



EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

**RATIONALES FOR THE DECISIONS TAKEN BY
THE EFSI INVESTMENT COMMITTEE IN APRIL 2020**

EFSI Investment Committee
20th April 2020

Those attending

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| <u>Chairman:</u> | Mr. | Wilhelm MOLTERER, Managing Director |
| | Ms. | Iliyana TSANOVA, Deputy Managing Director |
| <u>Members:</u> | Mr. | Gordon BAJNAI |
| | Mr. | Thierry Deau |
| | Ms. | Dalia DUBOVSKA |
| | Ms. | Vicky D. KEFALAS |
| | Ms. | Andreja KODRIN |
| | Mr. | Fabio PAMMOLLI |
| | Ms. | Nieves RODRIGUEZ VARELA |
| | Mr. | Manfred SCHEPERS |
| <u>Experts:</u> | Mr. | Marcus SCHLUECHTER, Advisor to the Managing Director |
| | Mr. | Juan Jose FEBLES, Advisor to the Deputy Managing Director |
| <u>EFSI Secretariat:</u> | Ms. | Emilie BOIS-WILLAERT, Head of EFSI Secretariat |
| | Mr. | Renko WOUTERS, Corporate Secretariat Officer |

Rationales for the decisions taken by the Investment Committee in April 2020

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in April 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 April 2020 are as follow:

EU PL ABS COVID19 RESPONSE FOR SMES & MID-CAPS (Regional - EU countries)

The Investment Committee approved the use of the EFSI guarantee for the proposed Programme Loan for EIB participations in mezzanine tranches of securitisations, to generate lending capacity for intermediary banks to urgently extend financing to SMEs and MidCaps affected by the Covid-19 crisis.

The proposal is part of EIB Groups package to provide an aggregate of EUR40bn in much needed financing for small and medium size entities who are severely affected to the economic fallout of the crisis, using established products for rapid deployment via partner banks throughout the EU.

At full deployment the EUR 2bn EFSI intervention is to facilitate EUR 10bn of bank financing for target beneficiaries, securing entities and jobs that are at urgent risk from widespread liquidity constraints, as businesses and supply chains are interrupted and revenues have dried up for many SMEs and MidCaps. In order to support the urgent needs of the final beneficiaries EIB has widened the eligibility criteria to allow support also for short-term working capital needs and extensions of expiring financings.

The Investment Committee welcome the initiative of the EIB Group and recognised the support also from the SB, which temporarily increased the ticket size for underlying operations under global authorisations that direct support the Covid-19 response efforts, to speed up deployment to final beneficiaries. It recognised the importance of the initiative for the European economy, as also reflected in the Excellent scores for the Quality and Soundness of the project.

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 objective of 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.

GOLFE DU LION FLOATING OFFSHORE (EFGL) (France)

The proposal concerns investments in the design, installation, operation and maintenance of a 30MW floating offshore wind farm, 16km off the coast of a Cohesion region (Languedoc-Roussillon), in France. The project includes the floating substructures, wind turbines and the relevant balance of plant components, including shore connection. The project is in line with the EFSI objectives related to the development of the energy sector, in accordance with the EU priorities, namely the expansion of the use or supply of renewable energy, and to the research, development and innovation, specifically the development and deployment of innovative demonstration projects. The operation will contribute 100% the Climate Action target of the EIB.

The deployment of innovative zero-carbon power projects, such as floating wind offshore, which is considered a nascent technology, contribute to bring alternatives to reduce negative carbon and air pollution externalities. It also adds to technological knowledge through demonstration projects implemented at commercial level, in a learning-by-doing process, leading to moving down costs over time. Due to the level of the operating, technology innovation and construction risks associated to the innovative floating technology, presenting a very high level of complexity in a context of a capital-intensive operation, the operation is expected to fall under EIB Special Activities. It will be the first operation supporting a floating off-shore wind farm under EFSI. EIB's capacity to appraise the project risks on the floating offshore wind segment and its support through large and affordable long-term debt financing, will allow for a timely financial close, contributing to the operation's viability and crowding-in other lenders. In addition, ADEME (Agence de l'Environnement et de la Maîtrise de l'Energie), a French National Promotional Bank, is supporting the project through subsidies and repayable advances. The Caisse des Dépôts et Consignations (CDC), the main French national promotional bank, is one of the equity sponsors. The proposal was approved by the IC for the use of the EFSI guarantee.

