

**FOR
DECISION**

EUROPEAN FUND FOR STRATEGIC INVESTMENTS

STEERING BOARD

EFSI Strategic Orientation

Review of January 2019

Questions concerning this note should be referred to EFSI Secretariat: EFISecretariat@eib.org

STRATEGIC ORIENTATION OF EFSI

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1 INTRODUCTION

The general objectives of EFSI and its implementing rules are defined in the EFSI Regulation and in the Agreement on the Management of the European Fund for Strategic Investments and on the Granting of the EU Guarantee ("EFSI Agreement") established between the Commission and the EIB.

The present document constitutes the second review of the Strategic Orientation of EFSI, which was adopted by the EFSI Steering Board in December 2015 and first reviewed in June 2017.

The first review reflected the developments during the initial phase of the implementation of EFSI, in particular the development of new products and the feedback received by the Steering Board from a wide range of stakeholders, notably during its meetings with various stakeholders.¹ The first review also took into account the evaluations, audits and stock-taking exercises carried out until then on EFSI implementation,² which had concluded that EFSI was on track to meet its key objectives while suggesting certain improvements. These reports were also taken into account by the European Commission in preparation of the proposal for the extension of EFSI.

In December 2017, the EFSI Regulation was amended (EFSI 2.0) and the lifetime and the firepower of the EFSI were extended, until the end of the Multiannual Financial Framework (MFF) i.e. end of 2020. The Strategic Orientation should be fully aligned with both the political orientation and the requirements of the amended EFSI Regulation³ and the EFSI Agreement.⁴

Through this second review, the Strategic Orientation shall reflect the new features under the EFSI, in particular the extended timeline from mid-2018 to the end of 2020, and the amended investment target from EUR 315bn to EUR 500bn, as well as new requirements with regard to transparency, an enhanced definition of Additionality, new EFSI general objectives as well as an increased focus on Climate Action in line with the Paris Agreement (COP21).⁵ The second review also takes into account further

¹ See 'Meetings with stakeholders' at <http://www.eib.org/en/efsi/governance/efsi-steering-board/minutes.htm>

² The European Commission's evaluation on the use of the EU guarantee and the functioning of the guarantee fund, published on 14 September 2016 https://ec.europa.eu/commission/publications/commission-evaluation-first-year-efsi_en; the first EIB evaluation on the functioning of EFSI, published on 5 October 2016 <http://www.eib.org/infocentre/publications/all/evaluation-of-the-functioning-of-the-efsi.htm>; the first independent evaluation of EFSI, published on 14 November 2016 https://ec.europa.eu/commission/publications/independent-evaluation-investment-plan_en; and the European Commission's stock-taking exercise in June 2016 https://ec.europa.eu/commission/sites/beta-political/files/1_en_act_part1_v11.pdf.

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2396&from=en>

⁴ This review reflects the fourth Amendment and Restatement Agreement dated 20 December 2018 between the European Union and the European Investment Bank relating to the Agreement on the Management of the European Fund for Strategic Investments and on the Granting of the EU Guarantee dated 22 July 2015, as amended and restated on 21 July 2016, on 21 November 2017, on 9 March 2018 and on 20 December 2018.

⁵ 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (Paris, 2015).

feedback from stakeholders and subsequent evaluations of EFSI,⁶ which also concluded that EFSI was on track to meet its key objectives, while raising some issues for improvement.

Moreover, the entry into force of the Omnibus Regulation⁷ (30 July 2018) introduced new provisions in the Common Provisions Regulation, *inter alia*, to facilitate the combination of EFSI and the European Structural and Investment Funds (ESIF). The Strategic Orientation now takes into account these amendments.

Besides mobilising finance for investment through EFSI (Pillar 1), the Investment Plan for Europe consists of measures to help finance reach the real economy (Pillar 2 - the European Investment Advisory Hub (EIAH)⁸ and the European Investment Project Portal (EIPP))⁹ and measures to promote an investment-friendly environment (Pillar 3).¹⁰

2 SCOPE OF THE STRATEGIC ORIENTATION OF EFSI

Article 7(2) of the EFSI Regulation calls for EFSI to be governed by a Steering Board, which, for the purpose of the use of the EU Guarantee, is to determine, in conformity with the general objectives set out in Article 9(2) of the EFSI Regulation, the Strategic Orientation of the EFSI, including the allocation of the EU Guarantee between the Infrastructure and Innovation Window (IIW) and the SMEW (Article 11(3) of the EFSI Regulation¹¹ and within the IIW.

The Steering Board shall receive a detailed overview of the risk limits, supervise the development of the risk profile of the EFSI portfolio, and adopt appropriate measures if deemed necessary (Section 7(b) of Annex II - Investment Guidelines of the EFSI Regulation).

The Steering Board is also to take any decision as per Article 7(14) of the Regulation. In particular, the Steering Board shall, as part of the Strategic Orientation of the EFSI, establish a minimum score for each pillar in the scoreboard with a view to enhancing the assessment of projects. This is foreseen in Annex 2 of the Strategic Orientation. The Steering Board may, upon request from the EIB, allow the Investment Committee to examine a project whose score in any of the pillars is below the minimum score when the global assessment contained in the scoreboard concludes that the operation related to that project would either address a significant market failure or present a high level of Additionality.

⁶ The second independent evaluation of EFSI, published on 4 June 2018 https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/independent-evaluation-european-fund-strategic-investments-european-investment-advisory-hub-and-european-investment-project-portal_en; and the second EIB evaluation on the functioning of EFSI, published on 31 July 2018 <http://www.eib.org/en/infocentre/publications/all/evaluation-of-the-efsi.htm>

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2018:193:FULL&from=EN>

⁸ www.eib.org/eiah

⁹ www.ec.europa.eu/eipp

¹⁰ https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/improving-business-environment-eu_en

¹¹ The initial limit of EUR 6 500 000 000 on the EU Guarantee when covering guarantees to the EIF to conduct EIB financing may where appropriate be adjusted by the Steering Board up to a maximum of EUR 9 000 000 000, without an obligation on the EIB to match the amounts above EUR 4 000 000 000.

The scope for the Strategic Orientation of the IIW and the SME Window (SMEW) are broadly determined by the following key reference documents:

- **EFSI Regulation**, in particular Articles relating to Additionality (Art. 5), Eligibility criteria (Art. 6), Requirements for use of EU Guarantee / General objectives (Art. 9(2)), Eligible instruments (Art. 10)¹²
- **EFSI Investment Guidelines** (Annex II of the EFSI Regulation), further outlining for the IIW eligible counterparts, project types and instruments; general principles related to Additionality; risk profile of investment windows and debt / equity sub-portfolios; exposure limits and sectorial / geographical diversification
- **EFSI Scoreboard** of indicators for application of the EU Guarantee for the IIW (Delegated Regulation supplementing the EFSI Regulation)¹³ composed of four pillars assessed individually and covering: contribution to EFSI policy objectives; quality and soundness of the project; technical and financial contribution; and complementary indicators
- **EFSI Agreement**, in particular Articles on Windows, Products, Eligibility, Additionality and Complementarity (Part D), and Key Performance (KPI) / Monitoring Indicators (KMI) (Schedule II); and, for the SMEW, Schedule VII on SMEW products.

The EFSI Strategic Orientation covers, *inter alia*, (i) the balance and diversification of the EFSI portfolio, also in view of risk management, and (ii) the implementation of EFSI while taking into account also the EIB's origination capacity. It aims at guiding decision-making during the implementation of EFSI. It may be reviewed by the Steering Board in light of new policy developments and taking into account the experience acquired.

The Strategic Orientation is complemented by other documents foreseen in the EFSI Regulation and the EFSI Agreement, covering specific aspects of EFSI implementation such as the methodologies for calculation of multipliers¹⁴ and KPIs/KMIs,¹⁵ policies and rules for cooperation with NPBs and Investment Platforms,¹⁶ geographical eligibility of cross-border operations involving non-EU entities¹⁷ and investments in funds.¹⁸

In addition, the Commission published a guidance document¹⁹ designed to help local authorities and project promoters make full use of the complementarities of the EFSI

¹² RCR operations reported under the SMEW fall out of the scope of the provisions relating to the EU Guarantee coverage – see Annex 1 below.

¹³ Commission Delegated Regulation (EU) 2015/1558 of 22 July 2015 supplementing Regulation (EU) 2015/1017 of the European Parliament and of the Council by establishment of a scoreboard of indicators for the application of the EU guarantee (OJ L 244, 19.9.2015, p. 20).

¹⁴ http://www.eib.org/attachments/strategies/efsi_steering_board_efsi_multiplier_methodology_calculation_en.pdf

http://www.eib.org/attachments/strategies/efsi_steering_board_eif_efsi_multiplier_methodology_calculation_en.pdf

¹⁵ http://www.eib.org/attachments/strategies/efsi_steering_board_kpi_kmi_methodology_en.pdf

¹⁶ http://www.eib.org/attachments/strategies/efsi_steering_board_rules_applicable_to_operations_with_investment_platforms_and_npbs_or_institutions_en.pdf

¹⁷ http://www.eib.org/attachments/strategies/efsi_steering_board_cross_border_operations_en.pdf

¹⁸ http://www.eib.org/attachments/strategies/efsi_steering_board_investments_in_funds_in_line_with_efsi_regulation_en.pdf

¹⁹ "European Structural and Investment Funds and European Fund for Strategic Investments complementarities" (February 2016)

http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/efsi_esif_compl_en.pdf

and European Structural and Investment Funds (ESIF), as referred to in Article 9(7) of the EFSI Regulation.

In accordance with the EFSI Regulation, when applying their respective rules, policies and procedures the EIB and the EIF shall in their financing and investment operations, comply with applicable EU legislation and agreed international and EU standards and, therefore, shall not support projects under the EFSI Regulation that contribute to money laundering, terrorism financing, tax avoidance, tax fraud and tax evasion.

