

# Sustainable infra window & Social window

Preparing InvestEU

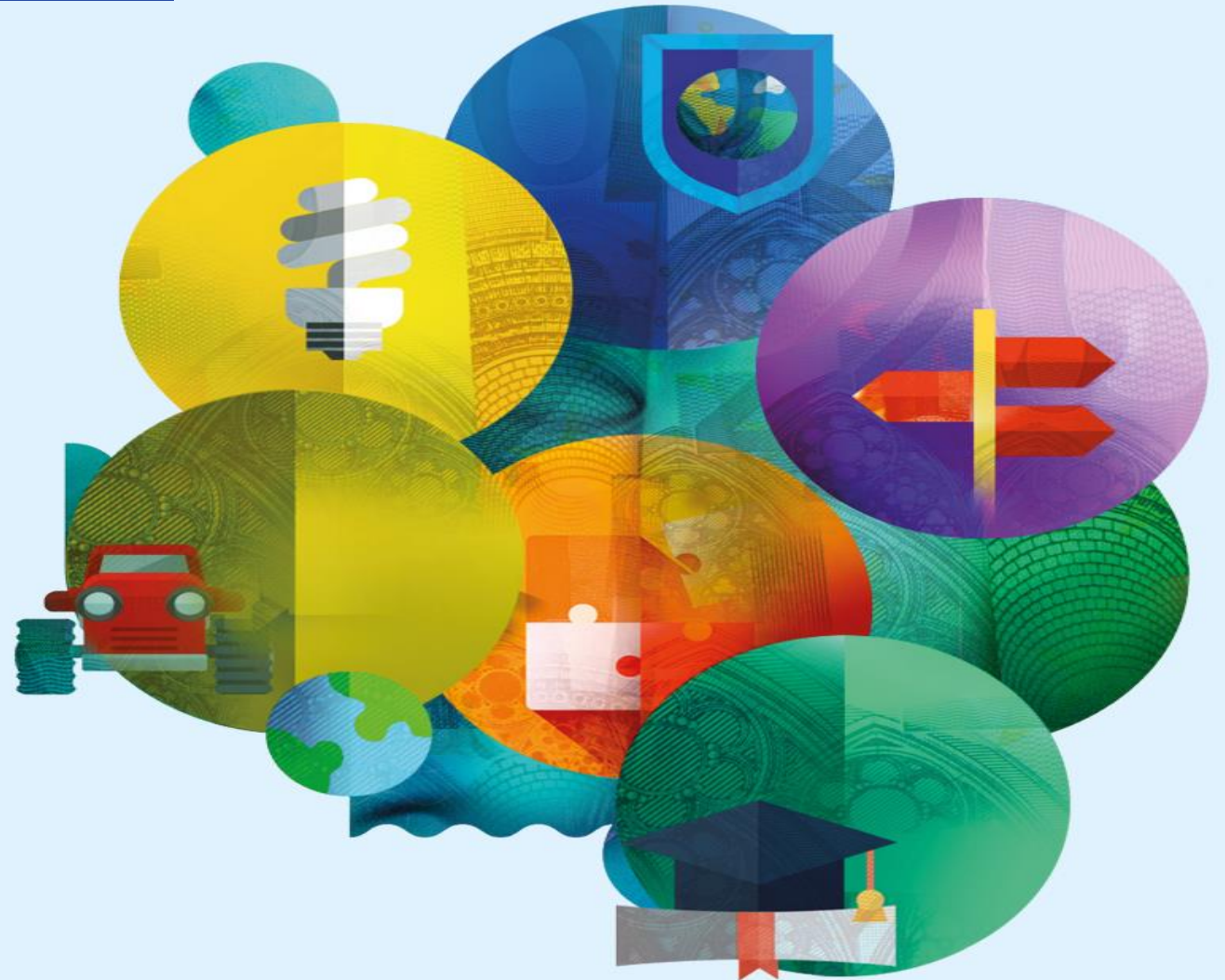
19<sup>th</sup> November 2019, Brussels

*Speakers:*

*Antongiulio Marin (DG MOVE)*

*Tom Howes (DG ENER)*

*Shadin Viratham (DG EMPL)*





# **SUSTAINABLE INFRASTRUCTURE WINDOW**

## Sustainable Infrastructure Window – Draft Policy Note

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## Eligible areas: Art. 7, Annex II and IGs.

