



EUROPEAN INVESTMENT BANK

**European Fund for Strategic Investments**

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

**EFSI Investment Committee**  
**17<sup>th</sup> September 2018**

Those attending

<u>Chairperson:</u>	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 PAMMOLI
	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
<u>Excused:</u>	Mr.	Wilhelm MOLTERER, Managing Director

## **Rationales for the decisions taken by the Investment Committee in September 2018**

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in September 2018.

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.

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 September 2018 are as follow:

### **MEDTECH RESEARCH AND DEVELOPMENT (Germany)**

The IC approved the use of the EFSI guarantee for a proposal concerning the RDI activities for the development of medical products and services. The operation directly contributes to EFSI RDI objectives and Horizon 2020 (i.e. biotechnology and medical technologies, boosting European industries' competitiveness and innovation). The project promoter is an innovative and high-growth company that strongly relies on its in-house RDI activities. It competes with larger players on a global scale and is one of the few remaining EU companies in a sector where the EU is lagging behind, when comparing RDI investments with other global competing regions.

While continued RDI is pivotal for medical technology development, medical RDI activities are inherently risky and the perceived riskiness of the sector hinders its access to long-term finance. The sector is characterised by high upfront payments vs uncertainty of outcomes and returns, stiff competition under an evolving technological environment with increased pricing pressure, and always under the sieve of public regulation and constrained health budgets. The operation addresses therefore a structural market failure in the sector, ensuing a sub-optimal investment situation. The EFSI financing will support a new counterpart for the EIB and accelerate the promoter's RDI strategy, helping it maintaining its competitiveness and pinpointing its market position and expected growth. This contribution shall facilitate the co-financing of the project, by rendering risk-sharing capacity to the commercial lenders and sending an important signal of confidence to the market. The EIB-EFSI financing will not only strengthen the project's funding structure, but will also back the RDI industry and know-how in Europe in the area of health and medical technology, including additional positive externalities, such as employment of high skilled workforce.

### **PIAGGIO RDI VEHICLE IMPROVEMENTS (Italy)**

The IC approved the use of the EFSI guarantee for a proposal concerning the R&D for developing more innovative and cleaner scooters, motorcycles and light commercial vehicles. It is focused on the reduction of vehicle weight, fuel consumption and emissions, and safety improvements. The project is expected to bring about environmental benefits and contribute to sustain high skilled RDI jobs in Europe, enhancing the competitiveness of the powered two-wheeler and light commercial vehicle industry in Europe, as established by the EU policy objectives of sustainable transport, while assisting to reach the EU 2020 RDI investment target.

The world industry of two-wheeled vehicles (PTW) and light commercial vehicles is currently facing a series of emerging technological and socio-economic challenges, triggering a significant impact on the industry. These changes are mainly focused on electrification and the increase in digitization, under needs for energy efficiency and profitability gains. The fierce competition is played at global level, with all the actors, mainly the Asian manufacturers, constantly making large investments in RDI. There is a suboptimal investment situation as this competition exacerbates the uncertainty of investments in R & D, at the same time not creating material assets. Commercial banks are cautious when it comes to financing long-term RDI, especially in a context of relatively high risk, such as the PTW. The operation will provide support over a longer period, which will match the RDI implementation period. It will therefore be effectively subordinated over time. It is expected that the support of the EIB/EFSI will attract other lenders to finance other investments, equally important to maintain the competitive position of the borrower within the industry.

### **ERAMET R&D AND DIGITALISATION INVESTMENTS (France)**

The IC approved the use of the EFSI guarantee for a proposal concerning the financing of the promoter's product research and development and advanced manufacturing investments, in the metallurgy sector, with a primary focus on digitalisation and on improving the energy efficiency and environmental impact of the extraction and transformation processes. The project will contribute to climate action objectives through greenhouse gas emissions savings and will partly be implemented in cohesion regions in France (Les Ancizes and Pamier). Through this RDI project and the resulting knowledge creation, the promoter is expected to contribute to increasing the technological competence and leadership of the European metallurgy industry and therefore the sustainable growth and employment in Europe.