The EU list of Non-Cooperative Jurisdictions (NCJ) for tax purposes issued by the Council (OJ C 438, 19.12.2017, p. 5) ("Council Conclusions") shall be directly applied by the EIB and EIF in respect of EFSI Operations. Each of the EIB and the EIF shall review its NCJ Policies following the adoption of that EU list. The EIB's and the EIF's NCJ Policies shall address the issues of money laundering, terrorism financing, tax avoidance, tax fraud and tax evasion (Article 22 of the EFSI Regulation). Until the adoption of the revised NCJ Policies, the review of which is ongoing, the EIB shall apply the interim approach adopted by its Board of Directors on 31 January 2017 (Doc 17/035) in line with a risk based approach and within the scope of policies approved by its Board of Directors, applying extended due diligence to operations with contracting counterparties incorporated or established in jurisdictions mentioned in Annex II of the Council Conclusions. The EIF shall apply a similar approach.

The EIB and the EIF shall engage in EFSI Guaranteed Operations in accordance with their respective NCJ Policy and where applicable the interim approach.

To protect against any EFSI Guaranteed Operations being misused for illegal purposes, including money laundering, terrorism financing, tax fraud, and tax evasion, the EIB and the EIF shall require appropriate contractual arrangements with its Financial Intermediaries and Financial Sub-intermediaries and/or other appropriate means. Furthermore, the EIB and the EIF shall include appropriate contractual arrangements with its Financial Intermediaries with a view to protect against any EFSI Guaranteed Operations financing artificial arrangements aimed at tax avoidance.

The Steering Board encourages the EIB Group to continue monitoring and taking into account, for the adaptation of its policies and procedures, the developing EU policy principles on anti-tax avoidance.

3 GENERAL STRATEGY BACKGROUND

Economic rationale of EFSI

Upon inception of EFSI, an initial target of EUR 315bn for EFSI related investment mobilised was established. In July 2018, the EIB Group met and exceeded this initial target in terms of approved operations. Under the amended EFSI Regulation, EFSI aims at mobilising at least EUR 500bn of total investments until the end of 2020 to boost investment in the key economic sectors that are important for restoring EU competitiveness and increasing employment.

Investment levels in the EU have recovered to a large degree. Yet, even as the EU economy continues a moderate expansion, investment rates remain insufficient to address a legacy of investment gaps that have accumulated over a decade of post-

crisis investment deficits. New challenges emerge and new gaps open up. Investment gaps exist in the areas of infrastructure, innovation and skills, and climate change. Fiscal constraints continue to limit public capital investment, which is the principal driver of infrastructure investment. This affects disproportionately regions endowed with weaker infrastructure and poorer technical capacities. While financing conditions have continued to improve in general, this relies to an important extent on accommodative monetary policy and conditions remain uneven across Member States and sectors.

Furthermore, investment financing remains an issue for young and innovative firms, in particular, and the EU financial sector remains poorly equipped to address their needs. Therefore, a substantial gap has developed between, on the one hand, the EU policy objectives (e.g. climate change mitigation and adaptation, broader environmental and sustainability areas, circular economy, infrastructure development, research and innovation, digitisation and artificial intelligence) and, on the other, public and private investment levels supporting those objectives. This environment continues to raise concerns over the EU economy's competitiveness and job creation. Addressing these gaps requires policy support. Building upon the EFSI results to date as well as on the lessons learned from evaluations and audits, the lifetime and the firepower of EFSI were extended in December 2017.

Thanks to EFSI, the EIB Group continues mobilising investments in key economic sectors for Europe. EFSI shall continue to address market failures and suboptimal investment situations, structural investment needs, improving investor confidence and helping to compensate for constrained risk-bearing capacity and fragmentation.

More specifically, EFSI shall catalyse new investment in projects, which implement strategic, transformative and productive investments with high economic, environmental and societal added value.²⁰ The EFSI Regulation (Article 9(2)) specifies, in particular for the IIW, the types of projects and sectors considered most critical to boost investment in Europe (see the list in Section 5. Sectorial diversification). Projects of common interest seeking to complete the internal market, including e-infrastructure, projects of common interest in urban and rural development, social fields, and in the environmental and natural resources fields are singled out. So are projects strengthening the Union's scientific and technological base, including the development of key enabling technologies such as digitisation and artificial intelligence. Furthermore, EFSI foresees improving the access to finance for SMEs, which is the focus of the SMEW and, together with access to finance for Mid-Cap companies, is also covered by the IIW. The EFSI Regulation enlarged the sectorial eligibility of EFSI to the bioeconomy sector, covering sustainable agriculture, forestry, aquaculture and fisheries, as well as to other industries in less-developed and transition regions of the EU Cohesion Policy not falling under other general EFSI objectives (Article 9(2) of the Regulation).

EFSI seeks to support projects that demonstrate economic soundness and long-term impact. EFSI should promote the Union's long-term growth potential and competitiveness, while helping on reducing regional disparities.

²⁰ As confirmed by the Cost-Benefit Analysis undertaken in line with Union standards (i.e. 2015 CBA Guide for Cohesion Policy http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/cba_guide.pdf).

For the assessment of the impact of investments triggered by EFSI, employment is an important Key Monitoring Indicator. As part of the project appraisal, the EIB systematically estimates the employment impact, which forms part of the Scoreboard Pillar 2. Moreover, indicators specific to unemployment in the Member State where the project is located also form part of the Scoreboard Pillar 4 – complementary indicators. Therefore, this information is taken into account in the decision on the use of the EU Guarantee under the IIW.

Furthermore, the overall impact of EFSI-supported activity on employment will be estimated and subject to regular reporting and evaluation. In addition, as part of its impact assessment, the EIB Group regularly analyses the long-term impact of its operations, including EFSI operations, on GDP and employment.²¹

Additionality

Additionality is a key principle of the EFSI Regulation, which the Investment Committee shall verify when granting the use of the EU guarantee. EFSI is to support economically and technically viable projects which are consistent with EU policies and which provide additionality.

Additionality is defined in Article 5 of the EFSI Regulation as support for “*operations which address market failures or sub-optimal investment situations and which could not have been carried out during the period in which the EU Guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments, without EFSI support*”. Projects supported by the EFSI shall typically have a higher risk profile than projects supported by normal EIB operations. Overall, the EFSI portfolio shall have a higher risk profile than the portfolio of investments supported by the EIB under its normal investment policies before the entry of the EFSI Regulation.

Moreover, the EFSI Regulation specifies that, to better address market failures or sub-optimal investment situations and to facilitate the use of investment platforms for small scale projects, EIB Special Activities supported by EFSI shall, as a preferred way and if duly justified, have specific risks features or demonstrate cross-border characteristics.

The EFSI Regulation (as amended by EFSI 2.0) defines the following elements as strong indications of Additionality:

- projects that carry a risk corresponding to EIB Special Activities, especially if such projects present country-, sector- or region-specific risks, in particular those experienced in less developed regions and transition regions and/or if such projects present risks associated with innovation, in particular in growth-, sustainability- and productivity-enhancing unproven technologies;
- projects that consist of physical infrastructure, including e-infrastructure, linking two or more Member States or of the extension of such infrastructure or services linked to such infrastructure from one Member State to one or more Member States (“cross-Member States” operations).

²¹ http://www.eib.org/en/about/key_figures/eib-impacts/index.htm

The EIB shall continue to finance EFSI operations falling under EIB Special Activities in order to support riskier operations and also to engage with new clients, implement new products and explore new market areas. The EIB, when presenting an operation to the Investment Committee, shall provide a description of the types of risks linked to that operation. It may include in particular, where relevant, the project's technological, market or construction risks, structuring risks, participation in risk-sharing instruments, equity-type characteristics or other identifiable aspects leading to higher risk exposure.

As foreseen by the EFSI Regulation, operations not falling under EIB Special Activities category are also eligible to be financed under EFSI under certain conditions.²² In these cases, the EIB shall provide a detailed presentation of the specific risks addressed by the operation and justify why it typically would not have been carried out or not to the same extent by the EIB Group without EFSI support.

The second independent evaluation of EFSI, published on 4 June 2018, as well as the EIB evaluation, published on 31 July 2018, recommended clarifying the concept of "sub-optimal investment situations". The 2018 independent evaluation also recommended clarifying the definition of Additionality based on a response to market failure. The amended EFSI Regulation already clarifies and enhances the definition of Additionality and thus, following its entry into force, the information provided to the Investment Committee shall include broader qualitative assessment of Additionality aspects, including on how the proposed operations address market failures or sub-optimal investment situations. This includes, for instance, to which extent EFSI allowed the EIB Group to finance investments that would not have been financed otherwise within the same timeframe or not to the same extent by the EIB Group, and the availability of complementary and/or alternative sources of finance. The Steering Board is kept informed of these enhancements to the information provided to the Investment Committee, including clarifications on the concepts of market failures and sub-optimal investment situations. Among the operations proposed for benefiting from the EU Guarantee under EFSI, the Steering Board encourages the EIB to give particular attention to those having features of subordination, risk-sharing, cross-Member State characteristics or exposure to specific risks, for instance risks related to new technologies or a specific geographical context.

As mentioned, the EFSI Regulation recognises the strategic importance and inherent difficulty of implementing cross-Member States operations within the EU by attributing a strong indication of Additionality for such projects. These operations represent a specific case of market failure as, in the EU context, a specific added value lies in the enhanced market integration fostered by cross-Member States projects, addressing an EU policy priority. Despite these benefits, the permitting and tendering procedures for these projects tend to be cumbersome and uncertain compared to a single-Member State project, and investors often refrain from investing in such complex projects with typically very long lead-times, creating sub-optimal investment situations. Pillar 3 of the Investment Plan for Europe is to help remove regulatory barriers to investment, which is expected to facilitate this type of cross-border investment. The EIB contributes to this Pillar by reporting annually on investment barriers it identifies in the appraisal and execution of operations.

²² Transactions with a better loan grading can be included into the EFSI portfolio provided that a high added value is clearly demonstrated and their inclusion is consistent with the criterion of providing Additionality (Article 6 (b) of Annex II of the EFSI Regulation – Investment Guidelines).

When financing operations under EFSI, the EIB together with the European Commission should strive to ensure that EFSI and EU financial instruments like InnovFin, Connecting Europe Facility (CEF) or other mandates remain complementary to each other. The EU Guarantee under EFSI may complement, be combined with or enhance existing Union programmes or joint instruments.

