EUROPEAN INVESTMENT FUND

FOR DECISION

EUROPEAN FUND FOR STRATEGIC INVESTMENTS

STEERING BOARD

SME Window
CDP-EIF Equity Co-operation Platform
Social Impact Italia EFSI Thematic Investment Platform
for Social Impact Finance in Italy

Proposal by EIF
Questions concerning this note should be referred to
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SME Window
Social Impact Italia - EFSI Thematic Investment Platform for Social Impact Finance in Italy
CDP-EIF Equity Co-operation Platform

Based on the “Rules applicable to operations with Investment Platforms and National Promotional Banks or Institutions”, approved by the EFSI Steering Board in February 2016 (SB/10/16), the purpose of this note is, following consultation with the EFSI Investment Committee, to request approval from the EFSI Steering Board jointly with the EFSI Managing Director for:

- the CDP-EIF Equity Co-operation Platform (hereinafter “CEECIP”), as an umbrella platform hosting the current and future equity-focused EFSI Thematic Investment Platforms approved by the EFSI Steering Board and jointly promoted by CDP and EIF, including ITAtech (approved by the EFSI Steering Board and the EFSI Managing Director under written procedure in December 2016) and the SIP;
- the Social Impact Italia EFSI Thematic Investment Platform for Social Impact Finance in Italy (hereinafter the “SIP”) as an equity investment partnership between CDP and EIF involving, amongst others, EFSI SMEW Equity Product resources.

Approval of joint programmes as EFSI Thematic Investment Platforms enables CDP to benefit from an Italian Ministry of Economy and Finance (“MEF”) partial guarantee scheme established to facilitate CDP’s financial contributions in EFSI Thematic Investment Platform initiatives. Through such guarantee scheme, CDP could reduce the capital provisioning of its financial contribution to programmes such as ITAtech and SIP, thereby releasing CDP resources which could be invested in other CDP initiatives with the EIB Group under EFSI.

Approval of an umbrella platform such as CEECP would streamline EIF and CDP joint positioning in Italy and enable CDP to harmonize requests to the MEF to access the partial guarantee scheme applicable to all the EFSI Thematic Investment Platforms hosted therein under innovative equity financing.

1. Background


The EFSI Agreement defines thematic investment platforms as “a special purpose vehicle, managed account, contract-based co-financing or risk-sharing arrangement or arrangement established by any other means by which entities channel a financial contribution in order to finance a number of investment projects. Thematic investment platforms may include: (i) national or sub-national platforms that group together several investment projects on the territory of a given Member State; (ii) multi-country or regional platforms that group together partners from several Member States or third countries interested in projects in a given geographic area; or (iii) thematic platforms that group together investment projects in a given sector”.

On 22 July 2016, the amendment of the agreement on the management of EFSI and on the granting of the EU guarantee signed between the European Union and the European Investment Bank resulted in the establishment of the SME Window Equity Product (“SMEW EP”). It is foreseen that National
Promotional Institutions ("NPIs") may access co-funding from SMEW EP, thereby increasing the leverage of the EFSI, EC and EIF resources.

2. Overview of the Proposal

As Italy’s NPI1, CDP has a public mission to promote the development of the national economic-industrial system. Through signature of a Memorandum of Understanding ("MoU") in June 2016, recently amended and expanded in scope in November 2017, EIF and CDP have joined forces to partner in the area of equity and debt investments in Italy, most notably to support financing of SMEs, Mid-Caps, and innovation.

In September 2016, CDP became a founding member of the EIF-NPI Equity Platform, a consultative body aimed at facilitating cooperation and information sharing among the EIF, the EC and NPIs from across Member States.

In the context of the aforementioned MoU, EIF and CDP have already set-up:

- the EFSI Thematic Investment Platform for Italian SMEs, that is an umbrella platform for Risk Sharing initiatives such as COSME, InnovFin, CCS, etc., approved by the EFSI Steering Board as an EFSI Thematic Investment Platform on the 23rd November 2016
- ITAtech, an investment platform dedicated to Technology Transfer in Italy approved by the EFSI Steering Board as an EFSI Thematic Investment Platform by written procedure in December 2016,
- ENSI, a pan-EU thematic investment platform dedicated to co-investments in securitisation transactions, approved by the EFSI Steering Board as an EFSI Thematic Investment Platform by written procedure in December 2016.

In addition, a proposal for a new investment platform is presented hereof concerning the Social Impact Italia, a dedicated programme of up to EUR 100m aimed at supporting the Social Impact (SI) finance market in Italy.

a. CDP-EIF Equity Co-operation Platform

Approval is requested for the CEECP umbrella platform, under which current and future equity and quasi-equity EFSI Thematic Investment Platforms jointly promoted by CDP and EIF will be hosted. CEECP would send a strong signal to the market in relation to CDP and EIF joint effort to sustain the Italian equity market for innovation at all levels.