ICG INFRASTRUCTURE FUND (Regional – EU countries, France)

The Investment Committee approved the proposed investment with EFSI support into a fund targeting infrastructure investments in the sectors transportation, energy and telecommunications in the EU, with focus on France.

The investments will contribute to the development of the energy sector in accordance with the Energy Union priorities as well as development of transport infrastructures and development and deployment of information and communication technologies. Despite their importance for the achievement of European policy goals, investment levels into infrastructure remain below the levels required, as private investors do not include societal benefits in their investment decisions.

The proposed intervention will support a first time team in its first institutional fund raising. It is also expected to provide a signalling effect to existing investors of ICG, an existing asset manager without prior experience in infrastructure investments, to crowd them into the European infrastructure asset class, with which they might not be familiar.

At target fund size more than EUR 1.5bn of EFSI eligible investment on the ground is expected, with at least 57% of the fund's investments directly benefiting Climate Action.

The Investment Committee welcome the early involvement of the EIB in the proposal and the alignment of the investment strategy with the new EIB Energy Lending Policy, leading to an exclusion of fossil fuel projects.

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.

ITALIAN ENERGY EFFICIENCY II FUND (Italy, Regional - EU countries)

The Investment Committee approved the use of the EFSI guarantee for the proposed investment into a fund aiming to provide equity support to ESCOs for Energy Efficiency projects, and to a lesser degree developers of small-to medium scale Renewable Energy and Clean Transport projects, with focus on Italy.

Energy Efficiency is a key policy priority in the EU to achieve the Climate targets for 2030 and beyond. However, the scope of investments today is far below the levels required, and hampered by e.g. the small scale and high transaction costs of individual investments, split incentives between owners and users of infrastructure, but also lack of experience by asset owners for whom energy efficiency investments are not a core activity. ESCOs can potentially play a very significant role in accelerating the necessary investment, and provide new business models such as Lighting as a Service or Heating as a Service, remunerated from the achievement of pre-agreed energy efficiencies over long-term. However, the roll-out of such innovative models towards energy efficiency investments is hampered by frequent lack of ESCOs' access to long-term capital.

The Investment Committee welcomed the focus of the proposal on sectors which are supportive of both national and European Climate Action targets and recognised the high percentage of the fund's investment that is directly supporting Climate Action. It noted the good scores throughout the Quality and Soundness of the project and acknowledged the importance of a sizeable and visible participation of EIB to facilitate a successful fundraising in the current market environment.

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.

TILT CAPITAL I FUND (Regional – EU countries)

The Investment Committee approved the proposed investment with EFSI support into a fund providing growth capital to entities supporting the energy transition. All of the underlying investee companies are SMEs, so that the fund will also support the EFSI objective of Increased Access to Finance in its entirety. In parallel to the proposed investment by EIB, EIF is also preparing a potential investment into the fund from EFSI and non-EFSI resources.

The target investee companies are active in sectors that are critical to achieve a lasting energy transition, but have so far not been able to generate sufficient growth capital as the majority of funds active in the energy market have focused mainly on Renewable Energy generation.

The proposed fund seeks to provide patient growth capital for investments into energy efficiency, flexible generation & storage, smart grids & data analytics as well as behind the meter solutions. These supporting activities facilitate the energy transition; however they employ new technologies and emerging business models that are not familiar to neither traditional investors into energy nor SMEs.