Scoreboard

The EFSI Scoreboard of indicators is an important element in the assessment by the Investment Committee of the appropriateness of granting the EU Guarantee.

Beyond the Scoreboard, the documentation prepared for the Investment Committee (IC) includes a more comprehensive description of other factors supporting the Additionality of projects. The Investment Committee members, in their assessment of the eligibility and Additionality of projects proposed to be included in the EFSI Portfolio, shall take into account the Special Activity criterion in conjunction with other criteria, notably the financial constraints faced by project promoters, on the basis of the documentation provided by the EIB.

As foreseen in Article 7(14) of the EFSI Regulation, the Steering Board, as part of the Strategic Orientation of EFSI, established a minimum score for each pillar in the Scoreboard of indicators and the combined thresholds with a view to enhancing the assessment of operations (see Annex 2) to be proposed to the Investment Committee. Operations not meeting the minimum scores and combined thresholds shall be presented to the Steering Board first. Should the Steering Board, on the basis of its global assessment of the information contained in the Scoreboard, in particular taking into account the macro-economic and project specific indicators of Pillar 4, conclude that these operations would either address a significant market failure or present a high level of Additionality, it shall allow the Investment Committee to examine these projects. The Investment Committee shall examine all other operations meeting the minimum scores without prior authorisation from the Steering Board.

Transparency

Article 7(12) of the EFSI Regulation foresees, first, an enhanced transparency on the decisions of the Investment Committee on the granting of the EU Guarantee under EFSI and, second, the publication of the Scoreboard of EFSI operations.

The Investment Committee shall make decisions approving the use of the EU Guarantee public and accessible.²³ The decisions shall include a rationale, with particular focus on Additionality. The rationale shall also refer to the global assessment stemming from the Scoreboard of indicators.

After the signature of an operation, the EIB shall publish on its website the corresponding Scoreboard²⁴ which includes, *inter alia*, information on climate action project components or cost shares when applicable.²⁵

²³ <http://www.eib.org/en/efsi/governance/efsi-investment-committee/decisions.htm>

²⁴ <http://www.eib.org/en/infocentre/scoreboards/index.htm>

²⁵ As per Article 9(2) of the EFSI Regulation, the new key monitoring indicator (KMI) and the share of EFSI financing under the IIW supporting project components that contribute to Climate Action

These publications shall not contain commercially sensitive information.

All EIB approved and/or signed EFSI operations shall be found on the EIB website.²⁶

Investment impact

An important Key Performance Indicator for EFSI is the investment impact. Under the EFSI Regulation, the target of investment mobilised until 2020 through financing under EFSI is EUR 500bn,²⁷ to be delivered by the EIB through the IIW and by the EIF through the SMEW, on the basis of market demand, to support investment and financing.

The target is to be delivered on the basis of an overall capital contribution under EFSI from the EU and the EIB of EUR 33.5bn (EUR 26bn EU Guarantee and EUR 7.5bn of EIB contribution), reflecting an ex-ante target global multiplier effect of 15x. The drive to meet the headline target shall not prevail over the Additionality of EFSI-supported investments. The EFSI Regulation and the EFSI Agreement ensure that the EIB has an obligation to make the most efficient and effective use of the underlying Portfolio First Loss Piece (PFLP).

The EIB and EIF should ensure a coherent approach across the EFSI financing windows with a view to mobilise additional investment, in the meaning of Article 5 of the EFSI Regulation, and to maximise where possible the mobilisation of private sector capital. EFSI aims to act as a catalyst – and not a substitute – for finance provided by other actors, such as private market operators or National Promotional Banks (NPBs), by addressing market failures so as to ensure the most effective and strategic use of public money, in line with the principle of Additionality. This is reflected in the Key Performance Indicator measuring the amount of private finance mobilised or the Key Monitoring Indicator tracking the co-financing with NPBs.

Expressing the Key Performance Indicator in terms of total investment impact rather than EIB and EIF financing volumes has represented, since the inception of EFSI, a substantially different approach to their usual practice (e.g. under the respective Corporate Operational Plans). This approach provides, in particular to the EIB, with higher risk taking capacity and also more flexibility with regard to the choice of the optimal product for specific situations, in line with the EIB's business model and credit risk guidelines. However, in certain cases the contribution to EFSI objectives through the EIB intervention and its catalytic effect could be optimised through an increase in the EIB's financing stake in the transaction.

(computed at an aggregate level) do not include in its computation EFSI financing under IIW for SMEs and small Mid-Caps.

²⁶ www.eib.org/efsi/efsi-projects/index.htm, http://www.eif.org/what_we_do/efsi/ and http://ec.europa.eu/priorities/publications/investment-plan-results-so-far_en

This list is updated after the monthly meetings of the EIB and EIF Board of Directors and contains a short project description as well as information on the sector(s), EFSI financing and amounts expected to be mobilised, unless commercially sensitive. In addition, a map provides aggregated figures on a country-level and examples of signed EFSI operations. An overview graph of top-level figures is also available.

²⁷ The target of EUR 500bn of investments is linked to operations approved or signed within the investment period (end-2020 for approvals and end-2022 for signatures).

4 GEOGRAPHICAL DIVERSIFICATION AND CONCENTRATION LIMITS

In accordance with the EFSI Regulation, EIB's instruments (loans, guarantees etc.) shall be granted for the benefit of operations carried out in the Union, or involve entities located or established in one or more Member States and extend to one or more third countries (Article 8(b) of the EFSI Regulation).²⁸

The detailed question of what types of projects involving third countries fall within the category of operations extending to third countries was the subject of specific Steering Board guidance on the basis of a non-exhaustive typology of cross-border projects which are deemed eligible under EFSI.²⁹ The Steering Board also approved a guidance document³⁰ on investment in funds which carry out activities not only in EU Member States under the IIW.

In addition, as mentioned in the 'Additionality' section, projects that consist of physical infrastructure, including e-infrastructure, or related services linking two or more Member States, or projects that carry a risk corresponding to EIB Special Activities, especially if facing country- or region-specific risks, in particular those experienced in less developed and transition regions, present, inter alia, strong indications of Additionality (Article 5 of the EFSI Regulation).

In addition to the political rationale for ensuring broad geographical and sectorial (for the latter, see section 5) coverage, avoiding risk concentration of a portfolio is also justified from a financial management perspective. Risk diversification allows decreasing the risk of a portfolio of assets and hence increasing the leverage that could be achieved with a defined level of EU Guarantee.

Avoiding excessive geographic concentration of IIW

The EFSI Investment Guidelines provide that best efforts shall be made to ensure that at the end of the investment period a wide range of sectors and regions will be covered and excessive sectorial or geographical concentration is avoided.

The EFSI Investment Guidelines require the Steering Board to adopt indicative geographical diversification and concentration limits and guidelines applicable to the IIW. These limits and guidelines are established as follows:

1. In order to avoid EFSI-supported operations from being concentrated in any specific territory:
 - i. At the end of the investment period,³¹ the EFSI should aim to cover all EU Member States;

²⁸ Falling within the scope of the European Neighbourhood Policy, including the Strategic Partnership, the enlargement policy, the European Economic Area or the European Free Trade Association, or to an overseas country or territory as set out in Annex II to the TFEU, whether or not there is a partner in those third countries or overseas countries or territories.

²⁹ http://www.eib.org/attachments/strategies/efsi_steering_board_cross_border_operations_en.pdf

³⁰ http://www.eib.org/attachments/strategies/efsi_steering_board_investments_in_funds_in_line_with_efsi_regulation_en.pdf

³¹ Defined in footnote 27.

- ii. At the end of the investment period, the share of investment in any three Member States together (measured by signed loans/investment amounts) should not exceed 45% of the total EFSI portfolio.
2. While the decision to support an operation shall be based on the quality of the operation itself, the macro-economic environment where the project is taking place is also considered. To that end, the EIB shall pay particular attention to the complementary indicators defined in Pillar 4 of the Scoreboard.
3. The indicative limits outlined above complement the principles expressed through the EFSI Agreement and the Scoreboard, including consistency with Union policies and EFSI objectives, quality of the operation, as well as the economic and technical viability of the operation.

The size of the national economies naturally influences investments available in the Member States and a comparison of EFSI investment mobilised with the Member States' GDP or per capita shall therefore also be used as an illustration of geographical outreach.

As a degree of unbalanced geographical distribution may still be observed,³² the Commission and the EIB should continue their local outreach campaigns to help explain and promote the benefits of the Investment Plan across the EU. In some Member States, the EIB has opened new offices or expanded existing ones to provide more support locally. The Steering Board considers that this extended local presence should be pursued in Member States with stronger needs. Also, the enhanced cooperation with NPBs should help generate more projects in Member States less covered so far. In that context, the EIB shall promote, where relevant, the use of appropriate higher-risk products under EFSI for all NPBs, especially with those operating in Member States currently under-represented in EFSI operations.

In addition, the Steering Board encourages the Commission and the EIB to pursue their efforts to facilitate, where appropriate and feasible, and following the entry into force of the Omnibus Regulation, operations combining financing under EFSI and ESIF. This shall help improve the geographical and sectorial coverage and to facilitate the development of strong investment projects throughout the Union, in particular in EU Cohesion Policy 'less developed' and 'transition' regions. The EIB shall further strive to support, including via technical assistance, project origination in Member States that have so far benefited less from EFSI support, including via strengthening the cooperation with NPBs in those Member States.

The European Investment Advisory Hub (EIAH) shall continue working to extend its cooperation with partner institutions in order to reach a wider range of beneficiaries across the EU, in particular in Member States that have less benefited of EFSI to date. Such cooperation will allow enlarging the scope of advice delivered under the Hub, as well as the sourcing of requests.

³² See updated analysis in the EIB's annual Reports on EFSI to the European Parliament and the Council, which are publicly available, on the EFSI Steering Board page, in line with Article 16(2) of the EFSI Regulation (e.g. 2017 Report, http://www.eib.org/attachments/strategies/efsi_2017_report_ep_council_en.pdf).

By July 2018, EFSI support had reached all Member States and the geographical concentration of EFSI was within the limit set by the Strategic Orientation.

