European Fund for Strategic Investments – Questions and Answers

What is it?

What is the European Fund for Strategic Investments (EFSI)?

EFSI is an EU initiative launched jointly by the EIB Group and the European Commission to help overcome the current investment gap in the European Union by mobilising private financing for strategic investments.

It will support investment in transport, energy and digital infrastructure; education and training, health, research and development, information and communications technology and innovation; expansion of renewable energy and resource efficiency; environmental, urban and social projects; as well as support for smaller businesses and midcap companies. EFSI aims to unlock EUR 315 billion of investment over the next three years.

Is EFSI a new, separate fund or agency?

No. EFSI is not a fund or other legal entity and it does not trade independently. EFSI is a EUR 16 billion guarantee from the EU budget, complemented by an allocation of EUR 5 billion of EIB's own capital. Its dedicated governance ensures that it remains focused on its specific objectives, namely to increase the volume of higher risk projects supported by EIB Group financing operations and address the market failure in risk-taking which hinders investment in Europe.

How does it work?

How will EFSI operate?

EFSI will be managed by and within existing EIB Group structures. As financing operations will be on the EIB's balance sheet, they are subject to standard EIB due diligence and approval by its governing bodies. For operations that are set to benefit from the EU budget guarantee under EFSI, three new dedicated bodies will also play a role:

- The EFSI Steering Board will provide guidance on the target risk-profile of the portfolio and the strategic orientations of EFSI.
- An EFSI Investment Committee will assess and approve the use of the EU budget guarantee in specific operations.
- A Managing Director (assisted by a Deputy Managing Director) will be responsible for the day-to-day management of EFSI and of supporting the Steering Board and the Investment Committee.

How does the EU guarantee and EIB contribution work?

EFSI is based on a EUR 16 billion EU guarantee, which will offer a specific cover to the investments financed by the EIB Group in case there are any losses. In addition, the EIB is contributing a EUR 5 billion capital allocation.

How can EUR 21 billion deliver EUR 315 billion of investment?

The EUR 21 billion endowment of EFSI will allow the EIB Group (both EIB and EIF) to back financing worth in total approximately EUR 61 billion over the investment period, on top of its ordinary base activity (which in recent years has been of around EUR 50 billion annually). EFSI's objective is for EIB Group support to mobilise other sources of public and private sector finance to support investment worth much more than the EFSI financing provided.

Can you explain leverage estimate and examples of multiplier effect?

Based on an endowment of EUR 21 billion, EFSI's objective is to mobilise investment worth EUR 315 billion, thereby multiplying the initial seed capital by a factor of 15.

Concretely, a multiplier of 15 means that 1 Euro of EFSI's initial endowment (which for EFSI amounts to EUR 21 billion) will be used to generate lending worth more than 1 Euro (internal multiplier: the initial endowment Euro becomes a loan of many Euros), and each loan will in turn generate investment worth several times the loan itself by attracting third party co-investment (external multiplier: the loan attracts capitals worth several times the loan itself).

Since the EU guarantee is portfolio-based (covering hundreds of projects), the multiplier can only be exactly measured at the end of the investment period and only on a portfolio basis, not project by project. Based on EIB experience, a multiplier of 15 is realistic.

Will EFSI be active on capital markets?

EFSI is not a separate fund or a stand-alone legal entity. Hence it will not issue bonds and will not be rated. During the investment period, the EIB will provide EFSI financing of approximately EUR 49 billion and the EIF around EUR 12 billion, backed by the EU/EIB guarantee under EFSI, in order to mobilise third party, and in particular private sector, financing. The EIB, as the largest multilateral lender and borrower, will fund its lending under EFSI in the same way as the rest of its activity, i.e. on the capital markets.

Who can benefit?

Who can apply for EFSI financing?

- Entities of all sizes, including utilities, special purpose vehicles or project companies, small and medium-sized enterprises (with up to 250 employees) and midcaps (with up to 3 000 employees)
- Public sector entities
- National promotional banks or other banks to deliver intermediated lending
- Funds and any other form of collective investment vehicles
- Bespoke investment platforms

What kind of projects will EFSI finance?

EFSI will focus on projects which could not have been carried out, or not to the same extent, by the EIB, the EIF, or under existing Union financial instruments without EFSI support.

Projects supported by EFSI shall typically have a higher risk profile than projects supported by EIB normal operations.

Where will EFSI support operations?

EFSI is demand driven and will provide support for projects everywhere in the EU, including cross-border projects. There are no geographic or sector quotas. Projects will be considered based on their individual merits.

How does one apply for EFSI funding?

Anyone can submit their request for financing to the EIB for infrastructure and innovation projects, and for SME financing, to EIB and EIF partner institutions in each country. Project promoters can contact the EIB directly – they do not need to pass via a local authority or government.