The Investment Committee recognised the innovative investment strategy of this first-time-fund and the significant advice provided by EIB in its preparation. It welcomed the important contribution of the targeted investments to environmental issues and the energy transition, and noted the 80% ex-ante recognition for Climate Action support.

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 objective of 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.

MERIDIAM GREEN IMPACT GROWTH FUND (GIGF) **(Regional - EU countries, France)**

The Investment Committee approved the proposed investment with EFSI support into a fund providing growth capital to entities active in the Green Transition. All of the underlying investee companies are SMEs, so that the fund will also support the EFSI objective of Increased Access to Finance in its entirety.

The target investee companies are either active in or supply sectors aiding the Green Transition, such as electric mobility, energy storage and distribution, circular economy and resource efficiency. They are typically employing new business models and need patient growth capital, which remains scarce especially for innovative and small companies with limited track record. At least 68% of the fund's investments are expected to directly benefit Climate Action. The Investment Committee welcomed the orientation of the fund's investment strategy and team incentives with the SDGs.

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 objective of 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.

GERMAN ROLLING STOCK - DONAU ISAR NETZ (Germany)

The IC approved the use of the EFSI guarantee for supporting the purchase of new rolling stock and associated equipment for the winning bidder of the presently pending tender for the public transport contract on the Donau Isar rail network in Bavaria. Only new train units are allowed under the tender. The majority of the network is part of the core TEN-T network on the Scandinavian-Mediterranean and Rhine-Danube corridors between Munich, Landshut, Regensburg and Passau. In line with the EFSI objective of developing transport infrastructures, and equipment and innovative technologies for transport, the operation helps to re-establish the quality of railway services needed to revert recent downward demand trends caused by disruptions from unreliable train fleets in the German regions of Munich, Regensburg and Passau. The increased efficiency, quality and transport capacity of railway services shall contribute to improving accessibility of jobs, education and basic services, ensuring regional integration. The project will also contribute 100% to EIB climate action objectives, resulting in reduced greenhouse gas emissions through more efficient operation within the rail mode and a modal shift from road to rail.

The operation addresses a market failure related to negative transport externalities in terms of energy consumption and pollution. Equally, it supports the development of competition in a sector with high barriers to entry. The project will be structured as a non-recourse or limited recourse leasing - project finance transaction to a special purpose vehicle, with an extra-long maturity. It is thus expected to fall under the EIB Special Activities category. 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. In this context, the EIB's participation will signal the economic and financial viability of the project. As such, the EIB operation is expected to crowd-in private sector financing and to increase the commercial banks confidence in the borrower's long-term sustainability and its future investment plans. This would be among the first German rolling stock transactions financed on a non-recourse basis by the EIB.

SPANISH SUBURBAN AND REGIONAL ROLLING STOCK (Spain)

The IC approved the use of the EFSI guarantee for supporting the Spanish rail operator, RENFE, in its strategic investment plan for the acquisition of rail rolling stock for the provision of services included under the Public Service Contract under which the company operates. The project comprises the acquisition of 72 trainsets that will replace obsolete units that have exceeded an operational life of 40 years. These will be deployed in services whose quality and demand have significantly dropped in the last decade, mainly regional services in the centre, east and north of Spain, and in the Valencia region. The project will increase the quality of suburban and regional rail services (notably its availability, reliability, comfort and accessibility for people with reduced mobility), fostering its utilization and avoiding modal shift to road. Furthermore, the project will contribute to the progressive reduction of diesel traction in coordination with the implementation of electrification projects in existing lines. Therefore fully adding to the EIB's climate change mitigation goal. The positive overall impact on the environment encompasses up to 15% energy savings and up to 36% CO2 emissions reduction during operation.