**Policy note** – describes policy objectives and rationale for policy prioritization of different financial products:

- ✓ InvestEU for Sustainable Transport
- ✓ InvestEU for the Clean Energy Transition
- ✓ InvestEU for Environment and Resources
- ✓ InvestEU for Digital Connectivity
- ✓ InvestEU for Space & Defence
- ✓ Cross-window initiatives
- ✓ Others



SIW – POLICY ASPECTS		DELIVERY MECHANISM			
Product family	Policy areas	General debt (including Green Bonds)*	General inter. equity	Thematic (un)capped guarantees	Equity-type including thematic
InvestEU for Sustainable Transport	Cleaner safer and Smart Mobility	X	X	X	
	Connecting infra/TEN-T	X			
	Green vehicles and equipment			X	
InvestEU for Sustainable Energy	Decarbonized energy networks and generation	X	X		
	Energy efficiency	X	X	X	
	Credit enhancement for Green Bonds (energy, transport)				
InvestEU for Environment and Resources	Clean Water	X	X		
	Transition to Circular Economy	X	X	X	X
	Nature Ecosystems	X	X	X	X
InvestEU for Digital Connectivity	Digital Connectivity	X			
	Gigabit Networks and 5G infrastructures	X			
	Gigabit Infrastructure Fund		X		
InvestEU for Space & defence	Development & exploration of space infra	X	X		X
Cross-window products	EDP and Future Mobility				X
Other	Offshore aquaculture			X	
	Tourism	X	X	X (sustainable tourism)	X (sustainable tourism)
Blending facilities	Broadband Blending Facility, CEF Transport Blending Facility, Blending Facility for clean and fair energy transition				

\*Direct financing (and guarantees for third party commercial banks to provide direct financing to the final recipients are possible)



## InvestEU Fund – EU compartment

### Draft Financial Product Sheet ('Product Fiche') - SIW General debt - November 2019 -

**Disclaimer:** This is a draft fiche for a financial product under the EU compartment of the InvestEU Fund based on features included in the draft investment guidelines. The financial product fiche is intended to facilitate discussion with potential Implementing Partners. It has not been adopted or endorsed by the European Commission. Any views expressed are the preliminary views of the Commission services and may not in any circumstances be regarded as stating an official position of the Commission. The information transmitted is intended only for the entity to which it is addressed for discussions and may contain confidential and/or privileged material. This financial product fiche is meant to serve as an example for the financial product herein described. It shall not pre-empt policy prioritisation or any other aspects related to InvestEU Financial Products. An implementing partner can focus on one or more policy areas targeted by this financial product. The financial product fiches should be read in combination with the policy cover notes per policy window.

1.	<b>Policy Window(s)</b>	<input checked="" type="checkbox"/> Sustainable Infrastructure window <input type="checkbox"/> Research, Innovation and Digitisation window <input type="checkbox"/> SME window <input type="checkbox"/> Social Investment and Skills window
2.	<b>Policy Objective(s)</b>	See the SIW policy note.
3.	<b>Financial Product Name</b>	<b>InvestEU - SIW General Debt</b>
4.	<b>Rationale, Objectives and Expected Impact</b>	<p>This InvestEU – SIW financial product covers the following policy priorities:</p> <ul style="list-style-type: none"> <li>• Sustainable Transport</li> <li>• Clean Energy Transition</li> <li>• Environment and Resources</li> <li>• Digital Connectivity</li> <li>• Space &amp; Defence</li> <li>• Other priorities (e.g. Tourism, aquaculture)</li> </ul> <p>Please refer to the SIW policy note for the detailed description.</p> <p>In addition, this InvestEU – SIW financial product may also cover any other relevant areas linked to sustainable infrastructure listed in Annex II of the InvestEU Regulation. This mainly relates to points 1, 2, 3, 4, 9, 9a, 10, 12(d), 13 and 13a of the Annex II. This will be subject to policy prioritisation as described in point 6a below.</p>