Will EFSI only finance risky projects and promoters?

Projects or entities financed under EFSI will not necessarily be high risk. However, EFSI allows the EIB to take on more risk where necessary. Overall, the EFSI project portfolio's risk profile will be higher than the average risk profile of other EIB projects and assets.

What is EFSI's added value?

Will EFSI activity have an impact on the EIB's credit rating?

From the outset, EFSI has been designed to protect the EIB's excellent credit rating. The EU guarantee is structured to largely off-set risk from the incremental EFSI lending, while maintaining EIB's rating and the long-term sustainability of the Bank. The new initiative will benefit from the EIB's strong credit standing that enables funding at favourable conditions and across maturities.

How will the European Investment Fund (EIF) be involved in the new initiative?

Part of the EIB Group, the EIF is the leading provider in innovative SME risk financing across Europe. Under EFSI, the EIF will provide financing via intermediaries targeting SMEs and mid-cap companies. Via the EFSI SME window, the EIF will make available EUR 5bn with the aim of generating total investment of up to EUR 75bn for SMEs and small midcaps. Financial institutions can apply to partner with the EIF under EFSI to deliver these funds to the real economy. Eligible institutions include guarantee or credit institutions and loan (debt) funds authorised to carry out lending or leasing activities to SMEs.

How are EFSI operations different from the EIB's standard business?

EFSI allows the EIB Group to do considerably more than it did in the past in financing innovative, higher risk projects. This will enable the EIB to address market gaps and encourage other financers, public or private, to participate, unlocking investment that is currently slowed down or hindered by economic uncertainty.

If an application for EFSI financing is turned down, can a promoter receive ordinary EIB financing?

Yes, provided the project meets the criteria for other EIB funding. EFSI is only one of several initiatives administered by the EIB Group. If a project is viable but its features do not make it eligible for EFSI funding, other EIB Group financing may be made available subject to ordinary EIB due diligence. If the project is not viable or does not pass EIB eligibility tests, it will not be supported.

How will the EIB ensure that lending under EFSI is in addition to current lending activities?

EFSI's dedicated governance system will ensure that EFSI operations are in line with its objectives and guidelines.

EFSI will allow the EIB Group to do many more transactions at the higher end of the risk spectrum than it does today. Doing more innovative and risky business the EIB Group has done in the past will make a substantial difference to the Group's economic impact precisely in terms of mobilising new investment.

Will the impact of EFSI be measured?

The EIB monitors and measures the results and impact of EFSI during implementation and afterwards, with a focus on the impact of projects on growth and job creation.

How will EFSI select projects?

Projects financed by EFSI will need to go through the standard EIB due diligence as well as an assessment by the EFSI Investment Committee to decide whether they are eligible for backing under the EU guarantee. They need to be technically and economically sound and match the eligible sectors laid-out in the Investment Plan (transport, energy and digital infrastructure; education and training, health, research and development, information and communications technology and innovation; expansion of renewable energy and resource efficiency; environmental, urban and social projects; as well as smaller businesses and midcap companies).

How will new lending under EFSI support access to finance for SMEs?

EFSI addresses SMEs mainly via financial intermediaries who will in turn lend to local companies. Both the EIF and the EIB will provide SME support under EFSI.

Several national promotional banks and countries have announced that they will contribute to EFSI. Will they join as 'shareholders'? Will you revise your EUR 315bn target upwards?

We welcome the announcements of promotional banks and countries seeking to contribute to the investment initiative. From the outset, we have been working very closely with our partners at national level and designed it so that national promotional banks can join in.

We expect national promotional banks (for now Germany, Spain, Italy, Poland, Luxembourg, France and Slovakia have made announcements, but we expect more to follow) and countries will co-invest at the level of projects and/or platforms within EFSI.

National promotional banks or countries will not contribute directly into EFSI. Their joining the investment plan will not result in an increase of the EUR 315 billion target, but this will clearly contribute to reaching the target. Moreover, it is a sign that they believe that the projects selected for EFSI support will really add value for Europe.

Will EFSI be enough to fill the investment gap and kick-start growth?

EFSI is no "silver bullet". It is a targeted response to a specific market failure in risk bearing capacity. Liquidity exists, but many projects are still unable to secure adequate funding.

The best way of using limited public funds is to attract other investors rather than spending it on grants. EFSI aims to unlock private investment in projects that are currently hampered, but could have a strong effect on jobs and growth in Europe.

Success of the Investment Plan does not depend on EFSI alone. Structural reforms are necessary and so is dealing with regulatory and administrative barriers to investment at both EU and national level. Everyone must play their part.

For more information, please visit the EIB website at www.eib.org/invest-eu, the European Commission website at http://ec.europa.eu/invest-eu or contact the EIB Infodesk at info@eib.org.