The operation addresses failures in the financial markets for RDI, arising from limited access to and higher cost of financing, as a result of factors such as information asymmetries, misalignment of incentives and lack of collateral. The promoter's inherently risky RDI activities and digital transformation processes are confronted by a direct exposure to the volatile and capital intensive mining and metallurgical activities, including certain geopolitical risks, limiting the access to long-term financing. The operation falls under the EIB's Special Activity category and could not have happened with similar terms and conditions without EFSI support. In this respect, EFSI support reveals key for creating an investment-enabling environment, ensuring the project to be launched and accelerated, enhancing the promoter capability to perform the investments in a financially sustainable way. The project is also expected to partly benefit from EU RDI grant support.

### **SPCM NEW FACILITY (France)**

The IC approved the use of the EFSI guarantee for a proposal concerning support to the promoter's RDI programme and the expansion of its production capacity of acrylic resins, for their further use in municipal and industrial wastewater treatment, and additional industrial fluid soluble applications, for aggregating or separating particulate matters. The operation addresses a number of EU objectives. Firstly, it will contribute to the support EU research objectives under the Horizon 2020 programme, with an environmental focus. The RDI investments will drive productivity, competitiveness and environmental performance of the promoter's highly specialized products. This will in turn allow making waste water treatment, mineral processing and agricultural activities more efficient and less resource-intensive, as well as tackling key societal challenges related to clean water, scarce resources and soil quality conservation. Also, up to 56% of the investment will be made in cohesion regions and hence will contribute to EU Cohesion Policy, helping to foster convergence and social cohesion with an expected significant employment effect. The operation will support a global European leader, whose RDI is located in Europe, in a specialty chemical market segment, and this with an environmental goal.

The project addresses the market failure related to financing technological development and innovation in a niche market. The RDI activities generate significant positive knowledge, technology and environmental externalities, through the creation of innovative processes and products and through skills development and upgrading. The combination of the promoter's inherently risky RDI activities, exposure to feedstock volatility, and the capital intensive nature of chemical activities, result in an above average operational and financial risk profile, creating a sub-optimal investment situation. The support to a new counterpart, through a long-term financing with an unsecured structure, will result in a confidence stamp on the project, leading into crowding-in private sector financing, also for the promoter's future investment programmes.

### **SPAR&BAU ENERGY EFFICIENT HOUSING (Germany)**

The Investment Committee approved the use of the EFSI guarantee for the proposed investments into affordable housing meeting future NZEB energy efficiency standards by Spar & Bau, a local not-for profit housing cooperation in northern Germany.

EIB's participation facilitates Spar and Bau's investment programme into affordable rental accommodation that meets the requirements of its members in terms of quality, accessibility and communal servicing of facilities, including also for tenants that are elderly or otherwise restricted in their mobility. Importantly it does so at energy efficiency standards that go beyond existing legal requirements and are expected to yield incremental annual energy savings of 853MWh. The EFSI intervention therefore supports in its entirety the European Climate Action target.

The Investment Committee welcomed the inclusion of a pilot "Plus Energy House" in the project scope, the first of its kind to be financed by the EIB. It also recognised the important smart urban development aspects and the benefits related to the redevelopment of a former naval base for residential housing needs.

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.

### **AUGSBURGER NETZE ROLLING STOCK (Germany)**

The Investment Committee approved the use of the EFSI guarantee for a loan to finance the purchase of new rolling stock to provide regional rail services in Baden-Württemberg und Bayern, servicing the metropolitan area west of Munich.

EFSI support will allow the Bank to participate in this operation and offer a long tenor that is aligned with the economic life of the assets being financed. The presented transaction represents an innovative way of rolling stock financing in Germany, based on a leasing/structured finance solution instead of the more traditional way of providing finance directly to the procuring authorities, i.e. the Public Transport Authorities.

The operation is in line with the EU objectives of sustainable urban mobility, targeting accessibility, reduction of greenhouse gas emissions, energy consumption and accidents, and supports in its entirety the Climate Action objective.

