HOW TO SET UP AN EFSI INVESTMENT PLATFORM

The purpose of this document is to provide a guide to establishing investment platforms for public authorities and other stakeholders.

The Regulation establishing the European Fund for Strategic Investments (EFSI), which is at the heart of the Investment Plan for Europe, the so-called “Juncker Plan”, specifically provides for the use of investment platforms. Investment platforms are public-private co-investment arrangements structured with a view to catalysing investments in a portfolio of projects (as opposed to individual projects) with a thematic or geographic focus. Investment platforms are a means to aggregate financing to support groups of investment projects, to reduce transaction and information costs and to provide for more efficient risk allocation between various investors.

EFSI investment platforms shall have a defined scope, which may include:
(a) national or sub-national platforms that regroup several investment projects on the territory of a given Member State;
(b) multi-country or regional platforms that regroup partners from several Member States or third countries interested in projects in a given geographic area;
(c) thematic platforms that gather investment projects in a given sector.

Investment platforms are not set up by the European Investment Bank (EIB), but by sponsors or project promoters, which may be public authorities or National Promotional Banks and Institutions (NPBIs), or social sector players, private stakeholders. The EIB can provide advice to the setting up of platforms, through the European Investment Advisory Hub (EIAH), and can support financially such platforms, in particular through EFSI.

Platforms may be a useful tool to use public financing in order to attract private investors to invest in a specific pool of projects. Therefore platforms have the potential to contribute to the objective of the Investment Plan for Europe, which is to mobilise public and private investment in support of the EU economy.

Under the scope of investment platforms, each of the smaller or riskier projects must be assessed as being technically and economically viable to be considered for financing by an investment platform under EFSI.

An EFSI investment platform can therefore be set up to provide financial products (e.g. loans, equity, guarantees) to projects that have the potential of generating revenues or saving costs, but which are generally too small and/or too risky to be financed by private investors only.

The co-investment in investment platforms can reinforce the cooperation between the European Investment Bank (EIB) and National Promotional Banks and Institutions (NPBIs). As of end of July 2017, 30 investment platforms have already been approved to receive EFSI-backing, representing nearly EUR 3bn of EFSI financing approvals, for more than EUR 23bn of investments expected to be mobilized.
The following are some examples of investment platforms which are currently being developed jointly by the EIB Group and the European Commission:

- **Smart Finance for Smart Buildings (SFSB)**, an energy efficiency investment platform launched in partnership with the European Commission, to deploy retail banking products combining EFSI with European Structural and Investment Funds (ESIF) funding – the feasibility of such platform depends on the outcome of the legislative process as regards the Commission’s Omnibus proposals amending in particular the Common Provisions Regulation.

- **Connecting Europe Broadband Fund (CEBF)**, backed by funds from the Connecting Europe Facility (CEF), an equity fund dedicated to smaller broadband projects in underserved areas of Europe, which is currently in final stages of preparation.

- **Green Shipping Guarantee**: currently at operational stage, with the first two framework agreements with banks in France and in the Netherlands having been signed.

- **ERTMS’ deployment fund** is another project of investment platform in the transport sector, in early stages of development.

- **Circular bio-economy investment platform**, with possible combination of EFSI with InnovFin financial instruments.

**KEY STEPS TO ESTABLISH AN EFSI-BACKED INVESTMENT PLATFORM**

To develop an Investment Platform, a project lead is often necessary on the public side, which would most likely be a team or department responsible for the management of EU Funds at Member State level, especially in the case where the public funding to the investment platform could come from ESIF. This project lead is referred below as the “platform sponsor” for ease of reference. In partnership with the EIB Group, the platform sponsor would have to drive the process through the main steps described below.

1. **1.** Identify the demand through market study and consultations

2. **2.** Identify the supply considering potential investors and barriers to investment

3. **3.** Design the legal structure including term sheet preparations and state-aid considerations

4. **4.** Identify a manager with strong credibility/track record and aligned interests

5. **5.** Finalise approvals and documentation

6. **6.** Sign and close

**FIRST INVESTMENTS**

An outline of the key steps to establish an EFSI-backed Investment Platform.

