



EUROPEAN INVESTMENT BANK

**European Fund for Strategic Investments
Meeting of the Investment Committee held
on 12th of March 2018**

**RATIONALES FOR THE DECISIONS TAKEN BY
THE EFSI INVESTMENT COMMITTEE**

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held the 12th of March 2018**

Rationales for the decisions taken by the Investment Committee

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee during its meeting held on the 12th of March 2018¹.

In accordance with article 7.12 of Regulation (EU) 2017/2396, the rationales for the decisions taken by the Investment Committee to approve the use of the EU guarantee for EIB operations are made publicly available, except for projects subject to a confidentiality agreement between the EIB and the promoters.

In line with article 29 of the EFSI Agreement and the Transparency Policy of the Bank, the rationales for the decisions taken by the Investment Committee for such projects will be disclosed at a later stage, and will be included in a list of Investment Committee decisions, taken throughout the year, for projects which have been subject to a confidentiality agreement between the EIB and the promoters and which is published at least once a year after year-end.

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The rationales of the Investment Committee to approve the availability of the EU guarantee for the following EIB operations during its meeting, held on the 12th of March 2018, are as follow:

**AGRICULTURE AND BIOECONOMY PROGRAMME LOAN
(Regional –EU countries)**

The IC approved the availability of the EFSI guarantee for the proposed dedicated Programme Loan to provide direct financing for entities active in the sustainable agriculture, bioeconomy and circular economy sectors, responding to the expanded EFSI sector eligibility introduced by the new EFSI Regulation.

The Programme Loan with EFSI support allows EIB to extend direct lending to entities in the sector that it could not previously support. Entities active in agriculture and bioeconomy are often small and perceived to be risky, local in their activities and financing sources and frequently organized in the form of cooperatives which commercial banks are ill equipped to support. As a result, their access to finance is constrained, limiting their ability to invest into physical assets but also towards efficient use of energy, water and other resources. Through the provision of longer tenors than commonly available in the market and the possibility of unsecured financing, EIB's intervention is apt to crowd-in other financiers into the sector in preferred positions.

The IC noted the expected employment impact of 800 permanent jobs, and especially recognized that 45% of the investment volume will provide support to less-developed regions and transition regions. It also welcomed the projected direct support of the cross cutting Climate Action target for 40% if the underlying investments.

Given the expected risk profile of the underlying borrower, financings under the Programme Loan are expected to have a risk profile of Special Activities as per the Bank's statute, which is a strong indicator of Additionality under EFSI.

¹ <http://www.eib.org/attachments/strategies/efsi-investment-committee-decisions-2018-march-en.pdf>

MID-CAP PROGRAMME LOAN SPAIN AND PORTUGAL 2 (Spain, Portugal)

The Investment Committee approved the availability of the EFSI guarantee for the proposed increase of the dedicated Programme Loan to provide direct financing for SMEs and MidCaps in Spain and Portugal, in line with the EFSI objective of increased access to finance for entities having up to 3,000 employees in Art. 3(b) of the Regulation.

The Programme Loan with EFSI support allows EIB to continue its direct lending to small and medium size entities that had been introduced with EFSI, with a risk profile of Special Activities as per the Bank's statute (a strong indicator of EFSI Additionality as per the regulation). It addresses the persisting constraints to access to finance which affects more than 40% of entities with up to 3,000 employees, particularly with regards to collateral requirements and available loans tenors and sizes, according to the latest EIBIS Survey.

The Investment Committee took note of the success of the previous pilot operation for the region, under which already 13 eligible beneficiaries are to receive financing, supporting an aggregate eligible investment volume of EUR 859m. It recalled the importance of providing continuity of EFSI support for instruments that are already having positive impact in the real economy, as expressed by the legislator at the occasion of the recent extension to 2020. The Investment Committee highlighted the impact of such instruments particularly in the support of less-developed regions and transition regions.

MID-CAP PROGRAMME LOAN ITALY (Italy)

The Investment Committee approved the availability of the EFSI guarantee for the proposed increase of the dedicated Programme Loan to provide direct financing for SMEs and MidCaps in Italy, with up to 30% also available for Slovenia, Croatia and Malta, in line with the EFSI objective of increased access to finance for entities having up to 3,000 employees in Art. 3(b) of the Regulation.

The Programme Loan with EFSI support allows EIB to continue its direct lending to small and medium size entities that had been introduced with EFSI, with a risk profile of Special Activities as per the Bank's statute (a strong indicator of EFSI Additionality as per the regulation). It addresses the persisting constraints to access to finance which affects more than 40% of entities with up to 3,000 employees, particularly with regards to collateral requirements and available loans tenors and sizes, according to the latest EIBIS Survey.