## ✓ Policy steer:

- Policy Review Dialogue
- Policy objectives, targeted sectors & recipients, policy prioritisation
- Provisional envelope / KPIs / Mid-term Review

## ✓ Delivery mechanism:

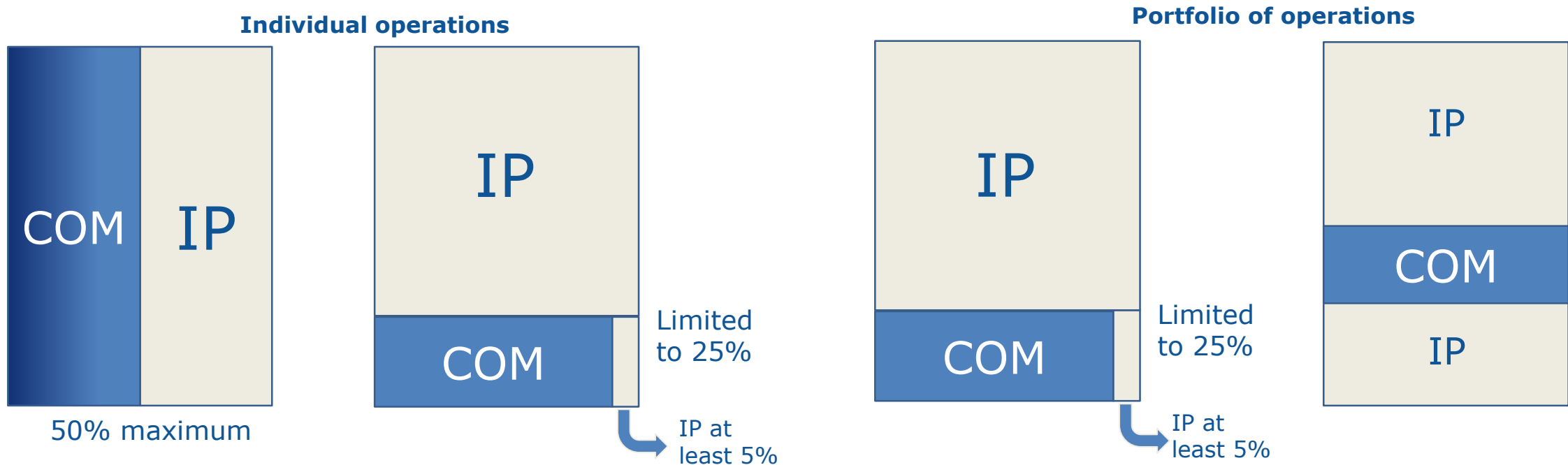
- Type of financing
- Product offered to the final recipient

## ✓ Risk sharing with the IP

- ✓ EU guarantee coverage: First Loss contribution or mezzanine on a portfolio basis
- ✓ First loss piece or *pari passu* per individual transaction
  - Coverage of the EU guarantee
  - Pricing

## Risk sharing with the IP

- ✓ EU guarantee coverage: First Loss contribution or mezzanine on a portfolio basis
- ✓ First loss piece or *pari passu* per individual transaction



- ✓ Pricing\*: fully priced

Revenue shall be shared between the EU guarantee and the IPs as defined in the guarantee agreement



# **SOCIAL INVESTMENT AND SKILLS WINDOW**

## Social Investment and Skills Window – Draft Policy Note

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**Policy note** – describes policy objectives and rationale for the different financial products:

- ✓ InvestEU for microfinance and social enterprises, social impact and social innovation
- ✓ InvestEU for Education, training and skills
- ✓ InvestEU for Social Infrastructure and Services
- ✓ Cross-window initiatives
- ✓ Others



