



EUROPEAN INVESTMENT BANK

**European Fund for Strategic Investments**

**RATIONALES FOR THE DECISIONS TAKEN BY  
THE EFSI INVESTMENT COMMITTEE IN MAY 2018**

**EFSI Investment Committee**  
**14<sup>th</sup> May 2018**

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 May 2018**

Investment Committee decisions approving the availability 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, Investment Committee decisions for such cases will be disclosed at a later stage, after project's signature, by including them in a list of Investment Committee decisions taken throughout the year and published at least once a year after year-end.

In line with article 7.12 of Regulation (EU) 2017/2396, the rationale of the Investment Committee will be included in the decisions approving the use of the EU guarantee for EIB operations, after the rationales have been approved by the Investment Committee, in general during the subsequent Investment Committee meeting.

The Chairman recorded that there was a quorum.

No Conflict of Interest was declared.

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The Investment Committee approved the availability of the EFSI portfolio guarantee for the following EIB operations:

### **NORMANDIE HORIZON (France)**

The IC approved the inclusion of the proposed financing into the EFSI portfolio and its designation as an Investment Platform.

The EIB intervention doubles the financing capacity of the regional vehicle to provide new financing for eligible beneficiaries, matching the equity contributions by the Normandie Region and private sector sponsors. The proposal is 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 Investment Committee considered the proposal a welcome example of combining EIB financing with equity investments by both public and private investors, doubling the investment capacity and thereby the impact of the initiative towards the provision of risk capital for SMEs in the early to growth stages. The Investment Committee noted that half of the supported additional financing volume is expected to directly benefit SMEs in Cohesion area.

The Normandie Horizon initiative plays an important role in addressing a market failure, as the projects and promoters (SMEs) in the target segments have insufficient access to finance and often lack growth capital and/or are at an early stage of development. In this regard, the proposal is complementary to other financiers by bridging the gap between senior bank loans and equity. The Investment Platform invests by way of senior, subordinated and quasi-equity loans into typically small and risky investee companies, taking on a portion of the risk which other investors, such as banks, are not willing to take. Normandie Horizon also complements an existing financial instrument of the region, which focuses solely on the provision of direct equity participations in SMEs, using ESIF funds.

### **ANTOLIN CAR INTERIORS RDI (Spain, France, Germany)**

The IC approved the use of the EFSI guarantee for a proposal concerning research, development and innovation (RDI) investments in automotive vehicle interior components. The project proposed RDI activities are expected to contribute to increasing the industry's and the promoter's knowledge and know-how in its specific technology field, bringing some additional environmental benefits, as a result of the reduction of vehicle weight, fuel consumption and emissions, and safety improvements. The project contributes to sustaining high skilled RDI jobs in Europe.

The suboptimal investment situation is based upon the pressure on the automotive suppliers to continuously invest in technological progress to keep their competitive position in a highly globalised and cyclical industry, such as automotive. The sector is currently affected by a number of technological and socioeconomic challenges, such as electrification, autonomous driving, digitization, interconnectivity, new ways of mobility, etc. which involves continuous investments in RDI. Ongoing business does not guarantee a supplier's viability, as the uncertainty on the awarding of new vehicle developments, with shorter industrialisation cycles, require higher investment efforts, targeting long-term competitiveness. Commercial banks are typically reluctant to finance RDI expenditures, usually not creating tangible assets and with uncertain future returns. The combination of the market risk, counterpart risk and the features of the operation makes the EIB loan falling under EIB Special Activity risk category, only possible with the involvement of EFSI. EFSI contribution is considered key to finance the promoter's RDI project with a long-term loan on an unsecured basis and with a structural subordination in time that is matched to the RDI's cash flow profile. This support shall provide a strong signal on the viability of the promoter's investments to other potential financiers.

### **POZNAN MEDICAL UNIVERSITY (Poland)**

The Investment Committee approved the availability of the EFSI guarantee for the project, which facilitates crucial investment into the health infrastructure and teaching capacity of a key university hospital in a Cohesion region.

The project contributes to the common European Higher Education Area and the European Research Area by strengthening the university's teaching and research capabilities' as well as medical coverage for the population of the Wielkopolska region with approximately 3.5m inhabitants.

The use of the EFSI guarantee will allow the EIB to engage in supporting the higher education sector in Poland through a direct loan to a university without recourse to the state, and with a long repayment schedule (matching the economic life of the asset) required to ensure affordability of the medical university's investments for student's and patients.

The Investment Committee acknowledged the significant impact of the proposed project to important EU policy goals, which also underlies the expected part-financing through EU and national grants. In the absence of suitable long-term private financing alternatives, the EIB intervention with EFSI support is expected to be highly catalytic, as will enable the hospital to close the financing gap, utilise the European and national grants and commence implementation for this impactful investment programme.