The operation addresses a market failure related to negative transport externalities in terms of energy consumption and pollution. The ongoing liberalisation of the railway market is a significant challenge for the promoter in view of the volume of investments expected. The EIB financing will be structured as a senior unsecured loan with an extra-long tenor to match the economic life of the equipment purchased, therefore it will entail a high degree of subordination vis-à-vis other lenders. The EIB would not be able to provide such type of financing support to the same extent during the period in which the EU guarantee can be used, without EFSI. In this context, the EIB's financing is expected to signal the economic and financial viability of the project and it is expected to crowd-in additional private sector financing and to support more flexible financing terms for the promoter to make its investment plan more sustainable.

IRISH COMMUNITY NURSING PPP (Ireland)

The IC approved the use of the EFSI guarantee for an investment loan for the construction, operation and maintenance of new community nursing facilities, located on seven sites across Ireland, financed and delivered by way of a PPP structure. The proposal is in line with the EFSI objective to support human capital, culture and health, as it is expected to have a strong social impact improving care conditions for thousands of elderly citizens. It will also contribute to environment and resource efficiency through reducing carbon footprint, as the new structures are expected to be built according to the Nearly Zero Energy Building standards, therefore partly contributing to the EIB's Climate Action objective.

The operation addresses market failures related to the lack of investments in the nursing business, both private and public and to the difficulty that many existing nursing homes have had in meeting new regulatory requirements implemented by the Irish government in the last decade aimed at improving the quality of elderly care. The suboptimal investment situation is led by the lack of adequate long tenor financing options and its availability in the commercial banking market, together with the inherent risks of structuring and implementing complex infrastructure PPP projects. The envisaged EIB financing with EFSI support will be a non-recourse PPP to a special purpose vehicle, which will present an extra-long tenor to sustainably match the operating life of the concession, thus bringing the operation into the EIB's Special Activity category. EIB's presence and its capacity to appraise the project risks and provide guidance on appropriate financial structuring and testing bankability is deemed highly important in this market environment, signaling the financial and technical viability of the project.

PROJET CITEZEN BHNS – THIONVILLE (France)

The IC approved the use of the EFSI guarantee for investments that promote the roll-out of zero-emission high performance bus lanes. The project comprises the implementation of two new Bus rapid transit (BRT) lines in Thionville-Fensch, Grand Est, France. With a total length of 32 km, the project includes the acquisition of electric buses, 67 stations, 2 new bridges, 4 multimodal hubs and 3 park and ride facilities. The operation fully addresses the objective of supporting less-developed regions and transition regions and also contributes 100% to EIB Climate Action objectives.

The operation will support the shift of traffic to more sustainable transport modes, addressing the market failure in the sector related to negative transport externalities. It will also contribute to developing the market for the deployment of alternative fuel vehicles and associated infrastructure, which is subject to network economies. This operation will also address the suboptimal investment situation related to the uncertainty of the recovery of the additional costs generated by the zero-emission buses through operational gains overtime. This first operation of the EIB with the promoter falls under the EIB Special Activities, in particular taking into account that the envisaged EIB financing with EFSI support will present a longer tenor than other lenders, creating a structural subordination. 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. By offering long-term financing to the borrower, EIB provides a quality stamp on the project that is expected.

SB POLSKA SUPPORT FOR SMES - MID-CAPS AND CLIMATE (Poland)

The Investment Committee approved the use of the EFSI guarantee for the proposed participation in a risk sharing operation with SB Polska for the purpose of new financing for eligible SMEs and MidCaps in Poland.

The EIB intervention with EFSI support generates new financing capacity to be employed 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 2x the amount of the EFSI intervention. It is expected that at least 80% of the new financing will directly benefit Cohesion regions. The new portfolio includes a dedicated Climate Action window of 20% for the financing of Energy Efficiency and small scale Renewable Energy projects.

The proposal combines the financing capacity of EFSI with the local market access of SB Polska, an important provider of financing for SMEs and MidCaps in the country. At full deployment, the new eligible portfolio is expected to benefit SMEs and MidCaps with more than 475,000 employees.

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 objective of 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.

Wilhelm MOLTERER
Managing Director