EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

RATIONALES FOR THE DECISIONS TAKEN BY THE EFSI INVESTMENT COMMITTEE IN September 2019
EFSI Investment Committee
9th September 2019

Those attending

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

Members:  Mr. Gordon BAJNAI
          Ms. Dalia DUBOVSKE
          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

Absent:   Mr. Thierry DEAU
This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in September 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.

**Rationales for the decisions taken by the Investment Committee in September 2019**

**FRENCH SEEDS R&D (France)**

The IC approved the use of the EFSI guarantee for a proposal supporting research, development and innovation activities related to new field crop and vegetable seed varieties for their use in agriculture, focusing on increasing yields and resistance to pathogens, pest or climate adverse conditions. The project is line with the EFSI objective of supporting RDI under the scope of the Horizon 2020 programme. The promoter is a middle size French agriculture cooperative ultimately owned by 2,000 farmers, a major European player in agro-innovation, competing with global actors with higher RDI and investment budgets. The project will enable the promoter to retain its leading knowledge and long-term competitiveness in its business sector, and thereby contributing to Europe’s agriculture R&D competitiveness and economic growth, as well as to help to maintain highly skilled staff engaged in R&D activities in Europe. Around 80% of the investments will be implemented in a cohesion region. The operation will contribute to preserving and creating employment in rural areas, bringing substantial externalities in the areas of environmental protection and climate resilience, adding to the climate action objectives of the EIB.

The agricultural sector is nowadays facing different types of challenges, such as increased production due to increasing population, increased quality due to higher standards of living and heavier legal regulations, and the need of decreasing the environmental footprint. There is a market failure related to the lack of perfect competition and market power balance in the agricultural input supply segment. The currently available funding for agriculture sector does not adequately internalize the long-term positive returns and inherent risk of R&D. This results in shorter than optimal maturities offered by the market, which do not match the economic life of the assets and long payback period of investments, leading to sub-optimal investment decisions by such companies. The proposed EIB EFSI financing will allow the promoter to better tackle such sub-optimal investment situation and gives him more flexibility when making strategic
choices regarding the priorities within its pipeline and the development programmes to pursue. The EIB would not be able to provide such type of unsecured long-term financing support during the period in which the EU guarantee can be used, or not to the same extent, without EFSI. The operation will be the first for the EIB with the promoter as well as the first in this sector.

**INGETEAM ENERGY SOLUTIONS RDI (Spain)**

The IC approved the use of the EFSI guarantee for a proposal supporting research, development and innovation in the area of industrial engineering for renewable power generation, electrical storage, smart grids, power transmission and electronics. The project is in line with the EFSI objective of modernizing energy infrastructure and supporting research, development and innovation under the scope of the Horizon 2020 programme. The operation will allow the promoter to retain its knowledge and long-term competitiveness in a competitive business sector; thereby contributing to Europe’s competitiveness and economic growth, as well as to help maintain highly skilled staff engaged in R&D activities in Europe. The operation will also contribute to the climate action objectives of the EIB.

The financing of this project addresses a market failure by supporting RDI activities that generate significant positive knowledge and technology externalities, given that these focus on developing solutions for more sustainable energy generation, transmission, distribution and consumption. The significant project size requiring a long cycle of investments add to the particular risks of the underlying RDI activities on fast-moving technologies. As an unlisted privately owned company, dealing in a highly competitive environment, the promoter has to face a challenging environment for obtaining long term financing from commercial banks to cover its full investment needs. The available commercial financial instruments are constrained to working capital facilities and loans, with shorter tenors and adjusted to small individual volumes. The promoter is thus facing a sub-optimal investment situation. The operation is expected to be classified under the EIB Special Activities category, and the EIB would not be able to provide such type of unsecured long-term financing support during the period in which the EU guarantee can be used, or not to the same extent, without EFSI. The financing provided is expected to result in a quality stamp on the operation, aiming to increase commercial banks’ confidence in the promoter’s long-term sustainability and its future research and development plans.

**FMB METRO ROLLING STOCK (Spain)**

The IC approved the use of the EFSI guarantee for a proposal supporting the acquisition of new metro trainsets to substitute 42 old units operated by the public metro operator Ferrocarrils Metropolitans de Barcelona, in Spain. Due to their high average age at time of replacement, the existing trainsets deliver lower reliability, requiring higher maintenance costs, as well as higher energy consumption levels (estimated between 15-20% more than newer trains). In line with the EFSI objective of developing transport infrastructures, equipment and innovative technologies for transport, the operation will increase the quality of underground rail services in the metropolitan area of Barcelona, with expected benefits of reduction in road transport and related pollution as well as improved mobility in the city region. 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 in the sector related to negative transport externalities in terms of energy consumption and pollution. Financing options matching the long economic life of the underlying assets are not readily available by commercial financiers. The project is expected to be classified under the EIB Special Activities
category and the EIB would not be able to provide to the same extent such type of financing support without EFSI. In this context, EIB participation will help to accelerate its effective implementation and will signal the economic and financial viability of the project. This first time EIB operation with the promoter 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. Due to the size of the investments and the need of a prompt implementation, the support of the Spanish National Promotional Bank in the co-financing is also envisaged.

**AFFORDABLE HOUSING IN SWEDEN (Sweden)**

The Investment Committee approved the use of the EFSI guarantee for the project supporting 3,300 affordable housing units in disadvantaged regions Sweden, which already incorporates future NZEB energy efficiency standards, for the benefit of lower to medium income families.

