



EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

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

EFSI Investment Committee
12th July 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 July 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.

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

NOEGIG RURAL BROADBAND LOWER AUSTRIA (Austria)

The IC approved the use of the EFSI guarantee for a proposal concerning the deployment of the second phase of the fibre based broadband access network in rural areas of the Lower Austrian region. By 2023, the new network is planned to connect 140 000 households enabling Gigabit broadband services, by using a passive fibre network that will be utilized by various service providers on an open access basis. In line with the objective of the EU Digital Single Market, the proposed operation responds to the EFSI objective of deploying ultra-high-speed telecommunication infrastructure in the EU. The project addresses the urban-rural 'digital divide' and will have a substantial positive impact on employment, in terms of jobs supported within the intervention area and jobs directly created during the buildout phase. The project contributes to the "Digital Agenda for Europe" flagship initiative of the Europe 2020 strategy and the complementary "Connectivity for a European Gigabit Society" initiative through further development and expansion of high capacity infrastructure to reach the targets of high-speed broadband access for all European citizens by 2020 and 2025.

The promoter addresses a number of market failures related to the generation of positive network externalities, by enabling more users to benefit from the access to information, digital services and better communications. The project is expected to generate further positive externalities to other sectors of the economy, by supporting innovation and competitiveness, contributing to increased productivity of SMEs and better access to e-services by households. The operation tackles a number of financial market failures, as commercial operators have limited incentives to invest in rural areas due to the level of costs and risks associated (implementation risks, take up risks) with low expected returns. Moreover, commercial lenders are also constrained in their capacity to provide the volume of affordable financing necessary for the project to be economically viable, requiring in particular long-term maturities, when considering the underlying risks. The EIB, supported by EFSI, will be able to provide a sizeable long-term loan falling under the EIB Special Activity risk category. As such, this operation could not have been

financed during the period in which the EU guarantee can be used, or not to the same extent without EFSI. The borrower is a new counterpart to the EIB, whose financial support shall have a significant catalytic and signalling effect in attracting private investment, as the loan to be provided will act as a quality stamp for increasing the commercial lenders confidence and financial support to the project.

DERICHEBOURG RECYCLAGE & ECONOMIE CIRCULAIRE (France)

The IC approved the use of the EFSI guarantee for a proposal targeting the modernisation and adaptation to today's requirements of the promoter's industrial recycling centres. The project includes activities such as improving the energy efficiency of recycling facilities, reducing residual waste going to landfill, and the procurement of collection equipment and machinery for recycling units, equipped with Best Available Technologies. According to the EIB's calculation methodology, the project will contribute to 85% of Climate Action. By reducing direct GHG (greenhouse gas) emissions from waste and the extraction of raw materials, the operation contributes to policy objectives of Climate Change and Circular Economy, as embedded in the 2015 EU Circular Economy Package promoting energy efficiency, environmental protection and natural resource efficiency.

Still with a high component of waste landfilled, the French recycling sector faces difficulties in building a consolidated circular economy model. The operation addresses the current sub-optimal investment situation characterized by an overall growing demand for recycling, but constrained under the high cyclicity of the subsectors from which the promoter sources its raw materials. The sector challenges mobilising sufficient long-term financing in order to achieve and maintain the necessary level of investments. The envisaged EIB financing under EFSI will be a long-term loan, matching the economic life of the project assets, with an unsecured structure, otherwise not available on the market and that could not have been provided or not to the same extent without EFSI support. EIB's intervention shall help crowding-in additional private sector financing into an operation that will be the first for the EIB with the borrower. The project allows the EIB to support sustainable waste management, contributing to the transition towards a circular economy model.

