



EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

**RATIONALES FOR THE DECISIONS TAKEN BY
THE EFSI INVESTMENT COMMITTEE IN JUNE 2019**

EFSI Investment Committee
11th June 2019

Those attending

<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 June 2019

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in May 2019.

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.

* * * * *

The rationales of the Investment Committee to approve the availability of the EU guarantee for the following EIB operations in June 2019 are as follow:

ENEA - DIVERTOR TOKAMAK TEST FACILITY (Italy)

The Investment Committee approved the availability for the proposal, which provides first time financing to ENEA, an agency entrusted with developing a key technological component of the European EUROfusion roadmap towards developing fusion as a future clean and long-term energy source.

The project is complementary to other research facilities working on nuclear fusion and aims to test alternative configurations for harnessing the energy generated in future fusion reactors. As such it bridges a crucial bottleneck to extract energy from fusion reactions and deliver it safely to downstream electricity generation systems.

The project will develop and implement leading edge sciences including high temperature materials and high temperature super-conductors, which are expected to yield substantial benefits in science and technology beyond the project scope, and provide key-enabling technologies for other existing and future sectors. The technological risks are high and the purely economical returns and their timing are uncertain; the borrower is a public sector entity without statutory or contractual recourse to the Italian state; as such making the project unsuitable for traditional debt financing.

The proposed long-term financing with EFSI support allows the promoter to achieve financial close for the project scope, blending contributions from grants at EU-level with national/regional funds and contributions from public and private partners. This in turn allows the lengthy project implementation phase, expected to take until 2025, to commence and ENEA to contract supplier and partner. Failing financial close in 2019 the project would have to be delayed; putting some of the expected contributions at risk and delaying a crucial milestone in the EUROfusion roadmap for the development of fusion technology as future energy source.

The Investment Committee welcome the engagement of the EIB in support of a long-term and strategic RDI project towards a potential breakthrough clean and carbon neutral energy source. It highlighted the High score of the project towards the contribution to EU policy and the Good score for the quality and soundness of the project.

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.

LONG-TERM CARE DEVELOPMENT INFRASTRUCTURE (Spain)

The IC approved the use of the EFSI guarantee for a proposal supporting the expansion plan of a social care promoter, undertaking the construction and equipment of 19 new long-term care centres, for increasing its residential bed capacity and the day-centre places for elderly people, in five different Autonomous Communities in Spain: Madrid, Cataluña, Castilla y León, Valencia and Murcia. Circa 73% of the project will contribute to climate action objectives, supporting the EFSI objective of energy efficiency, as most of the buildings will follow Near Zero Energy Buildings (NZEB) standards. Circa 6% of the operation is expected to be deployed in Cohesion regions. After the implementation of the project, the new centres will create new 1,386 employment opportunities.

The provision of long-term care (LTC) services is a difficult challenge for the social system in Spain. Demographic and social changes that are arising from an ageing population, declining fertility rates, increasing dependency ratios and new family patterns have created a substantial demand overhang for formal long-term care services. The operation addresses a market failure in the effective access to LTC centres, with estimates of 250,000 persons on waiting lists throughout Spain. The promoter is facing a sub-optimal investment situation, where public funding for long-term care is uncertain, given the past budgetary difficulties of the Spanish social services and the fragmented and not fully integrated sector with the national health insurance programmes. During the last decade, the operators in the Spanish market had to postpone new major investments in the social care segment and concentrated their efforts in sector consolidation, mainly through debt. The fact that the economic lifetime of the project - with long payback periods - exceeds the tenor of loans that are typically available on domestic capital markets makes the EIB's EFSI supported contribution of higher value. This support is expected to provide a signaling effect of the quality of the project and allow the promoter to attract additional financing from commercial banks. This will be the first operation for the EIB with the promoter and the first direct operation supporting the private nursing home sector in Spain. The EIB has provided specific technical advisory guidance and to the promoter concerning the NZEB standards.