The Swedish rental housing market is characterized by a comprehensive regulatory framework for the benefit of tenants, which provides life-long housing protection at stable rents. However, there has been a persisting undersupply of new housing, as construction of new homes has not kept up with demographic developments, especially over the last decade. This has led to growing waiting list for rental properties and waiting times in excess of 10 years in parts of Stockholm, putting a growing strain on Swedish society.

In addition, the strict regulation of rents does not provide private developers with economic incentives to exceed the current energy efficiency standards ahead of the coming into force of NZEB requirements in 2021, as energy efficiency benefits accrue to the tenants but increased investment costs to the developer. In addition, long-term unsecured financing in local currency is essential to complement the available mortgage based financing of real estate, but is limited especially in terms of tenors commensurate with the repayment capacity of the new housing assets.

The project will address a persisting and growing market gap in the availability of affordable housing in Sweden, with increased energy efficiency standards exceeding the current requirements and expected to yield energy savings of close to 2,000MWh/a or 315tons of CO2 per year. Beyond its policy impact for sustainable urban development, it therefore supports Climate Action in its entirety.

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.

**VIVAWEST ENERGY EFFICIENT BUILDINGS II (Germany)**

The Investment Committee approved the use of the EFSI guarantee for the project supporting 2,320 housing units in the former mining areas of North-Rhine Westfalia, which already incorporates future NZEB energy efficiency standards, for the benefit of lower to medium income families.

The German housing market is characterized by a significant shortage of residential rental space in many urban areas. Currently, there is an accumulated shortage of about 1 million housing units in Germany. To close this gap, about 400,000 units need to be built each year over the next four years, while only about 285,000 units were completed last year. The urgency of the lack of affordable and social housing was last highlighted by the EC in the recommendation as part of the European Semester.

The operation will provide strong benefits from an EU and German national policy perspective. The construction of new energy efficient buildings is a priority within the EU’s
Climate and Energy policy, given that NZEBs can consume less than 10% of the energy of old buildings. The share of new built housing units which comply with the NZEB standard is currently at only about 14% in Germany. The proposed project therefore presents an opportunity to support the accelerated adoption of the NZEB standard, thereby contributing to climate action objectives at EU and German national level.

The project will address a persisting and growing market gap in the availability of affordable housing in, with increased energy efficiency standards exceeding the current requirements and expected to yield energy savings of close to 10,500 MWh/a or 2,100 tons of CO2 per year. Beyond its policy impact for sustainable urban development, it therefore supports Climate Action in its entirety.

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.

**AUTOBAHN A49 FRITZLAR-OHMTAL DREIECK PPP (Germany)**

The Investment Committee approved the use of the EFSI guarantee for a proposal concerning the connection of the A 5 to A49. The project will close a gap on the comprehensive TEN-T core network, providing an improved connection between the central Frankfurt region towards Kassel and northern Germany (Hannover and on to Hamburg).

The German Highway Authority is procuring the project under an availability based PPP project under the Design, Build, Finance and Maintain (DBFM) model. To ensure value for money for the public and optimise affordability for the taxpayer, it is seeking competitive bids from several consortia. Under the proposed financing with EFSI support EIB will provided identical financing offers to the consortia participating in the competitive tender, which includes the requirement for fully funded financing plans at the time of submission in Q3/2019.

The Investment Committee noted the significant economic rate of return of the project at 11%, based on traffic efficiencies gained from bridging a gap on the core TEN-T network, leading to annual CO2 savings of 11,000 tons. It welcomed the inclusion of a subordinated financing alternative to the EIB proposal, which if chosen by the winning bidder can crowd-in private investors towards the significant financing needs of the project. The eventual use of EIB financing will depend on the financing plan of the final qualifying bidder selected by the procuring authority.

Without EFSI support EIB would not be able to provide the same extent of financial support to all participating bidders and thereby facilitate the competitive tender process.

The financing of the project is likely alongside NPBs KfW Ipex, who are also expected to provide financing support to one or more of the participating consortia in the project.

**OMNES CAPENERGIE 4 FUND (Regional - EU countries, France)**

The Investment Committee approved the availability of the EFSI guarantee for the proposal, which supports greenfield renewable energy investments especially of small to medium size developers and independent power producers. It responds to the persisting scarcity of equity capital for the development and construction of renewable energy assets, while institutional investors are preferring operational assets that are already generating cash flows.

The fund proposal supports particularly renewable energy projects that are not benefitting from public support schemes and operate as merchant plants under full price risk, or
partially hedged via private Power Purchase Agreement. Such projects are inherently riskier than prior generations of renewable energy and not yet sufficiently supported by mainstream investors to achieve the European Energy Policy targets for 2020, 2030 and beyond.

At full deployment the underlying investments at project level are expected to amount to EUR 1.7bn and provide 4,100 GWh of renewable energy per annum, covering the energy requirements of 590,000 households. The proposed investment therefore supports the Climate Action target in its entirety.

The Investment Committee welcomed the focus on greenfield renewable energy projects that operate without public support mechanisms and help to mainstream such investments going forward. It noted the High contribution of the project for EU Policy targets and the Excellent score on the growth 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.

Wilhelm MOLTERER
Managing Director