Under the EFSI Regulation, in order to develop geographic outreach of advisory services across the Union and to leverage local EFSI knowledge and capacities, the EIAH shall ensure a local presence, where necessary, taking into account existing support schemes, with a view to providing tailor-made assistance on the ground, in particular in Member States or regions that face difficulties in developing projects under EFSI. The EIAH shall promote the geographical diversification of EFSI financing also via development of investment platforms and PPPs, combination of EFSI with EU funding, and enhanced collaboration with NPBs and relevant institutions at national level, in particular with regard to less-developed and transition regions and cross-border operations.

The macro-economic environment of projects is also taken into consideration. In line with the EFSI Regulation, the Investment Committee is provided with dedicated Scoreboards including macro-economic information on the country and sector where the investments proposed will take place. The EFSI Investment Committee is regularly informed of the evolution of the EFSI portfolio with regard to geographical distribution.

The Steering Board encourages the EIB to pursue the above activities with a view to further improve the geographical distribution of the IIW and will continue to monitor closely the developments in this respect.

Avoiding excessive geographic concentration of SMEW

The EIF aims for the SMEW to reach all the EU Member States and also to achieve a satisfactory geographical diversification among them.

Reporting, monitoring and follow-up

The geographical distribution of EFSI is the object of the regular semi-annual reports (KPIs/KMIs reports), providing breakdowns by Member State and by region. The Steering Board will continue monitoring closely the balanced progress towards respecting the indicative limits and guidelines set out above.

In case that the implementation gives reason to believe that the indicative limits and guidelines might not be met at the end of the investment period, the Steering Board shall review the progress of the overall portfolio, analyse possible existing market failures and/or investment gaps at national or regional level which are not yet addressed by EFSI investments and the related reasons, and prepare recommendations for specific actions to be taken by the EIB Group to improve uptake by the geographies concerned, including with the support of the EIAH, or step up awareness and capacity building activities, or take other appropriate action.

If appropriately justified, the Steering Board may decide to modify the indicative limits following consultation of the Investment Committee. In that case, the Steering Board shall explain its decision to the European Parliament and Council in writing.

5 SECTORIAL DIVERSIFICATION AND CONCENTRATION LIMITS

According to the Investment Guidelines, in order to manage sector diversification and concentration of the EFSI portfolio, the Steering Board shall set indicative concentration limits for the IIW in respect of the volume of operations supported by the EU Guarantee at the end of the investment period.³³ The indicative concentration limits shall be made public.

The EFSI Regulation (Article 9(2)) sets the general objectives of EFSI which correspond to the eligible sectors/areas for EFSI guaranteed operations (i.e. EIB or EIF financing or investment under EFSI) (including the new EFSI 2.0 objectives referred to in points h) and i) below). The EIB classifies each operation in the eligible sectors/areas in a mutually exclusive manner.³⁴ The sectors/areas are:

- a) Research, development and innovation
- b) Development of the energy sector in accordance with the Energy Union priorities
- c) Development of transport infrastructures, and equipment and innovative technologies for transport
- d) Financial support through the EIF and the EIB to entities having up to 3 000 employees
- e) Development and deployment of information and communication technologies
- f) Environment and resource efficiency
- g) Human capital, culture and health
- h) Sustainable agriculture, forestry, fishery, aquaculture and other elements of the wider bioeconomy
- i) For less-developed regions and transition regions,³⁵ other industry and services eligible for EIB support

While recognising the demand-driven nature of EFSI, under IIW, the EIB shall target that at least 40% of EFSI financing supports project components that contribute to climate action, in line with COP21 commitments. The EIB shall use its internationally agreed methodology to identify climate action project components or cost shares. EFSI financing for SMEs and small Mid-cap companies shall not be included in that computation. The progress on this target is reflected as a new Key Monitoring Indicator (KMI 7) under IIW measured at an aggregate level, and, as such, it is included in the public annual report on EFSI to the European Parliament and Council.

The EFSI Regulation includes a clarification for motorways to be respected in EIB operations under the EFSI guarantee.³⁶

³³ Defined in footnote 27.

³⁴ In addition, each operation, for reporting purposes, is classified using the Statistical Classification of Economic Activities in the European Community (NACE). For the purposes of setting sector concentration limits for EFSI, using the 9 sectors/areas defined by the EFSI policy objectives under Article 9(2) of the Regulation is considered to be more suitable than the 21 sectors on NACE level 1, which are comprehensive but cover also activities that are not EFSI relevant.

³⁵ As listed respectively in Annexes I and II of Commission Implementing Decision 2014/99/EU.

³⁶ While the Regulation stipulates that EFSI support shall be explicitly possible for maintaining and upgrading existing transport infrastructure, it limits the EFSI support to new motorways. They can only be supported under EFSI when they concern transport in cohesion countries, in less developed regions or in cross-border transport projects or projects contributing to the completion of the trans-

Avoiding excessive sectorial concentration

In order to provide broad-based support to investment activity, excessive concentration of EFSI operations in any particular sector or sub-sector is to be avoided. At the same time, too rigid limits on sector exposures may also be counter-productive as they would not respect market needs, might compromise the quality of operations, and would not allow for a broad portfolio diversification and hence would not allow for effective risk management.

The definition of indicative orientations by sector and sub-sector and their monitoring over time aims at managing these trade-offs. Against this background, an indicative concentration limit of 30% (measured by signed loans/investment amounts in any one sector, as defined by Article 9(2) of the Regulation) is deemed appropriate. This concentration limit applies at the end of the investment period.³⁷

However, and while EFSI is a demand-driven initiative, the EIB shall continue its efforts to diversify the sectorial spread of EFSI as much as feasible, in particular with the deployment of new products, increased cooperation with NPBs and enhanced advisory support. The Commission and the EIB will continue working together to increase the blending opportunities between EU grants and EFSI-supported financing. These efforts, while remaining dependent on market demand, have increased and will continue to increase the outreach of EFSI in those sectors which have benefited less of EFSI from its onset (social infrastructure, environment and resource efficiency).

Further efforts will be made, *inter alia*, in fully implementing the advisory services that the EIAH can provide aimed at achieving a more balanced sectorial coverage of operations under EFSI. Under the EFSI Regulation, EIAH will play a pro-active role in supporting the project pipeline in favour of broader sectorial diversification, via enhanced project identification, preparation and development, across all EFSI general objectives, and in particular in energy efficiency, transport and urban mobility, climate action and circular economy, digital sector (e.g. artificial intelligence) and with regard to risks associated with innovation and growth-, sustainability- and productivity-enhancing unproven technologies. EIAH shall work to promote the sectorial diversification of EFSI financing also via support to the development of investment platforms and PPPs, combination of EFSI with EU funding, and enhanced collaboration with NPBs and relevant institutions at national level.

Reporting, monitoring and follow-up

The sectorial distribution of EFSI is the object of the regular semi-annual reports, providing breakdowns by sectors/areas as defined above. The Steering Board will

European transport network. Motorway projects can also be supported under EFSI when they contribute to specific EU transport policy objectives, namely road safety, development of intelligent transport systems' (ITS) devices or guaranteeing the integrity and standards of existing motorways on the trans-European transport network, in particular safe parking areas, alternative clean fuel stations and electric charging systems (Annex II of EFSI Regulation – Investment Guidelines, point 2(b)).

³⁷ By the first three years of implementation, EFSI support has covered all EFSI general objectives (including the new EFSI 2.0 objectives referred to in points h) and i)). The sectorial concentration has stayed generally within the indicative limit. The uptake for projects pursuing the new objectives will naturally take some time.

continue monitoring closely the balanced progress towards the indicative limits and guidelines set out above.

In case that the implementation gives reason to believe that the indicative limits and guidelines might not be met at the end of the investment period, the Steering Board shall review the progress of the overall portfolio, analyse possible existing sectorial market failures and investment gaps which are not yet addressed by EFSI investments and the related reasons, and prepare recommendations for specific actions to be taken by the EIB to help uptake by sectors concerned, including with the support of the EIAH, or step up awareness and capacity building activities, or take other appropriate action.

These limits and guidelines could be reviewed at a later stage, as appropriate.

If appropriately justified, the Steering Board may decide to modify the indicative limits following consultation of the Investment Committee. In that case, the Steering Board shall explain its decision to the European Parliament and Council in writing.

6 COOPERATION WITH NATIONAL PROMOTIONAL BANKS AND INSTITUTIONS / INVESTMENT PLATFORMS

The policy and more detailed rules applicable to the operations with Investment Platforms and NPBs were established in a document adopted by the Steering Board in February 2016.³⁸

Cooperation with NPBs and the establishment of Investment Platforms has been considered, in discussions between the Steering Board and stakeholders, as key and to be further enhanced.

The cooperation with NPBs under EFSI³⁹ is expected to continue to be developed in the short- to medium-term, with new joint financing of projects or funds and the set-up of additional platforms. Two European-wide cooperation platforms outside of the EFSI have been established, one for equity⁴⁰ and the other for securitisation,⁴¹ as a forum to share experiences and best practices between the EIF, the Commission and NPBs as well as to close joint transactions possibly supported by EFSI.

The rolling-out of Investment Platforms⁴² should be pursued, on the basis of the experience gained with the variety of structures approved as Investment Platforms by the Investment Committee both under the IIW and the SMEW.

Investment Platforms are useful tools to gather financing in order to support pools of EFSI eligible projects, typically in a specific sector or geographic area, and can take

³⁸ http://www.eib.org/attachments/strategies/efsi_steering_board_rules_applicable_to_operations_wit_h_investment_platforms_and_npbs_or_institutions_en.pdf

³⁹ See updated analysis in the EIB's annual Reports on EFSI to the European Parliament and the Council.

⁴⁰ http://www.eif.org/what_we_do/equity/NPI/index.htm

⁴¹ http://www.eif.org/what_we_do/guarantees/ENSI/index.htm

⁴² See updated analysis, for the IIW and the SMEW, in the EIB's annual Reports on EFSI to the European Parliament and the Council. The list of Investment Platforms approved under IIW is available at <http://www.eib.org/efsi/efsi-projects/index.htm>

various forms, ranging from the creation of specific vehicles to co-financing arrangements between the EIB and co-financiers, for instance NPBs.

