European Fund for Strategic Investments

RATIONALES FOR THE DECISIONS TAKEN BY THE EFSI INVESTMENT COMMITTEE IN JULY 2020
EFSI Investment Committee  
8th July 2020

Those attending

Chairman:
Mr.  Wilhelm MOLTERER, Managing Director  
Ms.  Iliyana TSANOVA, Deputy Managing Director

Members:
Mr.  Gordon BAJNAI  
Mr.  Thierry Deau  
Ms.  Dalia DUBOVSKIE  
Ms.  Vicky D. KEFALAS  
Ms.  Andreja KODRIN  
Mr.  Fabio PAMMOLLI  
Ms.  Nieves RODRIGUEZ VARELA  
Mr.  Manfred SCHEPERS

Experts:
Mr.  Marcus SCHLUECHTER, Advisor to the Managing Director  
Mr.  Juan Jose FEBLES, Advisor to the Deputy Managing Director

EFSI Secretariat:
Ms.  Emilie BOIS-WILLAERT, Head of EFSI Secretariat  
Mr.  Renko WOUTERS, Corporate Secretariat Officer
Rationales for the decisions taken by the Investment Committee in July 2020

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in July 2020.

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. The publication shall not contain commercially sensitive information.

In line with article 30 of the EFSI Agreement and the Transparency Policy of the Bank, the rationales of the Investment Committee decisions for such projects will be disclosed at a later stage by including them in a list of the rationales of Investment Committee decisions taken throughout the year, which is published, in general, twice a year. This is after the projects have been signed or if these projects are not subject to a confidentiality agreement between the EIB and the promoters anymore.

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The rationales of the Investment Committee to approve the availability of the EU guarantee for the following EIB operations in July 2020 are as follow:

**KRAKOW TRAMWAY PPP (Poland)**

The IC approved the use of the EFSI guarantee for supporting the construction of a new tram line of total length of ca. 4.5 km, integrated in the existing tram network of the city of Krakow, the second largest in Poland. The project is part of the Polish public transport system development strategy, aimed at improving the interoperation within the metropolitan areas via integrated fast tram networks. It is of critical importance for Krakow’s transport system, as it aims at reducing the city’s heavy traffic congestion and the local serious pollution issues. The project is in line with the EFSI objective of developing transport infrastructures, equipment and innovative technologies for transport, and qualifies 100% to the EIB Climate Action objective and equally to the objective of supporting less-developed regions and transition regions.

The demand for public transport in Krakow is rapidly increasing. This urban public transport project supports the shift of traffic to more sustainable transport modes and reducing related negative transport externalities. It also contributes to developing the market for the deployment of alternative fuel vehicles and associated infrastructure, which is subject to network economies. This will be the first Design Build, Finance and Operate (DBFO) tramway construction project in Poland, and the first of its kind to feature the procurement of municipal infrastructure through a long term availability-based PPP. Given the long loan tenor requested, private-sector funding alternatives are limited, as there are a limited number of other private investors willing to invest in long-term local currency (PLN) denominated transactions at affordable terms. The financing will fall under EIB Special Activity category. The EIB financing is expected to have a strong catalytic effect, as the sizeable EIB support is expected to function as an anchor loan in the financing package of each bidder, which should facilitate the winning bidder reaching financing close in a timely matter.
GAS INTERCONNECTOR GREECE-NORTH MACEDONIA GRPART (Greece)

The Investment Committee approved the EFSI guarantee for the proposed financing of the Greek part of the Greece - North Macedonia Interconnector, a cross-border infrastructure project linking an EU Member State with an adjacent candidate country (in line with article 8 (b) of the EFSI Regulation). This is the first infrastructure link between the two countries since the political agreement reached in 2019 and supports the EC’s CESEC initiative to increase interconnectivity in Central and Southeastern Europe.

The Investment Committee welcomed that EIB is also engaging in the preparation of the North Macedonian part of the cross-border project (outside of EFSI), which is deemed as crucial to facilitate its overall implementation. The project will yield economies of scale in the utilisation of the existing gas transmission infrastructure in Greece, benefitting Greek users through reduced energy costs. Importantly it will also have significant benefits for the security and competitiveness of energy supply in a pre-accession country of North Macedonia and the Western Balkan region, which is currently entirely dependent on a single supply line.

While the benefits of the project will accrue on both sides of the border, for the purposes of the EFSI Investment Mobilised and Multiplier calculation, only the project components located in Greece (100% in a Cohesion region) are recognised.

The risk profile of the EFSI intervention is Special Activity in line with the EIB’s Statute, which is a strong indicator of Additionality in the EFSI Regulation.

ENGIE SOLUTIONS DHC NETWORKS (France)

The IC approved the use of the EFSI guarantee for an operation that consists in the rehabilitation, extension and development of district heating and cooling networks, and heat generation facilities for ca. 20 cities of France. Most of the extensions affect heating networks connected to biomass or geothermal plants, and no fossil fuel related components are included in the project scope. In line with the EFSI objective of developing the energy sector in accordance with the Energy Union priorities, the proposed project responds to the EU energy policy objectives by improving the environmental impact of district heating in the EU. It is therefore be 100% eligible to the EIB’s Climate Action objective. The operation will partially address by up to 10% the objective of supporting less-developed regions and transition regions.