The Investment Committee took note of the success of the previous pilot operation for the region, under which already 8 eligible beneficiaries are to receive financing, supporting an aggregate eligible investment volume of EUR 605m. It recalled the importance of providing continuity of EFSI support for instruments that are already having positive impact in the real economy, as expressed by the legislator at the occasion of the recent extension to 2020. The Investment Committee highlighted the impact of such instruments particularly in the support of less-developed regions and transition regions and across all of the eligible countries, and note the increase of the expected share from 30% in the previous operation to 40% in the proposal.

BBVA ENHANCED SME AND MID-CAP SUPPORT (Spain)

The Investment Committee approved the use of the EFSI guarantee for the proposed participation in a synthetic securitisation of a granular portfolio of SME and MidCap financings. The EIB intervention with EFSI support facilitates enhanced lending capacity towards increased access to finance for eligible entities with less than 3,000 employees, with a contractual minimum requirement to support new eligible financing of at least 6x the amount of the EFSI intervention.

Despite the welcome stabilisation of the economic environment in Europe, access to finance for SMEs and Midcap remains constrained, both quantitatively and qualitatively in terms of available terms, tenors and collateral requirements. It's continued support therefore remains a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation.

The transaction allows for the continuation of a successful programme established with BBVA in 2016, under which already more than EUR 550m of new eligible financing has been provided to SMEs and MidCaps. Total investment mobilized under the new proposal amounts to EUR 1.26bn at the level of the final beneficiaries; based on the experience of the pilot operation it is expected to support entities with a total of more than 170,000 employees.

The Investment Committed recalled the importance of providing continuity of EFSI support for instruments that are already having positive impact in the real economy, as expressed by the legislator at the occasion of the recent extension to 2020.

VERMIO WIND (Greece)

The IC approved the use of the EFSI guarantee for a proposal concerning the development, construction and operation of two onshore windfarms in Greece. The project demonstrates its contribution for Greece meeting its 2020 renewable energy targets and to the EU's Energy Union priorities, through expansion of the use and supply of renewable energy. The Greek electricity market is under regulatory transformation in order to become compatible with the EU Target Model, State Aid guidelines for Renewable Energy Sources (RES) support and in order to introduce real competition in electricity generation and supply. The project is therefore serving EFSI's and EU objectives in energy and environment, with positive externalities in carbon emissions reduction.

EIB/EFSI's intervention has been deemed additional as the project helps addressing an identified market failure and investment gap in the renewable energy sector, due to the high risks in the electricity sector with ongoing regulatory reforms, aggravated by the persistent effects of the economic and financial crisis in Greece, with no sufficient investments or not in the required timeframe, marginal participation of foreign commercial banks, and the local banks' limited investment capacity. EFSI's support enables the EIB to undertake direct project risk in a key EU policy area. This support will improve the affordability of the project financing, increasing the signalling and sector-wide crowding-in effects, and allowing the promoter to continue with its project development and investment plan in the renewable energy sector.

TAUERNWIND (Austria)

The IC approved the use of the EFSI guarantee for a proposal that consists in the repowering of an onshore wind farm in Austria. The older wind turbines, already at the limit of their economic life, will be replaced by more efficient and higher specific power turbines. The project is located on top of a mountain ridge in the Alpine region, which adds some technical risks and constraints, due to harsher accessibility and weather conditions.

The project is addressing an identified market failure related to low-carbon generated power, aiming at reducing greenhouse gases pollution externalities. The renewable energy sector is currently producing less energy than would be desirable and feasible as per potential capacities. In addition, the suboptimal investment situation is driven by the nature of the final beneficiaries, who are relatively small local private investors, if compared to strategic investors such as utilities or large financial investors. Their relatively weaker financial resources make more difficult for them to raise debt. This risk

is perceived by the commercial lenders as higher, especially during the construction period and in case of cost overruns. In the context of limited amounts of equity available, the envisaged EFSI support will also allow a higher leverage than previously accepted by the EIB, under Special Activities. Finally, the EIB has contributed, with its experience in the renewable energy sector, in structuring the financing of this project.

INSEAD RENOVATION CAMPUS EUROPE (France)

The IC approved the use of the EFSI Guarantee for a project that supports the rehabilitation and expansion of buildings at the promoter's campus at Fontainebleau, in France. The promoter is a non-profit, private, higher education institution. Its mission is to educate people of different cultures in order to transform them into responsible, entrepreneurial leaders who are capable of creating added-value for both their companies and institutions and their communities. The international market of business schools has become highly competitive, given their global explosion in the different continents.