# Potential product mix



(under review)

SOCIAL WINDOW – POLICY ASPECTS		DELIVERY MECHANISM			
Policy Areas	Products (under discussion)	Direct debt	Direct equity	Interm. debt	Interm. Equity (joint with SIW for the social infra part)
<b>InvestEU for microfinance and social enterprises, social impact and innovation</b>	Microfinance and social enterprises			X	
	Microfinance and social enterprise intermediaries [equity and quasi-equity for capacity building]		X		X
	Social enterprises				X
	Capped portfolio guarantee for microfinance and social enterprises			X	
	Social impact investment				X
<b>InvestEU for education, training and skills (ETS)</b>	Skills for SMEs	X		X	
	For the providers of ETS and related services	X	X	X	X
	Education and skills for individuals			X	
<b>InvestEU for social infrastructure and services</b>	Social housing	X			X
	Integrated community-based services for persons with disabilities	X		X	X
	Social infrastructure and inclusion	X		X	X
	Education and Training infrastructure and services	X	X	X	X
	Health	X (joint RIDW)	X		X
	Social outcome contracting			X	X

# Example 1: Guarantee



1.	<b>Policy Window(s)</b>	<input type="checkbox"/> Sustainable Infrastructure window <input type="checkbox"/> Research, Innovation and Digitisation window <input type="checkbox"/> SME window <input checked="" type="checkbox"/> Social Investment and Skills window
2.	<b>Policy Objective(s)</b>	Financing and investment operations under this product shall be directed to the development of microfinance and social enterprise finance in accordance with the Union principles expressed in the European Pillar of Social Rights, in line with the InvestEU Regulation, Annex II point 11 and section 3.4.1 of the Investment Guidelines.
3.	<b>Product Name</b>	<b>InvestEU for Microfinance and Social Enterprise Finance (Intermediated debt)</b> <i>- General product</i>
4.	<b>Rationale, Objectives and Expected Impact</b>	see Social Investment and Skills Window Policy Note, section 1
5.	<b>New /existing product</b>	<input type="checkbox"/> New product <input checked="" type="checkbox"/> Continuation of existing product  Continuation of the EaSI support to microfinance and social enterprise finance.
6.	<b>Targeted Sectors</b>	Cross-sectoral
7.	<b>Targeted Recipients</b>	(i). Vulnerable persons – including persons from disadvantaged or under-represented groups such as the unemployed, women (including in rural areas), youth, and third country nationals (including migrants and refugees) – who have lost or are at risk of losing their job, or have difficulty in entering or re-entering the labour market, or are at risk of social exclusion, or are socially excluded, and are in a disadvantaged position with regard to access to the conventional credit market and who wish to start up or develop their own micro- enterprises;  (ii). Micro-enterprises in both start-up and development phase, especially micro-enterprises as referred to point (i) above;  (iii). Social enterprises <sup>1</sup>  Excluded recipients, as per Article 136 of the Financial Regulation, shall not be supported.

## ✓ Rationale, objectives and expected impact (Policy Note):

- Difficulties in accessing finance to start up and scale up, often due to a lack of collateral and credit history
- Public funding in this area is still lacking, especially at the national level