RENFE FEVE ROLLING STOCK NORTHERN SPAIN (Spain)

The IC approved the use of the EFSI guarantee for supporting the acquisition and replacement of rolling stock in the metric gauge rail network in the north of Spain. The replacement of the obsolete rolling stock by electric and hybrid trainsets is one of the strategic areas for the improvement and revitalization of the rail services, in order to ensure regional integration and accessibility and better inclusion of small municipalities to jobs, education and basic services. In line with the EFSI objective of developing transport infrastructures and equipment and innovative technologies for transport, the project aims to increase the efficiency, quality and transport capacity of railway services. 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 is perceived addressing a market failure in the sector, related to negative transport externalities in terms of energy consumption and pollution and access to

inclusive transport services. The borrower is a public company, with more than half of its revenues stemming from market sources, that currently does not have access to capital markets. The borrower is facing a sub-optimal investment situation as it cannot fully cover its long-term financing needs with financial resources provided by commercial banks, due to the significant size of the investments and the increasing competitiveness in the market. In addition, a state parent guarantee support is not possible and the uncertainty about implications of progressive liberalisation of the services increases the risks derived of the renewal of public service contracts and their duration, shorter than the economic life of the assets being financed. The envisaged EIB financing with EFSI support will be an unsecured loan throughout a structurally subordinated longer tenor, matching the expected economic life of the assets. The EIB would not be able to provide such type of financing, or not to the same extent, without EFSI. In this context, the Bank's participation will signal the economic and financial viability of the project, and is expected to crowd-in private sector financing, increasing the commercial banks confidence in the borrower's long-term sustainability and its future investment plans.

VOLAN PUBLIC TRANSPORT FLEET RENEWAL (Hungary)

The IC approved the use of the EFSI guarantee for a framework loan supporting the ambitious investment programme of the promoter for the period 2019-2022, which aims to replace approximately 3,200 buses amounting to half of the existing bus fleet for public transport in the country.

Public sector transport by bus is of great socio-economic importance to Hungary and especially in rural areas, where regional bus lines are the only means of public transport for many communities. However, the existing bus fleet is on average past the normal economic life with an average age of 17 years, resulting in a deteriorating service quality and reliability, high fuel consumption and maintenance costs as well as environmental issues.

The proposed loan will facilitate an accelerated fleet replacement managed by a central procurement and fleet management company, which serves public transport companies operating under Public Service Contracts.

The Investment Committee noted the 38% reduction of CO₂ emissions from the replacement of obsolete buses with state-of-the art EURO-VI vehicles (equivalent to 102.5kT of CO₂ p/a) as well as other pollutants, and the commitment for 20% of the project scope to be used for alternative drive systems, initially focused on urban areas where the related infrastructure can be economically set up. It welcomed the promoter's commitment to develop a Bus Fleet Renewal Action Plan with the assistance of the European Investment Advisory Hub, and to target the roll-out of 5% alternative drive vehicles also for rural areas by 2022.

The Investment Committee noted the 100% support for Climate Action and 85% Cohesion, the High contribution of the proposal for sustainable public transport, and the Good score for the Quality and Soundness of the project. It also welcomed the strong crowding-in effect towards commercial banks and the resulting high multiplier.

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. Without EFSI the EIB would not be able to support the project to the extent required to facilitate the investment plan.

SCB POLAND SUPPORT FOR SMES AND MICROENTERPRISES (Poland)

The Investment Committee approved the use of the EFSI guarantee for the proposed synthetic securitisation of a granular portfolio of existing consumer loans. The EIB intervention with EFSI support facilitates lending capacity towards increased access to finance for eligible entities with less than 3,000 employees and particularly microenterprises, with a contractual minimum requirement to support new eligible financing of at least 4x the amount of the EFSI intervention.

The proposal combines the financing capacity of EFSI with the market access of SCB Poland, an important provider of financing for SMEs and especially microenterprises in Poland. At full deployment, the new eligible portfolio is expected to benefit SMEs and microenterprises with more than 180,000 employees in total.

The Investment Committee noted the success of the previous operation with SCB, which had achieved the contractually required new eligible lending ahead of time and exceeded expectations in terms of Cohesion content and number of final beneficiaries reached. It welcomed the increased new portfolio requirement for the current proposal of 4x the amount of the EFSI intervention, and the strong focus on microenterprises, Cohesion regions and women's economic empowerment.

The Investment Committee recognised the additional contribution by the EIF outside of EFSI, which will mobilise support for an additional 290,000 jobs at full deployment of the new portfolio.

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