The financing of this project would support the EU liberalisation policies in the German regional passenger rail market. EIB's participation in the funding structure would increase the competitiveness of the private bidders against the state owned incumbent and thus actively stimulating competition.

### **LANUZA WIND (Spain)**

The IC approved the use of the EFSI guarantee for a proposal concerning the implementation of over 20 onshore wind plants in different regions in Spain, for an expected generation equivalent to the annual consumption of 360,000 households. The operation contributes to climate action objectives and supports Spain's efforts in achieving its objective of generating 20% of primary energy using renewable sources by 2020, in line with its nationally binding EU targets under the Renewable Energy Directive. Up to 47% of the project will be deployed in regions eligible under the EU Cohesion Policy.

Spain has evolved its renewable energy market model from one dependent on public subsidies to another based on competition. The new regulatory framework is leading into finance structures without recourse to regulated revenues and with an exposure to floating electricity price risk. It is at the same time ensuing a major market shift towards project finance structures, based on the incipient Power Purchase Agreements (PPA) market model. This is still an unfamiliar territory for most of the commercial banks, lacking knowledge for funding such type of projects. The project addresses therefore a sub-optimal investment situation in the renewable energy sector in Spain. Through EFSI, the EIB can support the availability of long-term non-recourse debt financing, crucial to bridge the gap for ensuring the project viability. Additionally, the support to the operation leads into an important signalling and mobilisation effect for crowding-in other upcoming private sector promoted renewable energy investments. The EIB has provided advisory support, working closely with the promoter and the PPA provider.

### **SPANISH RENEWABLE ENERGY AUCTION PROGRAMME LOAN (Spain)**

The IC approved the use of the EFSI guarantee for an amount of up to EUR 180, as part of a wider EUR 450m EIB programme loan to support renewable energy projects that have been allocated capacity in the 2017 auction rounds under the Spanish Government's Special Regimen, but have not reached financial close yet. With many renewable energy projects of the 2016 auction round only reaching financial close after 2.5 years, new renewable energy projects of the 2017 auction are in danger not securing financing in time, delaying construction and increasingly endangering the end of 2019 deadline to become

operational. The EIB intervention thereby supports the achievement of both the Spanish Governments Regime Special, as well as both the national and European targets for Renewable Energy generation by 2020 and beyond.

The IC recognised the importance of the proposal for the Climate Action target, and welcomed the expected strong Cohesion component with 70% of investments forecast in Cohesion regions. At full deployment the underlying renewable energy projects will provide approximately 2,800GWh of renewable energy at an annual CO2 saving of 1.5MT/annum. The operation will therefore contribute to the EFSI objective of supporting the development of the energy sector in accordance with the Energy Union priorities, through the expansion of the use or supply of RE, Additionally, this operation in line with the EFSI objective of supporting less developed and transition regions.

The underlying operations are expected to be project finance structures and to have significant residual market risk component that remains inherent for all renewable energy projects under the Regime Special. This results in a Special Activities classification in line with the Banks Statute, which is a strong indicator of additionality as per article 5.1 of the EFSI Regulation.

### **POLISH REGIONAL DEVELOPMENT AGENCIES PROGRAMME LOAN (Poland)**

The Investment Committee approved the use of the EFSI guarantee for a programme loan for regional and urban development projects in Polish Cohesion regions of Silesia, Wielpolska, West Pomerania and Pomerania. The Programme builds on the positive experience of Jessica initiative in the period 2007-2013. The borrowers will be dedicated regional development agencies created by the respective regions.

The operation will contribute to the EFSI objective of supporting the Integrated Territorial Development and sustainable urban and rural development. Additionally, this operation in line with the EFSI objective of supporting less developed and transition regions.

The IC welcomes the innovative financing structure, which will use expected reflows from Jessica investments from the 2007-2013 programming period to finance new eligible investments supporting the objective of Integrated Territorial Development in the regions. The operation allows the managing authorities to establish a mechanism, which combines reflows from European funds with EFSI, integrating both in a complementary manner and providing continuity to important regional development.