The Steering Board welcomes the participation of public entities, including NPBs and Managing Authorities of ESIF, in order to provide contributions from public sources of funding such as national grants or ESIF contributions, when those are necessary to take part of the risk related to identified market failures or sub-optimal investment situations.

As foreseen in the EFSI Regulation, the EIAH shall continue to actively contribute to the development/establishment of Investment Platforms with its advisory support.⁴³ The Advisory Hub shall also continue to collaborate with NPBs to devise awareness raising and capacity building activities as well as through a call for proposals for the local delivery of investment advisory. This advisory support will be extended, in particular in Member States with less developed or non-existent NPBs.

7 PRODUCTS AND COUNTERPARTS

Examples of products to be utilised to implement EFSI and their specific EFSI-related features are laid down in Annex 1, which also contains a description of the collaboration with certain counterparts, in particular NPBs, and the establishment of Investment Platforms.

The EIB Group, in order to respond adequately to market needs, may develop new products in addition to those presented in Annex 1, subject to the provisions of the EFSI Regulation.

8 REVIEW OF THE STRATEGIC ORIENTATION

In line with the requirements of the EFSI Regulation, the Steering Board shall regularly review this Strategic Orientation for EFSI. The first review was adopted by the Steering Board on 13 September 2017. The present second review takes into account the entry into force of the amended Regulation (EFSI 2.0) and the related revisions to the EFSI Agreement.

In the context of the reviews, the Steering Board shall look, *inter alia*, at the deployment of EFSI, the use of the EU Guarantee, the support to EU policy objectives and EFSI's complementarity and synergies with other EU funded instruments (especially the ESIF) as well as geographical and sectorial distribution and concentration. In addition, it shall supervise the evolution of the risk profile of EFSI with the view to consider appropriate measures if necessary.

Finally, in order to review on a regular basis the implementation of EFSI, the Steering Board shall receive, on a semi-annual basis KPI / KMI monitoring reports, including, where relevant, additional monitoring information at product or sector level, as well as detailed information aggregated at portfolio level with regard to sectorial and geographical concentration/diversification, as well as on the overall risk profile of the portfolio.

⁴³ EIAH has reinforced its local presence, has mapped the strength of NPBs and has signed a Memorandum of Understanding with 24 NPBs, *inter alia*, providing them with advisory support in developing potential Investment Platforms.

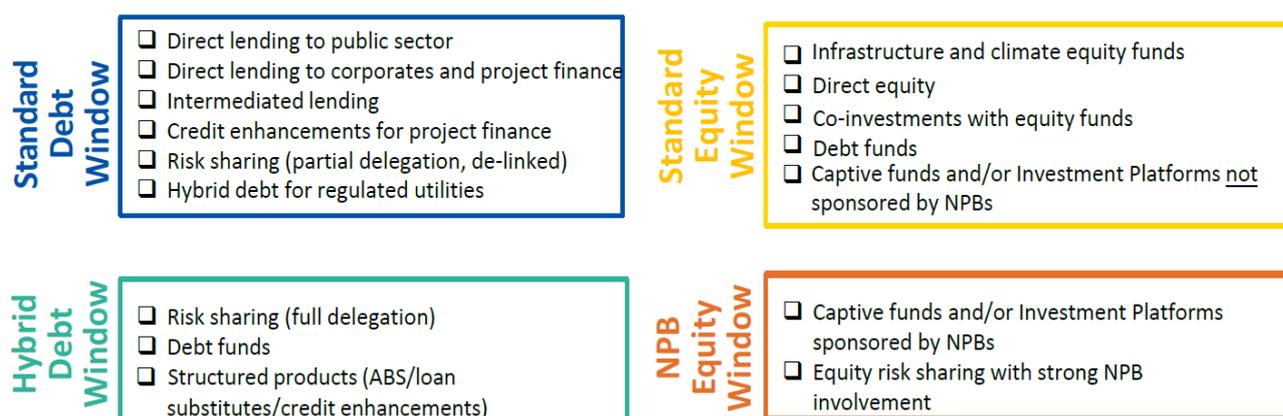
PRODUCTS AND COUNTERPARTS

The increased risk bearing capacity through the EU Guarantee enables the EIB and the EIF to reach new market areas, new client types (including the micro and small part of the SME category), and develop additional ways to engage with existing client types.

1. Products and counterparts under the IIW

The EFSI operations under the IIW shall generally fall under EIB's Special Activities risk category. In general terms, operations are being explored within seven broadly defined categories, as follows: (i) Corporate Junior (or Subordinated) Debt, (ii) Corporate Senior Debt, (iii) Project Finance Junior (Subordinated) Debt, (iv) Project Finance Senior Debt, (v) Risk-sharing with Financial Intermediary (FI)/Investor, (vi) Equity-type risk 'individual' operations, (vii) Equity-type risk 'portfolio' operations, and (viii) bank intermediated operations.

Figure 1: Examples of product types and counterparts



EFSI operations shall be structured in order to maximise, where possible, the mobilisation of private sector capital. The EFSI Investment Guidelines underline in section 2(b) that the EU Guarantee shall be granted to support directly or indirectly the financing of new operations. Refinancing operations can only be supported on an exceptional and well justified basis under specific conditions outlined in the EFSI Investment Guidelines. The EU Guarantee cannot be used to include retroactively into the EFSI portfolio signed EIB operations.⁴⁴

Similarly, opportunities to fund projects with public sector counterparts are also explored. These may comprise projects with private sector co-financing or, ultimately, projects where the residual financing is provided by the public sector, should it be established that private financing be unavailable.

⁴⁴ During the transitional phase as referred to in Article 24 of the EFSI Regulation, the EU Guarantee under EFSI could however be granted by the Commission to specific operations approved by the EIB and the EIF after 1 January 2015, including if already signed.

The majority of the operations signed under IIW are structured through direct products such as e.g. Investment Loans or Equity-type products. Several equity investments in infrastructure funds have also been made.

The below sections further describe key aspects of the product development in the context of EFSI deployment.

IIW Debt Portfolio

In the context of new product development, the EIB developed the “hybrid product” which is a deeply subordinated instrument aimed at supporting corporates, in particular utilities, with large investment programmes and facing balance sheet constraints. A significant attraction of the product is partial equity treatment by credit rating agencies during the period to the first call date (5-10 years), which can directly support new investment activity by enhancing balance sheet headroom.

In addition, operations are also being delivered through intermediated structures, such as Multi-Beneficiary Intermediated Loans (MBILs), including those targeting key priorities (e.g. energy efficiency investments), or being deployed through a range of loan substitutes (including ABSs and Covered Bonds) and bespoke credit enhancement solutions. This intermediation is not only limited to lending operations (either funded products or through guarantees to FIs) and risk-sharing financing (see next section) but also covers equity-type products (see section below). A significant share of this financing shall be delivered under IIW through FIs, including NPBs. Moreover, the EIB may rely on the EIF to implement certain types of operations under a bilateral arrangement.

With a view to better communicate the products offered under EFSI, the EIB publishes on its website a list of potential products offered using the EU Guarantee, for example a repository of product sheets, building on – but not limited to – the information already existing on its website.

Risk-sharing financing through intermediaries

Within the general framework of intermediated operations, a product currently being implemented under the debt portfolio is risk-sharing structures in cooperation with Financial Intermediaries, including NPBs. In risk-sharing operations, the EIB assumes the risk on individual underlying transactions in order to support the origination of an EFSI eligible new portfolio of loans.

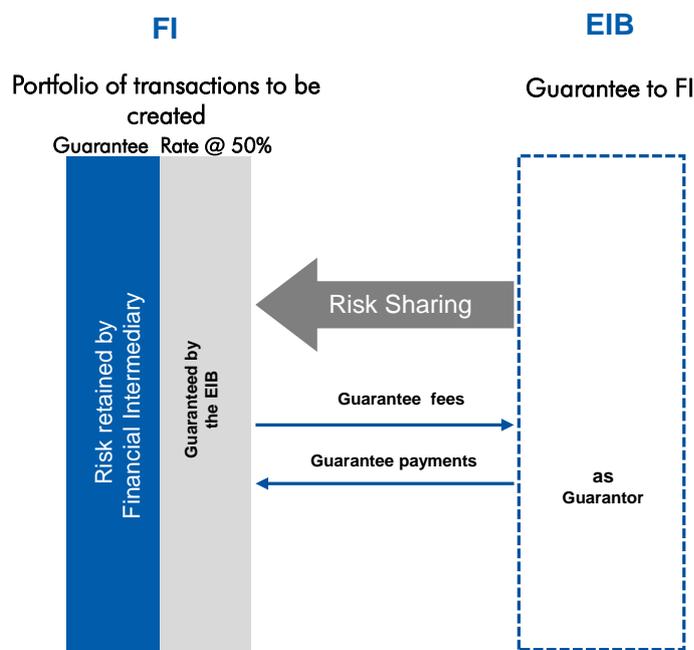
Linked Financing

Such risk-sharing operations can be structured as “linked” whereby the EIB guarantees up to 50% of new EFSI eligible operations originated by a partner financial intermediary during a pre-determined allocation period.⁴⁵ These structures can either be under “partial delegation”, i.e. the EIB retains the right to approve/reject any

⁴⁵ An alternative structure could be for instance “supply chain financing” operations where the EU Guarantee would cover payments of invoices from EU entities to enable the origination of new EFSI eligible loans. For such products to be eligible, the possible cross-border dimension shall comply with the criteria set out in section e) of the Steering Board document on “geographical eligibility of cross-border operations involving non-EU entities under EFSI” (SB/17/16).

individual operation, or under “full delegation” i.e. the EIB delegates to the financial intermediary the selection of the underlying exposures based on pre-defined criteria. Such structures enhance the credit capacity of the financial intermediary by reducing its exposure and hence also lowering the related capital consumption of the financial intermediary.