IFFEL ESSENTIEL FUND (Regional, EU Countries, France)

The IC approved the use of the EFSI guarantee for a proposal supporting a fund that will invest equity into small to mid-sized developers/companies active in the energy transition, sustainable agriculture/ bioeconomy and healthcare sectors. The three sectors are undergoing significant transitions, (i) from a centralised and carbon-based production model towards a decentralized renewable energies and circular economy, (ii) from an intensive agriculture model aimed at mass production towards a sustainable and efficient agriculture and food industry, respecting natural resources, and (iii) from a curative and mass health system towards preventive and individualised health protocols. The proposal is in line with the EFSI objectives of: i) Development of the energy sector in accordance with the Energy Union priorities, ii) Research, development and innovation, iii) Sustainable agriculture, forestry, fishery, aquaculture and other elements of the wider bioeconomy, and iv) Human capital, culture and health.

The proposal addresses a market failure and suboptimal investment situation faced by fast growing SMEs, with capital requirements but without adequate access to long term financing and equity support. The European renewable energy, sustainable agriculture and health sector, though characterized by availability of liquidity for operating assets, lack equity funding for the development of longer term individual projects. By providing these companies with stable minority capital, with a focus on family-owned SMEs on a growth path, the EIB, thanks to EFSI, will accompany these companies to transition the

economy towards a more sustainable model. The EIB will be a first close investor in the fund structure. Through this early involvement, the EIB has provided targeted input in governance, investment strategy or legal terms. The EIB is regarded as a knowledgeable institutional investor and its commitment in the investments will generate a significant catalytic effect that shall help the fund in its fundraising efforts. The potential interested smaller investors, lacking a level of sophistication and detailed expertise in the fund's envelope, compared to larger investors, seek the comfort and reassurance provided by a widely recognised cornerstone investor such as the EIB.

HORIZON EQUITY PARTNERS FUND I (Portugal, Spain)

The Investment Committee approved the availability of the EFSI guarantee for the proposal, which supports infrastructure investments into the sectors energy, telecommunications, transport, urban development and water on the Iberian peninsula, with focus on Portugal. The underlying operations are small to medium size and below the radar screen of typical larger and international infrastructure funds, and constrained by the persisting scarcity of institutional equity capital in the region. At least 80% of the fund's investments are expected to directly benefit Cohesion regions, and 21% Climate Action.

The Investment Committee welcomed the inclusion of greenfield renewable energy projects in the funds investment strategy. It acknowledged the High Score for the EIB financial contribution of the proposal, which reflects the expected catalytic effect of the EIB intervention towards crowding-in international investors to support a first time fund manager with a strong regional focus in achieving a viable fund size.

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.

EXTENSION OF THE EUROPEAN GROWTH FINANCE FACILITY (EU countries)

The Investment Committee approved the increased availability of the EFSI guarantee for the EGFF programme by another EUR 750m to a total of EUR 2.5bn. The increase provides the necessary continuity for this flagship EFSI programme until the end of 2020.

It acknowledged the speedy implementation and sizeable pipeline of the instrument, for which an unmet market need of EUR 5-6bn persists throughout Europe to support innovative and fast growing companies.

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 gap in the European market, as the risk profile of this financing is considered too high for commercial banks, and there is no established Europe-wide market for venture debt or direct equity. The EGFF financings are significantly riskier than EIB's traditional activities and would not have been possible without EFSI support.

SANTANDER RISK SHARING FOR MICRO AND SMALL CO (Spain)

The Investment Committee approved the use of the EFSI guarantee for the proposed risk participation in existing corporate loans of Santander.

The funding and credit capacity provided by the intervention facilitates lending capacity 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 complemented by a non-EFSI guarantee tranche of equal size and additional new eligible portfolio requirement.

At full deployment, the new eligible lending portfolio of EUR 800m is expected to benefit 4,700 small companies and support more than 160,000 jobs, of which at least 30% in Cohesion areas.

The Investment Committee took note of the achievements of previous risk sharing operations with Santander, which have already resulted in close to EUR 1.3bn of new lending to entities with less than 3,000 employees, and the corresponding Excellent score on the Quality and Soundness of the Project. The Investment Committee welcomed the focus of the new eligible portfolio for Self-Employed Individuals, Micro-Enterprises and companies in regions with high unemployment.

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.

Wilhelm MOLTERER
Managing Director