## ✓ Targeted sectors:

- Microfinance sector
- Social enterprise finance space

## ✓ Targeted recipients:

- Vulnerable persons
- Micro-enterprises
- Social enterprises

# Example 1: Guarantee



10.a	Type of financing	<input type="checkbox"/> Direct financing (including co-investments) of Targeted Recipients by Implementing Partners <input checked="" type="checkbox"/> Intermediated financing through Financial Intermediaries
10.b	<b>Eligible Financial Intermediaries</b> <i>(if applicable)</i>	<p>Any type of financial intermediary which is able to generate new portfolios of higher risk financing transactions and is able to comply with the applicable requirements of the Financial Regulation. Such financial intermediary shall demonstrate its commitment to building a portfolio of newly originated, higher risk financing transactions, which it would otherwise not support in the absence of the EU guarantee. Examples may include National Promotional Banks or Institutions (NPB/I) and other national or regional promotional institutions, guarantee societies, commercial banks, leasing companies, debt funds, funds-of-funds, co-investment funds or schemes.</p> <p>In the case of microfinance, the financial intermediary shall be required to endorse or comply with the European Code of Good Conduct for Microcredit Provision for banks and non-banks respectively within a limited grace period (18 months for brownfield microfinance institutions, 36 months for greenfield microfinance institutions).</p> <p><u>Excluded entities:</u> Entities targeting buy-out or replacement capital intended for asset-stripping</p>
10.c	<b>Financial Intermediaries' Financial Needs</b> <i>(if applicable)</i>	N/A
10.d	<b>Type of product provided by the Implementing Partner to the Financial Intermediary</b> <i>(if applicable)</i>	<i>Loan portfolio guarantee</i> that covers the credit risk for debt financing transactions provided by a financial intermediary to a final beneficiary, provided that such financing transactions have a minimum maturity of 12 months.

## ✓ **Delivery mechanism:**

- Intermediated debt, financing through financial intermediaries (FIs)
- Microfinance institutions: need to comply with European Code of Good Conduct for Microcredit Provision

## ✓ **Product provided by the IP to the FI:**

- Capped portfolio guarantee (or counter-guarantee) covering a portfolio of loans