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*EIAH*: European Investment Advisory Hub

1. European Railway Traffic Management System
Step 1: Identify the demand, market failure and financing needs

First, it is necessary to estimate the scale of the financing needs to enable or accelerate the investments targeted by the platform.

This can be done through a formal market study, ideally by an independent consultant, which would identify the potential projects to be financed through the investment platform. The market study should establish a market failure, where there is an investment case for a specific type of projects (e.g. small infrastructure projects, long term social housing refurbishments) and where financing of particular projects by traditional investors remain scarce or on unsustainable financial terms.

Such market study may be complemented by direct informal and formal consultations with public and private stakeholders: relevant ministries, city mayors, public and private tourism facility sponsors, relevant financial intermediaries already involved in financing of these projects, private investors already committed to this segment of the economy and potential investment platform managers.

Where European Structural and Investment Funds (ESIF) are involved a formal ex-ante assessment is required to assess the market failure that the financial instrument would aim at addressing, which is a similar exercise to the market study described above.

Step 2: Identify the supply, potential public and private investors

Secondly, potential sources of public and private financing need to be identified and a financing plan established.

It is important to identify the potential investors in this market, either public investors (NPBIs, international financial institutions, public-owned companies…), strategic private investors (owners of existing facilities, conglomerates) or financial investors (investment funds, insurance companies, banks, family offices, High Net Worth individuals, sovereign wealth funds) that could eventually contribute to the investment platform.

Public funding can be secured from EU or national resources, and can also include financing from NPBIs or International Financial Institutions (IFI). The European Investment Advisory Hub (EIAH) can support the platform sponsor in identifying potential sources of funding.

In addition to testing the appetite of investors to contribute to an investment platform, it could be useful to understand the barriers to investment they see in this sector, and the reason why they have not invested more to date. This input could help in designing the right terms and conditions for the investment platform.

Once the platform sponsor has an overview of the potential public and private investors interested in such an initiative, they can begin discussions with the EIB or other IFIs to explore what role they can play in supporting the platform.

Step 3: Clarify the legal structure of the investment platform

An investment platform can take various legal forms, from a co-financing agreement between financial institutions focusing on a specific type of projects, with for instance joint due diligence, risk-sharing arrangements among public and private investors, or it can be a separate investment vehicle specifically set up for making the investments.

It is important to select the most appropriate structure to guarantee the smooth operation of the platform. For example, a separate investment vehicle entails specific requirements (e.g. selection of an external fund
manager, possibly via a public procurement process, as well as specific legal processes for setting up the vehicle). This may increase the costs or the duration of the process.

It is also key to consult potential co-investors in the investment platform. At this stage, it may be necessary to prepare a term sheet outlining the main indicative terms and conditions of the transaction, to be reviewed by all potential co-investors.

In case of national co-funding of the investment platform (ESIF, Member State own funds, including NPBI), state-aid considerations have to be taken into account at this stage when designing the structure of the investment platform. Where national co-funding of the investment platform constitutes State aid, within the meaning of Article 107(1) of the Treaty on the Functioning of the EU (TFEU) (which may for example be the case when the remuneration does not correspond to the risk undertaken), it must comply with State aid rules. State-aid control ensures that the intervention addresses well-defined market failure, has an incentive effect by crowding in additional funds, is limited to the minimum necessary and does not distort competition.

The co-investment of centrally-managed EU funds does not constitute State aid within the meaning of Article 107(1) TFEU. However, where the remuneration does not correspond to the risk undertaken by EU funds in the investment platform, the Commission must ensure its co-investment is designed in consistency with the principles underlying State aid rules to avoid crowding out and minimize potential competition distortions.

**Step 4: Identify the manager of the investment platform**

(i) If the platform is a co-financing or a risk-sharing arrangement, the management of the investment platform will be shared among the relevant investors and/or financial institutions sharing the risk on the underlying projects. Governance structures of the platform will be laid out in a joint agreement.