Figure 2: Examples of Linked Guarantee Schemes



De-linked Financing

Risk-sharing operations may also be structured as “de-linked” whereby the EIB guarantees up to 50% of an existing “reference portfolio” of identified performing loans (at the date of signature of the EIB guarantee).⁴⁶ In order to benefit from the guarantee, the financial intermediary contractually commits to building up a portfolio of new EFSI eligible loans (not guaranteed by the EIB), the “new eligible portfolio”, in accordance with EIB or EIF rules, policies and procedures. The de-linked structure reduces the financial intermediary’s exposure and capital consumption on the “reference portfolio”, thus creating new credit capacity to be deployed in order to support the origination of the “new eligible portfolio”. The coverage of the EU Guarantee shall become effective from the point at which the portfolio of new financings reaches a pre-defined minimum

⁴⁶ Under the delinked product, loans are guaranteed on an individual basis. The de-linked product will be available to NPBs or banks, including those under ongoing restructuring with a restructuring plan approved by Commission decision. It shall not be available to:

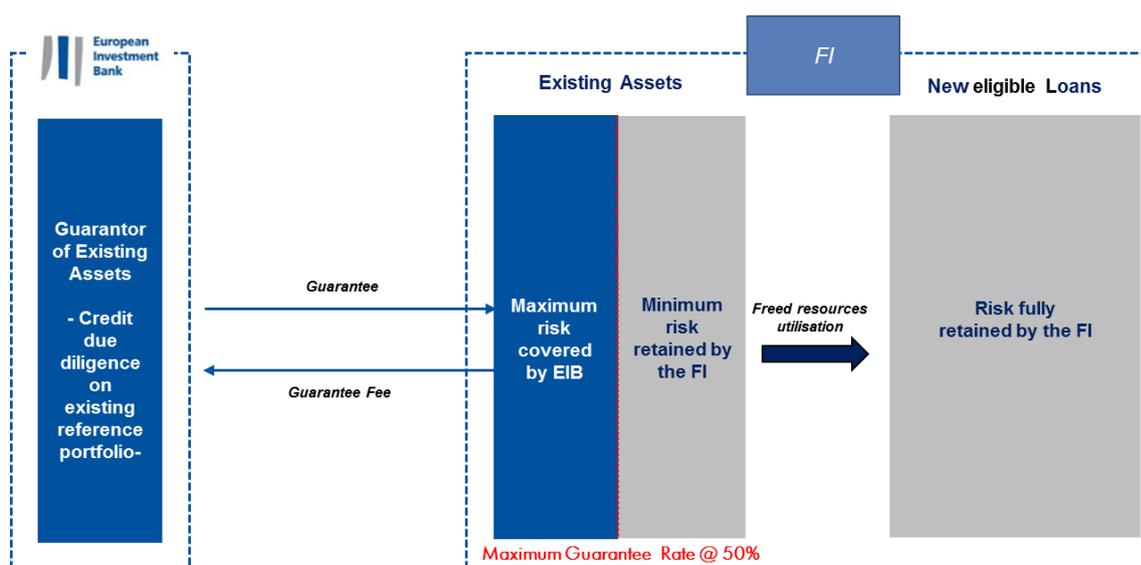
- Banks with a capital shortfall at the time of the signature of the EIB transaction based on EIB due diligence or supervisory public announcements. If a capital shortfall occurs during the defined time-frame for allocation of new loans, the EIB guarantee shall not allow for additional loans to be added (i.e. the guarantee rate is frozen).
- Banks in liquidation, wind-down or resolution.
- Cover non-performing loans. Exceptionally, the de-linked product could be available if it is done at market price, at least on a pari-passu basis with the private sector participating at least with the same amount and to the extent that new EFSI eligible loans are signed.

volume which can range from 1 to 2 times the guaranteed portion of the “reference portfolio”.⁴⁷

The loans and projects originated by the financial intermediary under the new portfolio will need to fulfil the EFSI requirements in terms of Additionality and other eligibility criteria in order to be included in the EFSI portfolio. The Investment Committee shall pay particular attention, in approving the availability of the EFSI guarantee, to the justification of this Additionality and how the operation addresses a sub-optimal investment situation or a market failure, as well as how the contractually agreed new eligible portfolio commitment of the intermediary improves the access to finance for entities up to 3,000 employees (for instance, how EFSI support allows the financial intermediary to expand its financing activity, what type of final beneficiaries will be reached, reduction of collateral requirements and increase in available loan tenors, transfer of financial advantage to beneficiaries). The EIB will ensure that "reference portfolio" will only include operations with borrowers incorporated in the EU and exclude operations with borrowers that belong to EIB excluded sectors.

This is the example of a simple structure that allows for efficient risk management in order to increase new lending by the financial intermediary.

Figure 3: Examples of De-linked Guarantee Schemes



⁴⁷ In line with EIB rules and procedures and in order to achieve a medium to high external multiplier, the pre-defined minimum and targeted volumes shall be determined on the basis of the structure of the risk-sharing product, the track-record in the ability of the financial intermediary to build up portfolios in the targeted sectors and other commercial features of the transaction. The financial intermediary will still be required to build the targeted volume of the “new eligible portfolio”.

Asset-Backed Securities (ABS) including tranching portfolio transactions/loan substitute transactions

Similarly, Asset-Backed Securities (ABS) or other tranching portfolio transactions⁴⁸ are products by which the EIB assumes risk on a tranche (typically lower rated senior or mezzanine) of a portfolio of existing loans,⁴⁹ thus creating new credit capacity for the financial intermediary to be deployed in order to support the origination of the new eligible portfolio. The loans and projects originated by the financial intermediary under the new portfolio need to fulfil the EFSI requirements in terms of Additionality and other eligibility criteria in order to be included in the EFSI portfolio. The Investment Committee shall pay particular attention, in approving the availability of the EFSI guarantee, to the justification of this Additionality and how the operation addresses a sub-optimal investment situation or a market failure, as well as how the contractually agreed new eligible portfolio commitment of the financial intermediary improves the access to finance for entities up to 3,000 employees (for instance, how EFSI support allows the financial intermediary to expand its financing activity, what type of final beneficiaries will be reached, reduction of collateral requirements and increase in available loan tenors, transfer of financial advantage to beneficiaries).

EIB investment can be either funded (purchase of notes) or in synthetic form (providing a guarantee). Tranching portfolio transactions may, depending on the specific tranche structure (e.g. senior, mezzanine and thickness of the tranche), entail a high external multiplier as the size of the new EFSI eligible portfolio exceeds the nominal EIB investment in the tranche.⁵⁰ The external multiplier is based on the size of the new EFSI eligible portfolio the financial intermediary contractually commits to building up, in accordance with EIB or EIF rules, policies and procedures.

The coverage of the EU Guarantee in respect of loan substitutes financing shall become effective from the point at which either: (i) the portfolio of new financings is of an amount equal to EFSI Guaranteed Operation or (ii) the EIB or the EIF enters into a loan substitute the documentation of which provides that the earliest scheduled payment obligation occurs only upon or after the portfolio of new financings has reached an amount equal to the EFSI Guaranteed Operation, failing which the EIB or the EIF has an exit possibility for example by exercising a put option or has recourse to security.

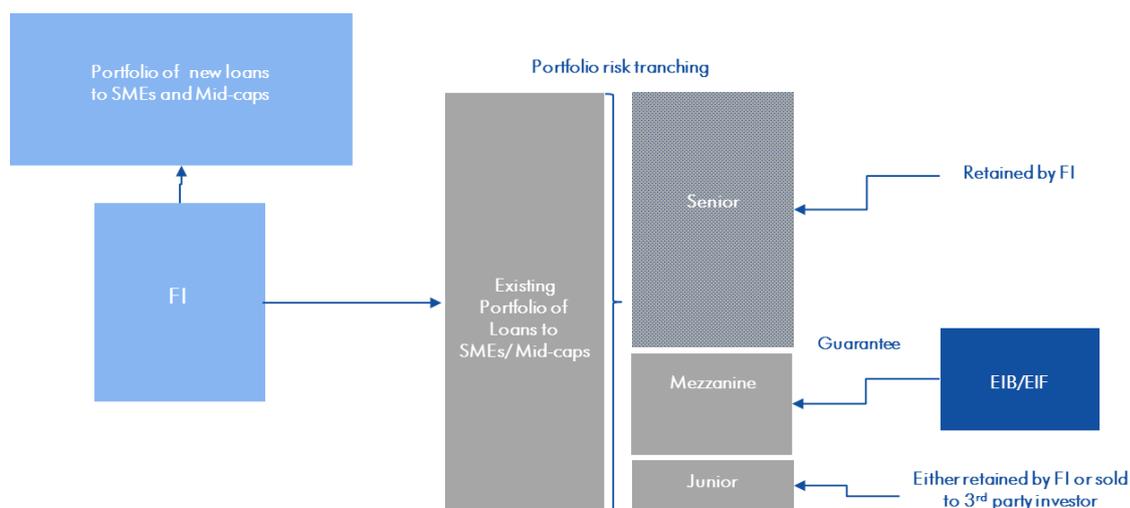
⁴⁸ Under the delinked product, loans are guaranteed on an individual basis. The de-linked product will be available to NPBs or banks, including those under ongoing restructuring with a restructuring plan approved by Commission decision. It shall not be available to:

- Banks with a capital shortfall at the time of the signature of the EIB transaction based on EIB due diligence or supervisory public announcements. If a capital shortfall occurs during the defined timeframe for allocation of new loans, the EIB guarantee shall not allow for additional loans to be added (i.e. the guarantee rate is frozen).
- Banks in liquidation, wind-down or resolution.
- Cover non-performing loans. Exceptionally, the de-linked product could be available if it is done at market price, at least on a pari-passu basis with the private sector participating at least with the same amount and to the extent that new EFSI eligible loans are signed.

⁴⁹ The EIB will ensure that the portfolio of existing loans will only include operations with borrowers incorporated in the EU and exclude operations with borrowers that belong to EIB excluded sectors.

⁵⁰ Whereas an investment in a mezzanine ABS tranche implies a nominal exposure that is a low percentage of a given portfolio, the risk incurred and regulatory capital requirement are much higher.

Figure 4: Examples of Mezzanine Guarantee in a Synthetic Securitisation



EIB will promote, whenever possible, transactions that have been qualified and obtained a Simple, Transparent and Standardised (STS) eligibility status. These are mostly expected to be intermediated SME/Mid-cap loan substitute operations with EIB investing in funded ABS transactions.

Further products may be developed subject to the provisions of the EFSI Regulation.