## ✓ **Product provided by the FI to the final recipient:**

- Debt financing transactions with a minimum maturity of 12 months

# Example 1: Guarantee



## ✓ EU guarantee coverage to the IP:

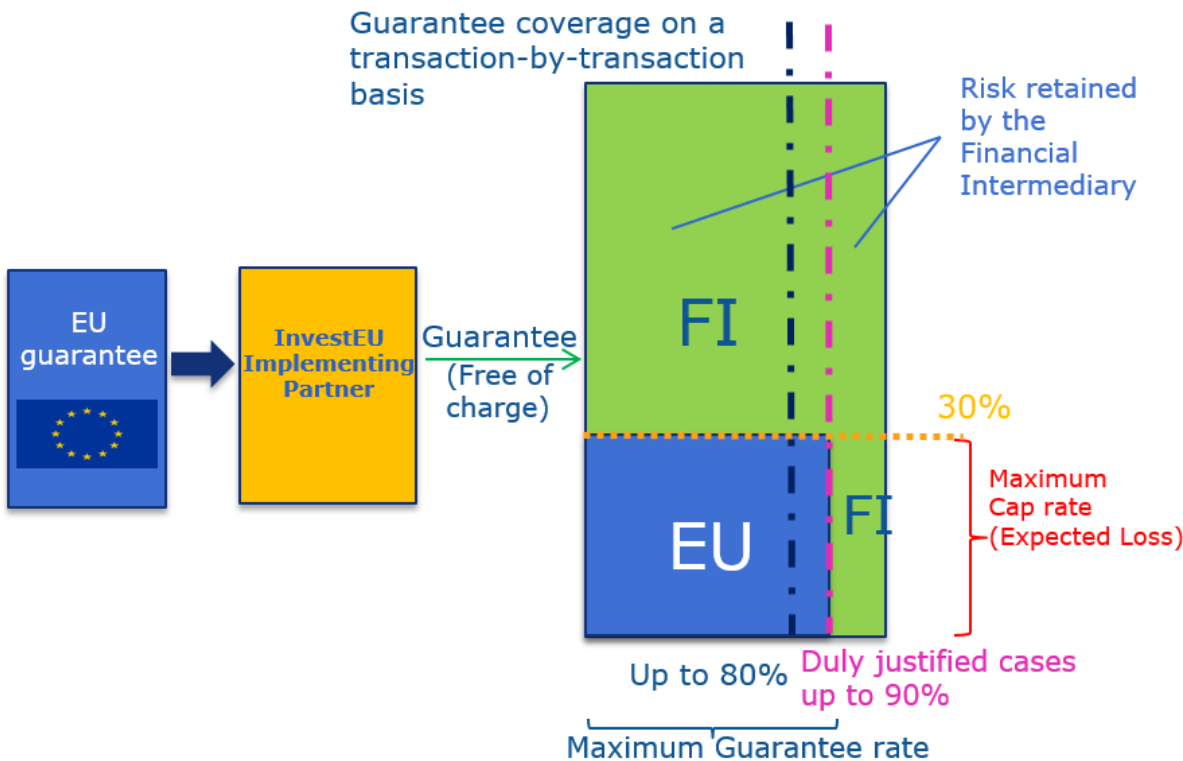
- First Loss Contribution

## ✓ Risk sharing COM – IP:

- EU guarantee to cover 100% of the guarantee cap amount, given that remuneration from financial intermediaries in this case is not sufficient to adequately remunerate implementing partners' risk-taking

## ✓ Risk sharing IP – FI

- Guarantee rate (loan-by-loan) covering up to 80% (in duly justified cases up to 90%)
- Guarantee cap rate set at the level of expected losses (max cap rate 30% of the expected portfolio, min cap rate 10% in the absence of historical data)



# Example 2: Equity



1.	<b>Policy Window(s)</b>	<input type="checkbox"/> Sustainable Infrastructure window <input type="checkbox"/> Research, Innovation and Digitisation window <input type="checkbox"/> SME window <input checked="" type="checkbox"/> Social Investment and Skills window
2.	<b>Policy Objective(s)</b>	Section 3.4.1. Policy areas of intervention: [...] The Social Investment and Skills window shall support [...] the reduction of inequalities, increasing resilience and inclusiveness through promoting employment including entrepreneurship and self-employment, social economy, and social inclusion. Social impact investment provides financing to entities contributing to achieve several Sustainable Development Goals (SDGs) targets.
3.	<b>Product Name</b>	<b>InvestEU for Social Impact Investment</b>
4.	<b>Rationale, Objectives and Expected Impact</b>	see Social Investment and Skills Window Policy Note, section 1
5.	<b>New /existing product</b>	<input checked="" type="checkbox"/> New product <input type="checkbox"/> Continuation of existing product
6.	<b>Targeted Sectors</b>	All sectors linked to impact investments and aligned with the policy objectives of the Social Investment and Skills window
7.	<b>Targeted Recipients</b>	Companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return
8.	<b>Targeted Geography</b>	<input checked="" type="checkbox"/> All EU MS <input type="checkbox"/> Selected MS ( <i>please specify</i> ) <input type="checkbox"/> Other countries ( <i>please specify</i> )
9.	<b>Term</b>	The whole duration of the InvestEU programme

## ✓ Rationale, objectives and expected impact (Policy Note):

- Interest in experimenting with developing an impact investment space alongside social enterprises, supporting the scale-up of more mature impact-driven enterprises
- Absence of critical mass of impact oriented private investors
- Key to this business model is a rigorous process of defining and measuring impact

## ✓ Targeted recipients:

- Companies, organizations, and funds with the intention to generate a measurable, beneficial impact alongside a financial return