The proposal is deemed additional, namely in light of the capillarity of its social impact, as the investments are expected to preserve and contribute to create highly qualified employment. The benefits of the project should include well-trained graduates, PhD holders and executives as well as expanded research capacity in economics and business studies. Around 59% of the project's activities qualify for Climate Action mitigation.

The EIB loan under EFSI will also provide a positive signalling effect to the promoter's stakeholders and financiers. The transaction's structural risk is high, considering: the competitive environment coupled with high capital expenditure, the EIB expected longer maturity compared to average debt maturities provided by the promoter's current banks, and the repayment profile, together with a sizeable financing volume. The EFSI financing is hence expected to give additional comfort to other commercial financiers for crowding-in.

PORTUGUESE PORTS PRIVATE INVESTMENT PLAN 2017-19 (Portugal)

The IC approved the use of the EFSI Guarantee for a project that concerns investments in existing maritime container terminals in Oporto and Lisbon, Portugal. In both port terminals demand is reported to be near or above the current capacity. Without the project, cargo would need to be diverted via other less optimally located ports, resulting in additional road traffic with related environmental and congestion impacts.

The proposal shows consistency with the objectives of job creation and economic, social and territorial cohesion, as the investments will be fully located in Portugal, a Cohesion Country (and partly located in less-developed regions in Portugal) and, therefore, contributing to cohesion targets. The project contributes to the Climate Action objective by supporting sea transport as an alternative to other carbon intensive transport modes and fostering short sea routes within Europe and North Africa.

The borrowers are fully exposed to traffic risk. Under current local ports regulation, no guarantees are given by the government or port authority, so the operators assume all demand and financial risks in a capital intensive and highly competitive sector - which is therefore less attractive for many long-term providers of finance. EIB financing, with the support of EFSI, ensures the implementation of the project in the amount required and, through the long tenors and acceptance by EIB of the risk profile of the operation. The EFSI support will also have a signalling effect by attracting commercial banks, thereby further facilitating the implementation of the project.

ARCUS EUROPEAN INFRASTRUCTURE 2 FUND (Regional – EU countries)

The Investment Committee approved the availability of the EFSI guarantee for the proposal, which aims to make investments providing support across a range of important European Policy Objectives and EFSI Sectors (Security of Energy Supply, Renewable Energy and Energy Efficiency, Transport Infrastructure and innovative technologies for Transport, Telecommunications infrastructure) across the EU. Total eligible investment mobilized is forecast at EUR 2.736bn, of which at least 40% directly supporting Climate Action.

The IC welcomed the focus of the fund on greenfield investments (asset creation) rather than already operating assets that are still preferred by many institutional investors, the inclusion of some emerging technologies and the development of supporting infrastructure such as energy storage and transmission. These are required to achieve a lasting energy transition, but are not sufficiently supported by mainstream funds and many traditional institutional investors who seek for less risky yield assets.

Given the focus of the fund on less mature, technology enabled assets within its target sectors, resulting in a higher risk level of the proposal compared to mainstream infrastructure funds, EFSI facilitates the participation of EIB at the level required to crowd-in private investment and accelerate the fundraising process.

Given the expected risk profile of the proposed investment it falls under the Special Activities as per the Bank's statute, which is a strong indicator of Additionality under EFSI.

NTR RENEWABLE ENERGY INCOME II FUND (Regional – EU countries)

The Investment Committee approved the availability of the EFSI guarantee for the proposal, which supports the ambitious targets of the EU 20-20-20 Renewable Energy Directive, for which an estimated EUR 180bn of additional investments will be required until 2020 in the EU.

The IC welcomed the focus of the fund on greenfield investments, and the inclusion of some supporting infrastructure such as energy storage and transmission. These are required to achieve a lasting energy transition, but are not sufficiently supported by mainstream funds and many traditional institutional investors who seek for less risky yield assets. EFSI Eligible Investment mobilized across the EU amounts to EUR 1.209bn, all of which expected to directly support Climate Action. The Investment Committee noted the total renewable energy generation capacity supported by the proposal at 492 MW, sufficient to supply more than 250,000 households.

The fund is to be set up as an Irish Collective Asset-Management Vehicle (ICAV), a relatively new legal form not yet familiar to international investors and first to be supported by EIB.

Given the inclusion of emerging energy storage assets at the level of the underlying projects, the as yet untested legal structure of the fund and the long, resulting in a higher risk level of the proposal compared to mainstream renewable energy funds, EFSI facilitates the participation of EIB at the level required to crowd-in private investment and accelerate the fundraising process.

The resulting risk profile falls under Special Activities as per the EIB Statute, which is a strong indicator of EFSI Additionality.

Wilhelm MOLTERER
Managing Director