In addition, it is expected that subsequent to EIB commitment further financing may become available from BGK, Poland's national promotional bank.

## **POWER TRANSMISSION MODERNISATION AND EXTENSION (Hungary)**

The Investment Committee approved the use of the EFSI for the project, which supports the important investments into the electricity infrastructure in Hungary, including interconnectors to neighbouring countries classified as Projects of Common Interest. It features both investments into the cross-border physical infrastructure within the EU, which are a strong indicator of additionality as per article 5.1 of the EFSI Regulation, as well as to neighbouring non-EU countries.

The project supports important requirements for the security of energy supply and the development of the Common European Energy market, and is part of a wider investment programme into the energy infrastructure until 2021.

The promoter does not benefit from any statutory or contractual recourse to the sovereign and needs to finance its significant investment programme out of its own debt service capacity, which necessitates a longer repayment period than available from commercial banks in order to secure the affordability of electricity supply to end users. The Investment Committee noted that 92% of the investments under the proposal will directly benefit Cohesion regions.

The proposal represents the first infrastructure investment into Hungary with EFSI support in the Infrastructure and Innovation Window and would not be possible to the extent required for the implementation of the project without the availability of the EFSI guarantee.

The risk profile of the project is Special Activity in line with the EIB's Statute which is a strong indicator of additionality as per the EFSI Regulation.

## **EUROPEAN GROWTH FINANCE FACILITY (Regional – EU countries)**

The IC approved the increased availability of the EFSI guarantee for the EGFF programme, from EUR 1bn approved in October 2017 to up to EUR 1.75bn, acknowledging the speedy implementation and sizeable pipeline of the instrument, which indicate continued strong market need for growth capital for innovative and fast growing companies throughout Europe.

Since its inception the EGFF programme has already supported 33 innovative companies throughout Europe with more than 6,500 highly qualified jobs, and more than EUR 6bn of expected investments in Research and Development.

Under the EGFF the EIB extends direct quasi equity loans to SMEs and Midcaps across the European Union, which provides the investee companies with financial capacity to scale up operations, commercialise new technologies and invest in further research. EGFF addresses a clear and persisting gap in the European market, as the risk profile of this financing is considered too high for commercial banks and the expected repayment profile of the underlying investments too long for traditional VC investors. By financing up to 50% of the identified R&D activities of innovative companies, the EGFF provides certainty of financing that is not otherwise available in the existing markets for venture debt or equity, which facilitates co-financing by other parties at a crucial stage of the investee companies' life cycles.

The EGFF programme is significantly riskier than EIB's traditional activities and would not be possible without EFSI support; the underlying operations fall into the Special Activities classification as per the Bank's Statute which is a strong indicator of EFSI additionality as per the Regulation.

## **SMART LED ROAD LIGHTING WALLONIA PPP (Belgium)**

The IC approved the use of the EFSI guarantee for a proposal concerning a regional investment plan for the upgrade of the public road lighting to a smart, LED-based energy efficient network, covering ca. 2.700 km of highways and national roads in Wallonia, Belgium, a mostly covered EU Cohesion region. Multiple EU TEN-T corridors cross the Walloon region and are also part of the project scope. The expected impact of the project includes enhanced road safety as well as efficiency of the road availability and usage through a reduction in lost hours. Safer and well served and connected roads shall contribute to growth and employment. The project will also allow for lower operational costs due to reduced maintenance and much higher energy efficiency.

The project addresses market failures as it contributes to reducing a number of safety-related negative externalities and through reducing electrical energy needs. Energy efficiency projects reduce carbon externalities, as well as in most cases air pollution and other negative externalities. Project risks lie further in the vastness of the infrastructure, and in how to deliver the renewal on a dense and busy road network, integrate the legacy assets in the project design and ensure sufficient operational revenues, to keep the asset up to standards even beyond the initial investment period. The integration of the smart operative elements, the interface with the traffic control centres and the risk of technology obsolescence add to the uncertainty to which the borrower is exposed.

In spite of the improved general liquidity and financial markets conditions in the EU, availability of long-term financing and alternative funding sources for regional PPPs is still restricted. The suboptimal investment situation has been identified as a consequence of possibly not all potential bidders on this PPP project having equal access to financing proposals at optimal terms and conditions (both in terms of pricing and covenants) of project finance banks. The project is the first of this scale in a new sector in continental Europe that will be financed by the EIB on a non-recourse basis, thanks to EFSI. The provision of a loan by the EIB under EFSI that largely matches the maturity of the contract is likely to be an important cornerstone in the funding package of different bidders and will allow to addressing the suboptimal investment situation.

Wilhelm MOLTERER  
Managing Director