The creation of IIW Debt Portfolio - Hybrid, ring-fenced from the main IIW Debt Portfolio - Standard

The EIB calculates capital requirements in accordance with the Capital Requirements Directive/Regulation (CRD/CRR) to ensure compliance with best banking practice as required by its Statute. The EIB has chosen to apply the Advanced Internal Rating-Based (Advanced IRB) approach.

In particular, for securitisation structures and portfolios such as the IIW Debt Portfolio that benefits from the EU Guarantee as a Portfolio First Loss protection, the EIB applies the Supervisory Formula Approach (SFA) for the calculation of capital requirements, which ensures an optimal regulatory capital allocation.

The application of SFA requires an EIB internal rating for each underlying exposure in the portfolio (using a validated internal rating model) and underlying exposures cannot be tranching (i.e. no re-securitisation). The EIB has validated internal rating models for its common products, including the direct support to corporates, banks, and project finance.

For EIB operations that cannot be rated internally or entail a securitisation structure – and for which the SFA cannot be used – a specific, ring-fenced IIW Debt Portfolio - Hybrid has been set up. This portfolio is kept structurally separate from the IIW Debt Portfolio - Standard and currently entails full capital deduction of the EIB residual risk.

The IIW Debt Portfolio - Hybrid can thus accommodate operations such as ABS and other portfolio structured transactions, risk-sharing with full delegation to financial intermediaries (including NPBs) and/or loans to funds, and/or any loans to entities that

do not fit the current requirements of EIB's risk models (i.e. for which the EIB has not yet developed validated risk models and hence cannot apply the Advanced Rating Methodology under Basel rules).⁵¹ The projects supported by financial intermediaries or funds shall comply with the eligibility and Additionality criteria set out in the EFSI Regulation.

From 1 January 2019, a new regulatory securitisation framework will become effective, which will change the methods applicable for the calculation of regulatory capital requirements. No substantial change is proposed to the SFA (now renamed SEC-IRBA) and therefore, the treatment (and restrictions) currently applicable to the IIW Debt Portfolio - Standard will remain. However, a new approach – standardised approach for securitisations – will become available to Advanced IRB banks, which the EIB may be able to apply to the IIW Debt Portfolio - Hybrid to achieve a better regulatory capital allocation than the current full deduction.

Debt Funds

The EU Guarantee shall support EIB interventions in debt funds only to the extent that the risk profile of the portfolio of the underlying assets (taking into account possible credit protection provided by other parties including EU instruments) would carry a risk in line with the definition of Additionality as defined in Article 5 of the EFSI Regulation and which fulfil the eligibility criteria as set out in the EFSI Regulation.

IIW Equity Portfolio

The IIW equity portfolio is key for the EFSI implementation in particular in terms of multiplier impact. The EIB shall deliver under this portfolio through essentially two pillars: (i) direct equity-type financing and (ii) indirect equity financing.

The resources dedicated to the equity portfolio are limited to EUR 9bn. This portfolio shall only be used for operations with an equity-type risk profile, which according to the EFSI Regulation, must be priced in line with market terms. The IIW Equity Portfolio - Standard, 50/50 pari-passu between the EIB and the EU Guarantee, is complemented by the IIW Equity Portfolio – NPBs, with a 40% First Loss Piece pari-passu between the EIB and the EU Guarantee on a 5%/95% basis.

Standard Equity

Direct Equity-type financing

Quasi-equity products offered by the EIB can take various forms other than actual direct equity (i.e. the EIB holding ordinary or preference shares in an undertaking).

In the last years, the EIB started to successfully combine the concept of financing of innovation and innovative project structures through quasi-equity loans. Although more complex than pure equity and more risky than pure debt, the quasi-equity product has had a major impact on the EIB's ability to address market gaps with regard to availability of risk capital for innovation by Mid-caps and infrastructure financing.

⁵¹ These investments would require full capital allocation until such validated model is in place.

The products foreseen under the direct equity-type financing include the following:

a) Growth Finance for Mid-caps

This quasi-equity product builds mainly on the success of the quasi-equity operations piloted in 2015/16 under the InnovFin's Mid-cap Growth Finance (MGF) programme. It offers extremely high Additionality and represents a unique financial instrument developed specifically by the EIB to address the need of long-term growth capital.

Its roll-out under EFSI will address a wider group of Mid-cap companies, with a focus on late-stage Mid-caps entering a growth phase and investing in innovation. The main focus will be on life sciences, ICT and advanced manufacturing, which represent areas where the market gap for equity-type financing is the most pronounced.

Eligibility criteria will be based on two elements: i) eligible counterparts, and ii) investment programme. Eligible counterparts will have to demonstrate a corporate investment budget of at least twice the contemplated EIB financing. Eligible counterparts can be all SME & Mid-Cap companies, including but not limited to, innovative or fast growing companies. Therefore, the eligibility criteria of the quasi-equity programme piloted under InnovFin's MGF will be broadened under EFSI.

b) Innovation risk-sharing

Most of the riskiest and costliest research in Europe is still carried out by established corporates. However, investment programmes in fundamental research, disruptive technologies, or products with high impact but not sufficient return on equity for private investors alone, often get side-lined in favour of market-driven research and the gradual improvement of existing products in the sector.

In EIB's experience, developing risk-sharing structures alongside European corporates has proven a successful catalyst of corporate innovation and investments in breakthrough technologies. Sharing the downside as well as the upside of certain investment programmes in partnership with European corporates is a financing structure pioneered by the EIB. The product has received strong market support from leading biotech/life science groups and large industrial players. For instance, development of new medical devices, cutting-edge biotech research, as well as disruptive industrial technologies and innovation, form the core of the existing pipeline for this product.

The few innovation risk-sharing operations piloted were categorized as "equity risk" operations under InnovFin's MGF and were backed by 100% of EIB own capital. The bespoke nature of the operations, as well as their capital intensity, limited the EIB's ability to scale up the programme without the support of EFSI. Under EFSI, the programme shall benefit from the matching risk absorption by the EU Guarantee. Therefore, the EIB shall continue to grow this programme from its pilot stage under InnovFin into a fully operational product under EFSI. It shall also be able to offer higher individual tickets.

c) Quasi-equity project-finance

Before EFSI, the EIB was only active in senior or subordinated debt project finance, without quasi equity features. Nevertheless, sponsors and the private sector are increasingly approaching the EIB with requests to provide more deeply subordinated financing with equity risk features, in particular in projects with higher market risk or in riskier countries. The EIB would, thus, participate in financings featuring repayments related to the projects' performance as well as some upside equity-type participation.

Indirect equity financing

The larger part of the EFSI Equity Portfolio is to be delivered through indirect financing via investments in equity funds, alongside private and public investment managers. As outlined below, the products under this heading are either existing products or structures already tested in similar arrangements, and shall be extended under EFSI to reach a larger number of funds than it would possible without EFSI support. The final beneficiaries of EIB's intermediated equity investments shall remain projects and companies promoting infrastructure, climate action, innovation, other sectorial priority investments, or SMEs and Mid-caps.

The types of products or structures foreseen under the indirect equity financing include notably the following:

a) Infrastructure and climate action funds

With regard to infrastructure and climate action funds, EIB investments address one of the key challenges in new infrastructure and renewable energy projects – the lack of equity for the riskier development and construction phases. This is particularly pertinent for sectors and business models that have not yet matured. With EFSI support, the EIB ramped up deployment volumes. EIB investments crowd in not only private equity capital at the fund level but also commercial debt at underlying project level, thus making these projects possible. At the same time, by its nature, this product is also estimated to achieve a significant climate action impact.

b) Debt funds

The EIB may typically invest in large non-diversified mid-market loan funds that are not eligible for financing by the EIF. These funds are vehicles which, although not bank-intermediated or organised as securitisations, would invest in debt assets (would hold debt portfolios) and would typically be managed by an independent fund manager. The investments of the EIB in the targeted loan funds would provide Additionality with the ultimate aim to support the development and expansion of this emerging industry in the EU to the benefit of midmarket companies. Loan funds' recognized value proposition lies in their holistic and tailor-made financing solutions (compared to traditional commercial banks) meeting the specific needs of mid-market enterprises and featuring multiple benefits, including bespoke financing structures, including typically longer grace period and bullet repayments, to facilitate capital expenditures without undue pressure on the company's cash flows.

c) EIB Co-Investment Programme (ECIP)

ECIP is an existing co-investment product offered by the EIB to the infrastructure and climate action funds in which it has invested as a limited partner (LP). Under this programme, approved by the EFSI Investment Committee and the EIB Board, the EIB co-invests with funds in selected individual projects which normally require an investment that is too large for the fund to carry out on its own. The investment management of such operations is fully delegated to the fund on the basis of standard documentation.

d) EIB investments in certain EIF Funds and EIB Co-investments with certain EIF Funds

In order to address the high demand experienced by SMEs/Mid-cap companies, part of the EFSI Equity portfolio is delivered in collaboration with the EIF. This is done in two indirect ways.

First, EIB financing under EFSI shall be entrusted to EIF for (i) top-up investments in SME funds where EIF reached its prudential/concentration limits and an EIB investment would allow the fund to reach its target size, and (ii) investments in funds supporting innovation financing for Mid-caps. Delivery of these products is done by EIF under bilateral arrangements, which are subject to the EFSI-IIW procedures (i.e. including approval of the product by the EFSI Investment Committee). To be noted that EIF financing into the funds referred to under (i) does not benefit from the EU guarantee under EFSI.

Second, EIB financing under EFSI shall be co-invested by the EIF on behalf of EIB, on the basis of a bilateral arrangement, in individual innovative companies which have already received or are about to receive EIF financing through funds. Such co-investments shall be carried out with funds in which prudential/concentration limits are reached and where a further EIB Group investment would be additional.

NPB Equity

Under the amended EFSI Regulation, in addition to the IIW Equity Portfolio - Standard, the IIW Equity Portfolio - NPBs has been created in response to the increased expectations towards financing with NPBs and the need to accommodate products that require increased flexibility in their structures – especially where the NPBs play a leading role. Indeed, while demand for equity financing by NPBs is strong, due to their specific nature, NPBs face operational difficulties in complying with all the requirements typically expected from commercial investors under the IIW Equity Portfolio - Standard.

