midcaps)

Governance
- EP to nominate an independent expert as non-voting member of the Steering Board
European Fund for Strategic Investments

EUR 26bn

EUR 7.5bn

EFSI - European Fund for Strategic Investments

EUR 33.5bn

Financing: EUR 100bn

Final investments:

EUR 500bn
Opportunities for local and regional authorities under EFSI 2
Changes creating opportunities for local authorities

<table>
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<th>Focus more on market failures, less on risks</th>
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<td>• Local authorities are typically not high risk for EIB</td>
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<th>More cooperation with NPBIs and through Platforms</th>
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<td>• Dedicated NPB Equity Window</td>
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<th>Increased role for the Advisory services</th>
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<td>• Local presence</td>
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<th>Beyond EFSI – Omnibus Regulation</th>
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<td>• More blending opportunities?</td>
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## Principles of blending ESI Fund grants and EFSI

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<th>Strong push to combine ESIF and EFSI in order to widen geographical outreach of EFSI</th>
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<td>Not always easy to implement – strict rules, fears and limited knowledge</td>
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<td>ESI Funds and EFSI <strong>can be used to finance the same project</strong> (as for EIB non-EFSI loan)</td>
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<td>BUT EFSI is considered EU budget support and therefore <strong>cannot be used as a source of national co-financing of ESI Funds</strong> (contrary to EIB non-EFSI loans)</td>
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<td>In some cases, the consequence is that the <strong>amount of possible maximum loan under EFSI will be smaller than the possible maximum under EIB non-EFSI loan.</strong></td>
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Principles of blending ESI Fund grants and EFSI

- Most obvious and easiest cases for combining ESIF grants and EFSI are **revenue generating projects**
- **But** the **max size of the EFSI loan is smaller** than a non-EFSI EIB loan
  - as a non-EFSI EIB loan could cover the revenue generating part of the project (not ESIF eligible) and the national co-financing
  - An EFSI loan can only cover the revenue generating part of the project

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EUR 400m eligible expenditure for ESIF (“funding gap”)

- 400x85% = €340m from ESI Funds
- 400x15% = €60m of national financing (public or private)

EUR 100m max size EFSI loan

EUR 100m of revenue generating part (CBA or flat rate)

EUR 160m: max size of non-EFSI EIB loan
ESI Funds grants, EFSI… and State Aid

- For projects under state aid regimes, the maximum ESIF grant support can be legally limited, offering space for EFSI.
- However, if that state aid regime requires minimum own contributions from beneficiary, since EFSI is not considered as private investment, **EFSI cannot count as part of the own contribution from the beneficiary**.
- Therefore the **max size of the EFSI loan is smaller** than a non-EFSI EIB loan as it could count as part if the own contribution.

### Maximum State Aid support allowed: 30%

500x30% = €150m from ESI Funds

### 25% of own contribution required

500x25% = €125m from own resources, commercial banks...

### Other financing (not State Aid, not own)

500x45% = €225m max size EFSI loan

Max EIB loan would be limited at 50% of PIC = €250m. Could cover part of own contribution required.
Opportunities under the Omnibus

- New rules for combining ESIF and EFSI in Financial Instruments
- Managing Authorities can invest ESIF in a Fund financed by EFSI
- Simpler rules on ex-ante assessment and fund manager selection
- Possibility of differentiated treatment of ESIF (subordinated position) and EFSI
- More flexible rules for geographical use within a MS
### Example of types of projects involving local authorities

<table>
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<th>Project Type</th>
<th>Countries</th>
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<tr>
<td>Broadband Projects (FR and IT)</td>
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<td>Local urban transport projects (BE, ES, FR, LV, PL)</td>
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<tr>
<td>Rail Rolling-stock for regional services (AT, DE, PL, IT)</td>
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<td>Water infrastructure (RO, IT, FR, PT)</td>
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<td>Social Housing (IT, PL, FR, ES)</td>
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<td>Local Hospitals (IE, PL, NL, IT)</td>
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<td>Renewable Energy projects with local authorities (LT, AT, DE, NL, PL)</td>
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<td>Regional airports (EL, FR)</td>
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<td>Investment Platforms for resource efficiency projects (FR, NL)</td>
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<td>Investment Platforms for support to local SMEs (FR)</td>
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<td>Framework loans to municipalities for urban investments (PT)</td>
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• Financing backs:
  - Energy efficient refurbishment in residential buildings (ca 75% of the buildings are condominiums or social housing apartments)
  - 50 to 75 % reduction of overall energy consumption of the buildings
• Market failure between what commercial banks offer and what individual owners required.
• EFSI allowed the semi-public company Energies POSIT’IF to offer financing directly to the owners.
Combined Heat and Power Plant Kiel
Light and heat with less CO2, Germany

EFSI Financing amount: EUR 100m
EFSI related investment: EUR 194m

Financing backs:
- Construction and operation of a modern and modular gas and heat power plant, that can adapt to market and network volatility
- Electricity for 250,000 homes and heat for 70,500 customers
- Cut of CO2 emissions by 70 % through replacement of old coal power plant
EFSI allows for an exceptionally long loan tenor and financing of ground-breaking technology
Las Palmas Bus Rapid Transit
Spain’s first bus rapid transit system

• Financing backs:
  - construction of Bus Rapid Transit System
  - new 17 hybrid-electrical buses
  - a state-of-the art traffic management and control system
• EFSI supported long-term financing ensures the economic viability of the project

EFSI Financing amount:
EUR 50m

EFSI related investment:
EUR 120m
Energiepark Bruck
Construction and operation of onshore wind-farms, Austria

• Financing backs:
  - Construction and operation of two wind parks with a total capacity of 36 MW
  - EU and national targets for renewable energy generation
• EFSI allows riskier lending to a shareholder, composed of a large group of small private investors and local farmers.
• Higher leverage than previously accepted by the EIB in onshore wind projects.

EFSI Financing amount: EUR 40m
EFSI related investment: EUR 65m
“The Lisbon renewal programme is going to change the way people live in the city: more public space, fewer cars, less pollution, affordable housing for young people and the middle class. Getting the loan was easy and it was quick.”

Fernando Medina, Mayor of Lisbon
“EIB support is very important for Przewozy Regionalne and will help us to improve services for our passengers.”

Krzysztof Mamiński, Przewozy Regionalne
“Hundreds of jobs have been created through almost 30 projects. A very promising prospect, given the fact that many projects are still in the application phase!”

Daan Prevoo, regional minister for Sustainability and Energy in the Province of Limburg

EFSI financing amount:

EUR 30m

EFSI-related investment:

EUR 321m
Région Réunion – Funds of funds
Investment Platform combining EFSI and regional funds in support of local SMEs
Thank you!

Questions?