In addition, although approval of an umbrella platform is not necessary to obtain the MEF guarantee, CDP and EIF intend to set up additional thematic equity investment platforms in the coming years; this considered, a structure like CEECP would streamline CDP’s procedures for participating in the guarantee scheme of the MEF: CDP would request the participation in the scheme only once, in relation to the CEECP as a whole, wherein the guarantee would apply to each of the underlying Investment Platforms, which will be approved as EFSI Thematic Equity Investment Platform by the relevant EFSI governing bodies.

For the avoidance of doubts, the set-up of any new thematic investment platforms, including any activities thereof, will follow the normal EIF decision-making process.

b. Social Impact Italia

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1 CDP’s mandate as NPI for Italy in Italian Stability Law 2016
The Steering Board is also requested to approve Social Impact Italia as an EFSI Thematic Investment Platform, which will be co-sponsored by CDP and EIF and managed by EIF.

The SIP is a new investment mandate from CDP to EIF, which was approved by the EIF Board on 18 September 2017. It will make investments to catalyse and accelerate the development of the SI investments market in Italy by focusing on key private and public stakeholders in the Italian market, including intermediaries such as impact funds, accelerators, business angels and other financial intermediaries focused on social investments which in turn will target social or micro-enterprises, depending on the objective of the specific investment. EIF will build on its experience in spearheading SI initiatives throughout Europe while capitalising on CDP’s knowledge of and access to the Italian market.

Through its investment activity, the SIP aims to boost the SI finance market in Italy by:

- fostering SI investments by dedicated impact funds, business angels, and other intermediaries which aim to support enterprises and organisations with defined social objectives;
- building up the institutional capacity of selected financial intermediaries focussing on SI finance that have not yet reached sustainability or are in need of risk capital to sustain their growth and development.

The decision-making process for individual investments under the SIP, including approval thereof, will be taken by the competent bodies of the EIF, in line with standard EIF decision-making processes, policies, and procedures.

3. Structure of the platforms

a. CDP-EIF Equity Co-operation Platform

The proposed structure would consist of a virtual umbrella platform which would serve purely to group all equity-focused² EFSI Thematic Investment Platforms jointly promoted by CDP and EIF; ITAttech and SIP would be the first thematic investment platforms to be included therein.

CDP would request to the MEF an umbrella approval to access the guarantee applying to the CEECP and in turn to all underlying thematic investment platforms. Any further thematic investment platforms to be added in the future under this umbrella platform would be submitted for approval to the EFSI Steering Board jointly with the EFSI Managing Director.

2 The CEECP may also be used in the future to host EFSI Thematic Investment Platforms, including for instance private debt funds, which use investment modalities and structures that are similar to those of private equity / venture capital funds.
b. Social Impact Italia

The SIP will be constituted of (i) an EIF contribution of EUR 50m, including through resources from EFSI SME Equity Product and (ii) EUR 50m in co-financing from CDP.

The SIP would invest in indicatively 4-6 Italy-focussed SI intermediaries, including social impact funds, business angels, investors in payment-by-results schemes, credit institutes and non-banking institutes, making onward investments in and enhancing access to finance for target final recipients.
The establishment of the SIP, which would facilitate co-financing using CDP resources, would effectively double resources deployed toward investments in SI operators, thereby increasing the multiplier effect at individual SI project (final recipient) level.

4. Principles applying to the CEECP

a. Scope

CEECP would only serve as an umbrella platform and it will have no operational functions. CDP and EIF will only make investments into the underlying thematic investment platforms and in accordance with the terms of the respective initiatives, and these in turn will make investments into financial intermediaries.

It will be used to group future CDP and EIF joint equity and equity-like EFSI platforms under a single platform in order to have on one hand a more consistent approach in the interactions with potential stakeholders and market counterparts, and on the other to streamline CDP’s approval procedures vis-à-vis the MEF. Each underlying thematic investment platform will be managed independently, and it will follow its own specific set of rules and investment scope.

b. Additionality

Considering the success of ITAtech, the establishment of an umbrella platform grouping under the same label other similar initiatives aimed to address other market failures will allow CDP to be additional in innovative equity financing.

c. Replicability

Investment platforms represent a new avenue for cooperation among the EIB group and NPIs. They allow NPIs to explore new areas of activities relying upon experienced partners like the EIF in SMEs financing and on other innovative transactions under development across Europe.
5. **Principles applying to the SIP**

The SIP hereby proposed would facilitate operational cooperation between EIF and CDP based on the following principles/characteristics:

a. **Focus on market failures and crowding-in**

The SIP would help develop the SI market by focusing exclusively on SI projects in a scarcely served market segment and supporting investments that existing market operators in Italy normally do not consider as financially attractive when compared to other more traditional asset classes.

Given the absence of dedicated SI platforms in Italy, the proposed SIP is not expected to overlap with existing instruments or initiatives, including those of EIB Group or CDP.