# Example 2: Equity



9.	<b>Type of financing</b>	<input type="checkbox"/> Direct financing (including co-investments) of Targeted Recipients by Implementing Partners <input checked="" type="checkbox"/> Intermediated financing through Financial Intermediaries
10.a	<b>Eligible Financial Intermediaries</b> (if applicable)	The National Promotional Banks or other national or regional promotional institutions when not acting as implementing partners and any type of public or private financial intermediary, including those operating in social enterprise finance and social economy space (such as ethical or alternative banks, cooperative banks).
10.b	<b>Financial Intermediaries' Financial Needs</b> (if applicable)	<input type="checkbox"/> Liquidity <input type="checkbox"/> Risk protection <input type="checkbox"/> Capital strengthening / relief <input type="checkbox"/> Other (please specify)
10.c	<b>Type of product provided by the Implementing Partner to the Financial Intermediary</b> (if applicable)	<input type="checkbox"/> Loan (Senior / Subordinated) <input type="checkbox"/> Guarantee (capped guarantee, uncapped guarantee) <input type="checkbox"/> Counter-guarantee <input type="checkbox"/> Mezzanine Tranche <input checked="" type="checkbox"/> Quasi-equity (please specify) – Debt Funds <input checked="" type="checkbox"/> Equity (please specify) <input type="checkbox"/> Other (please specify)
11.	<b>Product Provided to the Final Recipient</b>	<input checked="" type="checkbox"/> Loan <input type="checkbox"/> Guarantee <input checked="" type="checkbox"/> Equity <input type="checkbox"/> Other (please specify)

## ✓ Delivery mechanism:

- Intermediated equity through FIs

## ✓ Product provided by the IP to the FI:

- Equity investment
- Quasi-equity investment (debt funds)

## ✓ Product provided by the FI to the final recipient:

- Equity investment
- Loan (debt funds)

# Example 2: Equity



## ✓ **EU guarantee coverage to the IP:**

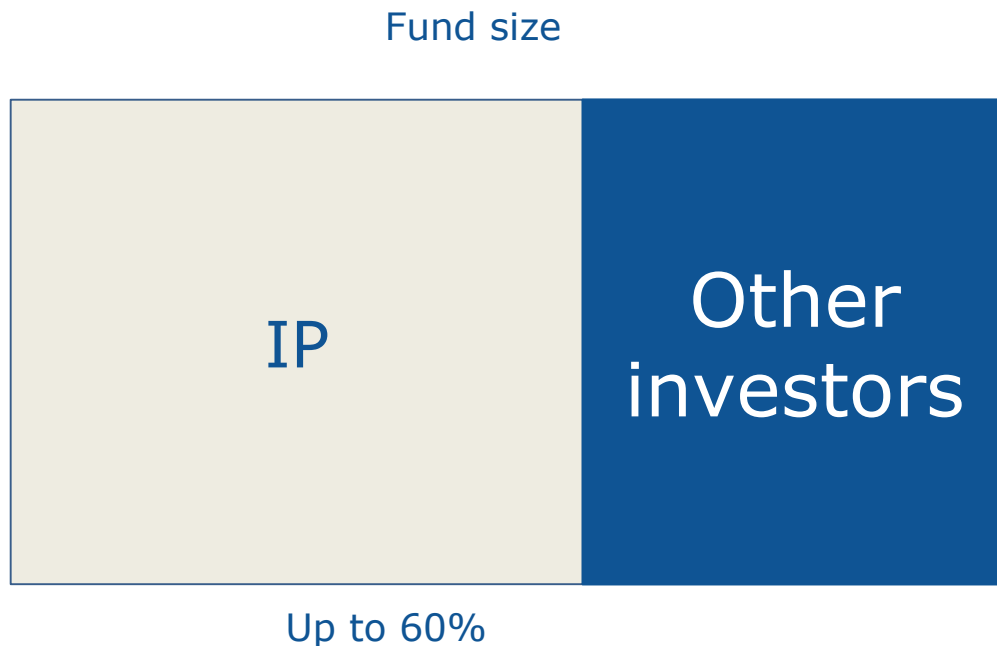
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## ✓ **Risk sharing COM – IP:**

- IP own risk financing to represent at least 5% of the overall financing provided by the IP

## ✓ **Risk sharing IP – FI**

- Investment by IP to represent max [60%] of the fund size





# Q&A Session

Contact point: **[EC-INVESTEU-CONTACT@ec.europa.eu](mailto:EC-INVESTEU-CONTACT@ec.europa.eu)**

Contact point for Pillar Assessment: **[EC-INVESTEU-PILLARASSESSMENT@ec.europa.eu](mailto:EC-INVESTEU-PILLARASSESSMENT@ec.europa.eu)**