Through saving demand for electricity and heat, energy efficiency projects reduce carbon externalities, as well in most cases air pollution and other negative externalities. The operation addresses the sub-optimal investment situation related to the infrastructure gap and substantial underfunding in the energy market, especially in relation to the improvement of efficient district heating networks and to the procurement and the use of alternative energy sources. Financing these significant investments requires resources for which senior debt financing would not only be constrained in volume, but would result ex-ante in being not sustainable nor convenient from the promoter’s creditworthiness standpoint. The operation is a hybrid bond financing and is expected to fall under the EIB’s Special Activity risk category, mainly because the hybrid bond issuance will bear a significant subordination towards all other lenders. The proposed financing will contribute to strengthen the capital structure of the promoter in light of the significant equity content assigned to it. The EIB would not be able to provide such type of financing support during the period in which the EU guarantee can be used, or not to the same extent, without EFSI. EIB’s involvement is expected to bear a substantial catalytic effect, providing for a significant third-party investors’ participation in a transaction that is expected to reopen the hybrid bond market in the EU after the Covid-19 outbreak.
**DOROTHEA INVESTMENT VEHICLE (Netherlands)**

The Investment Committee approved the availability of the EFSI guarantee for the proposal, which supports investments into district heating projects based on renewable energy sources in the Netherlands. The proposal responds to the persisting scarcity of capital for the development and construction of renewable energy district heating assets.

The proposal supports an innovative approach of financing the project pipeline of an established developer of district heating projects via a closed ended fund, which operates as a non-blindpool vehicle. This facilitates access for private investors such as pension funds to a stream of new renewable energy projects when they reach the ready-to-build stage, but explicitly leaves the investment decision for underlying project to the investors. EIB’s participation as an experience financier of viable renewable energy projects and its clear positioning as the Climate Bank is expected to crowd-in private investors to the vehicle.

The proposal supports Climate Action in its entirety; at full deployment the underlying investments at project level are expected to yield annual CO2 reductions of 107,000 T/annum.

The Investment Committee welcomed the focus on district heating projects based on renewable energy sources, which are an underused opportunity to reduce greenhouse gas emissions of both residential and commercial properties. It noted the High contribution of the project for EU Policy targets and the Excellent score on the employment criterion for renewable energy projects that are economically and financially viable.

The operation has a risk profile of Special Activities as per the Bank’s statute, which is a strong indicator for Additionality in line with the EFSI Regulation.

**UAB SME FINANCE LITHUANIA (Lithuania)**

The Investment Committee approved the use of the EFSI guarantee for the proposed EUR 80m participation in the senior tranche of a securitisation of factoring receivables for the benefit of SMES and Midcaps in the Baltics, to be extended by UAB SME Finance, a non-bank provider of financing for entities up to 3,000 employees.

The EIB intervention with EFSI support is conditional to a new eligible portfolio of SME and Midcaps finance amounting to at least 2x the EFSI amount. By participating as anchor investor in the senior tranche of the securitization, the project provides the scale required for the first such securitisation transaction in the Baltics, which is also expected to be listed on a European stock exchange, thereby crowding in-private investors to the asset class.

The proposal facilitates increased access to finance for eligible entities with less than 3,000 employees, outside of the traditional banking market, combined with support for the Capital Markets Union Action Plan to develop alternative sources of finance for SMEs, which remain scarce in Europe.

The IC welcomed the innovative use of the EFSI guarantee to develop alternative financing sources for SMEs and Midcaps and highlighted the High score for the Contribution to EU Policy. At full deployment the proposal is expected to benefit SMEs and Midcaps with a total 43,000 employees, all of which in Cohesion regions.

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in terms of available terms, tenors and collateral requirements, and its continued support therefore a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation.

The risk profile of the EFSI intervention is Special Activity in line with the EIB’s Statute, which is a strong indicator of Additionality in the EFSI Regulation.

**SBCI BUSINESS SUPPORT INVESTMENT PLATFORM (Ireland)**

The Investment Committee approved the use of the EFSI guarantee for the proposed EUR 25m increase in the mezzanine tranche of a dedicated Investment Platform supporting access to finance for SMEs and MidCaps in Ireland, managed by the National Promotional Bank Strategic Banking Corporation of Ireland (SBCI). The increase is part of the COVID response of the Irish authorities and the EIB Group to support SMEs and MidCaps affected by the crisis.

The Investment platform was successfully piloted in 2018 and provides credit support to new financing provided to SMEs and Midcaps by local Irish banks, whose lending activities to the target beneficiaries remains severely restricted. The investment gap of Irish entities has been acerbated by both COVID and Brexit, which will impact the supply and marketing chains of Irish entities deeply, and requires urgent investment into products and logistics to new markets.

The proposal will enable SBCI to provide un-capped guarantees to local intermediaries covering 80% of the risk of underlying financing on a loan-by-loan basis, which will in turn facilitate EUR 500m of new eligible lending.

The IC recognised the wider EIB Group contribution to the initiative, which also relies on a EUR 225m non-EFSI tranche provided by EIB and the expertise of the EIF in structuring of tranched portfolio guarantees.

The IC welcomed the close cooperation with the SBCI and local partner banks in the support of SMEs and MidCaps at a crucial time for the resilience of the Irish economy.

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, and its continued support therefore a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation.

The risk profile of the EFSI intervention is Special Activity in line with the EIB’s Statute, which is a strong indicator of Additionality in the EFSI Regulation.

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Wilhelm MOLTERER
Managing Director