The use of a first loss piece to share risk between the EIB and the EU is in recognition of the higher uncertainty in assessing “market price” in equity type operations led by non-commercial financial intermediaries, in particular NPBs. NPBs often operate in local markets where the determination of a balanced risk-return is very difficult. This difficulty can be further increased when the commercial co-financiers are present only at a different level in the structure of the operation. The presence of a first-loss piece allows for greater flexibility to accommodate operations where the adequate risk-return

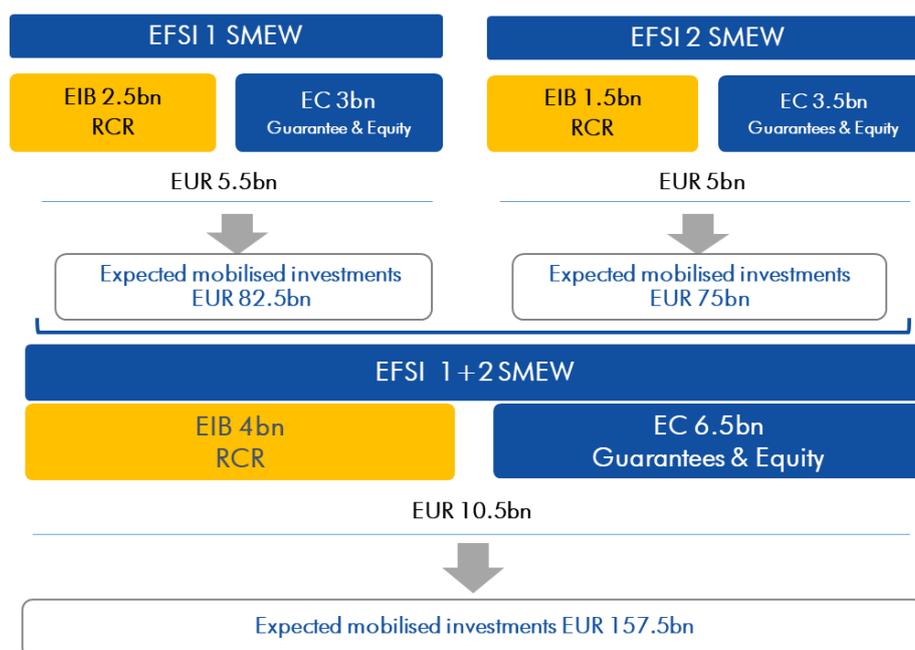
is very difficult to assess, hence increasing the range of transactions under risk-sharing operations and captive funds managed by NPBs.

The creation of the IIW Equity Portfolio - NPBs shall allow the EIB to meet current market demand for equity-type investments coming from NPBs. Following the set-up of the IIW Equity Portfolio – NPBs, the EIB shall increase its efforts to originate and approve operations under this portfolio.

2. Products and Counterparts under the SMEW

Following the amendment of the EFSI Regulation (EFSI 2.0), the SMEW was increased from EUR 5.5bn to EUR 10.5bn.

The SMEW consists of up to EUR 4bn provided by the EIB under its own risk (increasing the Risk Capital Resources (RCR) mandate) and up to EUR 6.5bn provided by EC/EIB under EFSI (i.e. backed by the EU Guarantee) to support a number of products to be implemented through the EIF. The SMEW products benefitting of the EU Guarantee coverage are approved by the EFSI Steering Board and the Managing Director after consultation with the EFSI Investment Committee.⁵²



The deployment of the EFSI 1.0 SMEW consisted of:

- a) Frontloading and subsequently enhancing the existing EU guarantee facilities (“**the EU guarantee facilities**”):
 - (i) InnovFin SME Guarantee Facility,
 - (ii) COSME Loan Guarantee Facility,
 - (iii) EaSI Guarantee Financial Instrument,
 - (iv) Cultural and Creative Sector Guarantee Facility,

⁵² Under the SMEW, individual operations are subject to approval by EIF’s Governing Bodies.

thereby increasing the overall size of those facilities and scaling up the EU support to their final beneficiaries⁵³ and

- b) **Increasing the RCR mandate** by EUR 2.5bn (from EUR 7 to EUR 9.5bn) to further support SMEs' and Mid-caps' access to finance in the form of equity.
- c) Launching the new EUR 1.27bn **SMEW Equity Product** in 2016 for equity instruments of a total size of EUR 2bn (including Horizon 2020 and EIF contributions), comprising of two sub-windows:
 - Sub-window 1, an equity facility where the EIF provides equity type investments and co-investments in or alongside expansion and growth stage financial intermediaries and multi-stage financial intermediaries that target SMEs and small Mid-caps, as well as financial intermediaries targeting to deliver social impact (including payment by result schemes); and
 - Sub-window 2, an equity facility where the EIF provides equity type investments and co-investments in or alongside early-stage financial intermediaries.

With a view to further encourage the mobilisation of private capital; EFSI 2.0. SMEW is deployed towards:⁵⁴

- a) Further enhancing of the risk taking capacity of the four EU guarantee facilities
- b) Further increase of the equity products (EFSI SMEW Equity Product Sub-window 1 and Sub-window 2)
- c) Further increase of the RCR mandate
- d) New products:
 - **EFSI Private Credit Tailored for SMEs Product (“the PC Product”)**, which contributes to Capital Markets Union objectives by increasing the availability of non-bank debt financing for SMEs and small Mid-caps across the EU. The PC Product will comprise two distinct, complementary windows: (1) a cash investment product supporting EIF’s investments into eligible debt funds and (2) an investor guarantee product helping to mobilise fund commitments from other investors. By combining cash investments together with investor guarantees, the product is expected to support both fund creation and fund scaling, and ultimately support the creation of further alternative funding sources for SMEs and small Mid-caps.
 - **EFSI Combination Product**, which facilitates the deployment of new guarantee financial instruments combining national or regional resources together with EFSI resources (with EFSI as a second loss risk taker). The EFSI Combination Product will address financing gaps and sub-

⁵³ The EFSI Steering Board and Managing Director (after consultation of the Investment Committee) formally approved these products. EU Guarantee coverage for SMEW operations was provided by ad hoc decisions of the Commission until the EFSI governance structures were in place.

⁵⁴ Currently under discussion, to be submitted for EFSI Steering Board approval.

optimal investment situations in a number of policy areas of common interest between a Member State and the EU, starting with the agriculture sector. EUR 150m has been allocated under the EFSI Combination Product to combinations creating financial instruments targeting agriculture.

Further equity and guarantee type products are being contemplated under EFSI 2.0 SMEW, which aim to address a number of the EU priorities, including scale-ups in Europe, human capital/skills, SME digitisation.

MINIMUM SCORES FOR SCOREBOARD PILLARS⁵⁵

This Annex presents the minimum scores for each pillar of the scoreboard and the minimum threshold below which an operation will have to be authorised by the Steering Board before being examined by the Investment Committee.

1. Minimum scores for Pillar 1, Pillar 2 and Pillar 3

The ratings for Pillar 1, Pillar 2 and Pillar 3 as set in the Delegated Regulation⁵⁶ are as follows:

Pillar 1 rating	Pillar 2 rating	Pillar 3 rating
High	Excellent	High
Significant	Good	Significant
Moderate	Acceptable	Moderate
Low	Marginal	Low

The minimum scores for Pillar 1, Pillar 2 and Pillar 3 are as follows:

Pillars	Minimum score
Pillar 1 – Contribution to EFSI policy objectives	Significant
Pillar 2 – Quality and soundness of the project	Good
Pillar 3 – Technical and financial contribution	Significant

2. Minimum scores for Pillar 4

The indicators below under Pillar 4 will be rated according to the following scale:

Indicators	Criteria	YES/NO
Strong Indicators of Additionality	Is the operation expected to be SA?	YES=2; NO=0

⁵⁵ Meeting of the Steering Board on 18 May 2018 (see minutes, SB/26/18, at http://www.eib.org/attachments/strategies/efsi_steering_board_minutes_20180418_en.pdf)

⁵⁶ Commission Delegated Regulation (EU) 2015/1558 of 22 July 2015.

	Is the operation expected to be cross-border in the sense of Article 5(1)? ⁵⁷	YES=2; NO=0
Climate Action	Is the Climate Action contribution of the operation at least 40%?	YES=2; NO=0
	Is the Climate Action contribution at least 25% and below 40%?	YES=1; NO=0
Multiplier	Is the multiplier at least 15x?	YES=2; NO=0
	Is the multiplier at least 8x and below 15x?	YES=1; NO=0
Private Finance Mobilised	Is private financed mobilised at least 50% of EFSI eligible investment mobilised?	YES=1; NO=0
Cooperation with National Promotional Banks and support to Investment Platforms	Is an NPB expected to be involved in the operation? OR Is the operation presented as an Investment Platform or expected to be part of an Investment Platform?	YES=1; NO=0
Co-financing with ESIF or other EU instruments	Is the operation expected to benefit from ESIF or other EU grants and financial instruments?	YES=1; NO=0

The minimum score for Pillar 4 is established at 4 for all operations. However, the minimum score for operations targeting SMEs and small Mid-Caps is set at 3, taking into account that

- i) EFSI financing for SMEs and small Mid-cap companies shall not be included in the computation of the Climate action target, and
- ii) these operations cannot be cross-border in the meaning of Article 5(1) last indent of the EFSI Regulation.

3. Minimum threshold to be defined in the Strategic Orientation:

The minimum threshold is set as follows:

Operations that are below the minimum score on at least two of the Pillars 1, 2 and 3 as defined in point 1 above AND below the minimum score for Pillar 4 as defined in point 2 above, require Steering Board authorisation for an examination by the Investment Committee.

⁵⁷ Projects that consist of physical infrastructure, including e-infrastructure, linking two or more Member States or of the extension of such infrastructure or services linked to such infrastructure from one Member State to one or more Member States (Article 5(1) of the EFSI Regulation).

If, on the basis of its global assessment of the information contained in the scoreboard, in particular taking into account the macro-economic and project specific indicators of the Pillar 4, the Steering Board concludes that the operations would either address a significant market failure or present a high level of Additionality, it can allow Investment Committee to examine these operations.

The Investment Committee shall examine all other operations without prior authorisation by the Steering Board.