The operation has a high-risk profile and is expected to be classified under the EIB Special Activities category, in particular due to the risk profile of the borrowers and the innovative nature of the proposal.

### **BE-SPOKE SME SECURITISATION (Spain)**

The Investment Committee approved the use of the EFSI guarantee for the proposed EUR 80m of participation in the mezzanine tranche of a non-granular portfolio of unsecured financing for SMES and Midcaps in Spain, to be originated by Be-Spoke Capital, 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 4x the EFSI amount. By participating in the mezzanine tranche of the securitisation the project provides credit enhancement and a resulting external rating uplift to the senior tranches, crowding in private investors to one of the first non-granular capital market transactions in Europe, which is also expected to be listed on a European stock exchange.

It thereby 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 *Excellent* score 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 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.

### **GIRONDE HAUT MEGA (France)**

The IC approved the use of the EFSI guarantee for a proposal that will provide open access network infrastructure for very and ultra-high speed fixed fibre broadband services to low broadband penetration and low population density areas, located in the Gironde département in France. The economic benefits resulting from a higher penetration of fibre to the home broadband services are estimated to be multiple due to the expected positive externalities, such as increased labour productivity, new job creation, a positive environmental impact, all with a positive impact on GDP.

The EIB intervention will finance the contributions of a small-scale public promoter, with limited budgetary resources and financing capacity, to the project and will have a strong signaling and catalytic effect on other lenders and overall on unlocking the operation. It has a risk profile of Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation.

The EIB loan would be the first financing to a public syndicate in the broadband sector in France, and could not have been financed under the same conditions without the EFSI guarantee.

### **KAUNAS PUBLIC TRANSPORT FLEET RENEWAL (Lithuania)**

The IC approved the use of the EFSI guarantee for a proposal concerning the partial fleet renewal and the modernization of the related trolley bus electric infrastructure of the Kaunas public transport company. The project will replace age-expired trolley and diesel buses with new, more energy efficient, buses and will have a positive impact on decreasing air pollution in the City of Kaunas as well as reducing greenhouse gas emissions. It will contribute to sustainable transport in line with EU objectives and to the Bank's climate action objective in a cohesion region.

The Lithuanian public transport sector experiences a sub-optimal investment situation given low public investment resulting from limited budgetary resources. In parallel, public transport demand is forecast to increase while fares being charged do not fully cover the operating costs due to the public nature of the service. Insufficient fare revenues and limited public support have weakened the operational and financial capacity of public operators in Lithuania, including Kauno autobusai.

In the context of this sub-optimal investment situation, the Investment Committee acknowledged that the provision of a long term loan by the EIB, supported by EFSI, will allow the project to take place in its current form and timeframe and will further crowd-in other third-party financiers.

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.

### **LISBON CLIMATE ADAPTATION DRAINAGE SYSTEM (Portugal)**

The IC approved the use of the EFSI guarantee for a proposal that supports investments in flood protection in Lisbon, generating substantial positive externalities in the form of public health and environmental benefits, thereby contributing to the EFSI policy objective of environment and resource efficiency. By supporting investments that increase resilience to climate change related risks, it will also contribute to climate adaptation and mitigation objectives.

The proposal is a sub-project under the LISBON URBAN RENEWAL HOUSING CLIMATE FRAMEWORK LOAN approved by the IC on 14/07/2016 and will have a noticeable social and economic impact and is crucial to address the lack of drainage tunnels and ancillary infrastructure for the city of Lisbon and its population.

The economic life of flood protection infrastructure is significantly longer than the tenor of loans typically available on domestic financial markets for municipalities in Portugal. The EIB, with EFSI support, will offer long-term financing, in line with the economic life of the assets, thereby enabling the sizable investment plan to be implemented within the envisaged periods.

EIB's participation in the financing also provides an important signal to private lenders and thus crowds in the necessary remaining financing for the project.

Wilhelm MOLTERER  
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