The investment strategy of the proposed SIP has been underpinned by a dedicated market mapping and engagement exercise aimed at identifying market needs and the scope for initial investments.

The proposed SIP structure would enable co-financing from an established, large-scale NPI through a partnership approach which is expected to serve as a pathfinder for future investments in Italy and which will leverage on the experience being developed in the context of ITAtech, a thematic investment platform set up in December 2016 with similar features, but focusing on technology transfer projects. It is expected that the proposed SIP structure could have positive signaling effects both (i) to further expand cooperation with CDP in other thematic investment areas and (ii) to replicate collaboration with NPI partners in other Member States through set-up of similar thematic investment platforms.

Furthermore, through the MEF guarantee scheme, CDP will reduce the capital provisioning of its financial contribution to SIP, thereby releasing CDP resources which could be invested in other CDP initiatives, including jointly with EIB Group under EFSI.

In addition to CDP, further private sector resources will be attracted thanks to the presence of EIF and CDP as cornerstone investors, which is often a condition necessary to most private investors for making an investment into an intermediary, especially in an immature market like the Italian one.

**Geographic scope**

The SIP is largely expected to be a national (single-country Platform). In practice, it is expected that the SIP’s investments and follow-on investments in final beneficiary SIP projects will be based in Italy. Nonetheless, the managers of the underlying intermediaries will be allowed to invest also outside Italy, possibly in areas of direct relevance for the Italian market, e.g. possibly located in neighbouring macro-region countries. The geographical scope of the underlying intermediaries will have no effect on CDP’s and EIF’s resource allocation, i.e. 1:1 at SIP level.

a. **Thematic scope**

The SIP is a thematic investment platform focusing exclusively on SI investing, as set out in article 5(c) of the “Rules applicable to operations with Investment Platforms and National Promotional Banks or Institutions” approved by the EFSI Steering Board in February 2016 (SB/10/16).

b. **Type of products**

The SIP will provide equity and quasi-equity investments in SI funds, platforms, or any other financial intermediary falling within the scope of the SIP, including non-banking institutes, focusing on SI investments.

c. **Type of EIB Group EFSI financing to the Platforms**
The EFSI Steering Committee is not requested to approve any EFSI SMEW resources for the set-up of the SIP. The financing needed to establish the SIP takes the form of equity-type financial commitments approved in accordance with EIF internal procedures and CDP’s internal governance bodies for their respective financial contributions to the SIP.

d. Proportion of the total Platform financing provided by EIB Group EFSI financing

The SIP will be funded 50% through EIF mandate resources, including under the SMEW Equity Product; it is not possible to predict what percentage of the EIF contribution will be funded through EFSI resources, as this will depend on the type of proposals that EIF will receive from potential intermediaries. Nonetheless, based on the pipeline, it is reasonable to expect that EFSI resources will represent about 50% of EIF contribution

e. Sponsor

The SIP is co-sponsored by CDP and EIF.

f. Manager

EIF would be the manager of the SIP. In light of its knowledge of and access to the Italian market, it is expected that CDP may contribute to sourcing and origination of individual investment opportunities in SI intermediaries.

g. Other providers of funding

The SIP will be funded 50% through CDP. While no other third-party funding is foreseen at inception, it may materialise at a later stage in the SIP’s lifetime.

h. Legal form

No new legal entity or vehicle would be foreseen for the SIP. EIF will set up a contract-based co-financing arrangement with CDP. Each time EIF will finance an eligible SI investment, half of the finance will come from the funds made available by CDP on a dedicated managed account entrusted to EIF.

i. Approval process

In preparation to the consultation to the EFSI Investment Committee and to the request for approval of the SIP to the EFSI Steering Board and the EFSI Managing Director, the financial contribution from SMEW Equity Product and the mandate for EIF management of CDP’s co-financing contribution has been approved by the EIF Board of Directors on 18 September 2017. EIF has already entered into an agreement with CDP to pursuing SI investments on 29th November 2017.

j. Reporting, Accountability and Evaluation, anti-fraud and excluded activities:

EIF, acting as the SIP manager, will itself fulfil relevant EFSI Regulation requirements as foreseen. As no specific legal entity or vehicle is envisaged, it is noted that reporting would be on the basis of individual investments.
6. Conclusion

The CEECP would offer a coherent structure, which will be used to underline CDP and EIF close collaboration in the Italian market; in addition, it will streamline CDP’s administrative process to benefit from the partial guarantee scheme from the MEF.

The SIP would facilitate EFSI co-financing of investments alongside an NPI in an underserved market segment. Operations under the proposed SIP will be deployed through resources mandated to EIF, including the EFSI SMEW EP, in support of SI, a key policy area for the European Union and in which EIF is active through a combination of different instruments. In the future, it is expected that additional thematic investment platforms may be proposed as a result of enhanced operational cooperation between EIF and NPIs under the EIF-NPI Equity Platform.