(ii) If the platform is intended to be a special purpose vehicle, a fund manager needs to be selected. A private fund manager may be required if skills and resources for managing such investment platform are not available in a public entity. In case public funds are invested (excluding IFI financing) and a fund manager is required, a selection process in line with public procurement rules would normally have to take place. This selection process may be run by a national entity, or by the EIB, depending on the intended involvement of the EIB in the process.

**Important:** In case the fund manager is a private entity, it is often required that such fund manager (i) co-invests in the investment platform, to ensure alignment of interest (usually minimum 1% of the total fund size) and (ii) is leading the fund raising efforts towards the private investors. Good governance is very important since private investors will not accept a fund manager that is imposed to them, or they may be deterred from investing if the selected fund manager does not have sufficient credentials. Leverage of private money should be ensured by bringing in a fund manager with strong credibility and track record among institutional investors, as well as demonstrated alignment of interests.

**Step 5: Finalise approvals and legal documentation establishing the investment platform**

**Approvals**

In the case of an investment platform under the IIW, EFSI approval process is composed of a first concept approval provided by the EIB at the very early stage of the project, and is followed later, after the project is almost fully structured, by (i) an approval of the EFSI Investment Committee on the use of the EU guarantee for the project, (ii) an evaluation by the EFSI Investment Committee of the conformity of the investment platform with the Rules applicable for operations with Investment Platforms and National Promotional Banks or Institutions as set by the EFSI Steering Board and (iii) a final approval of the EIB Board of Directors for the EIB financing of the operation.
This process to obtain final approvals at the end of the project structuring may take several weeks or several months, depending on the complexity of the project. If other IFIs or NPBIs are involved in the initiative, their approval process needs to be taken into account as well.

The scope of the approval granted by the EIB for its involvement in an investment platform may vary from one structure to another (one single approval for the whole platform, or approval required for each underlying operation…).

If state-aid is involved at the level of the platform and does not fall under the scope of the de minimis or General Block Exemption Regulation, formal notification to the Commission is required. A fast-track process is foreseen for EFSI projects, including investment platforms, where the Commission is expected to review the file within 6 weeks from the time the full documentation has been provided to it.

Where EU centrally-managed funds are co-invested in the investment platform, consistency with state-aid rules is ensured in the internal consultation process within the Commission.

Legal documentation

(i) In the case of a risk sharing or co-financing arrangement, this step may take only a few weeks, depending on the experience of the financial institutions involved of working together.

(ii) In the case of setting up a new investment vehicle, it would require more time (new financial entity to be registered with the national regulator, legal documentation to be negotiated among new partners, etc.) especially if several public and private investors are involved.

Final step: Signing, closing and first investments

An investment platform becomes operational from the day the final legal documentation establishing the platform is signed by all parties. Then the investors have committed their funds to the initiative and, if all conditions precedent to disbursement are met, investments can be made.

In the case where a special purpose vehicle is established, first disbursements made by the investors to the platform (“closing”) announce the launch of the operations. Projects can then be financed.

Ideally the first projects to be financed would have already been identified by the fund manager and/or the relevant financial institutions involved in the scheme as part of the market study. Going forward, the fund manager and/or relevant financial institution will be responsible for monitoring and exiting the investments successfully.

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1. Similar steps would be required for an investment platform set up under the SMEW with the European Investment Fund (EIF), with in addition the involvement of the EFSI Steering Board.
Annex: Links between EFSI investment platforms and the European Investment Advisory Hub (EIAH)

The EIAH involvement may be twofold:

- On the one hand, EIAH support can be requested to assess the rationale and potential to develop investment platforms in certain areas (e.g. inland waterways, social impact, smart cities);

- On the other hand, and in the majority of cases where an investment platform is considered, the projects to be financed often require technical assistance for project preparation or implementation, since the markets/projects targeted are not mature enough.

EIAH can also accelerate the process of setting up bilateral agreements with IFIs and NPBIs to delegate technical assistance, especially for smaller projects where local institutions have networks already set up. The EIAH agreement with the European Bank for Reconstruction and Development (EBRD), already signed for SMEs in Bulgaria, Greece and Romania, will be a blueprint for future agreements with other partner institutions. EIAH support may also be provided to NPBIs for capacity building, design or implementation of investment platforms.