



EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

**RATIONALES FOR THE DECISIONS TAKEN BY
THE EFSI INVESTMENT COMMITTEE IN SEPTEMBER 2020**

EFSI Investment Committee
14th September 2020

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 September 2020

This document should be read in conjunction with the document: Decisions taken by the EFSI Investment Committee in September 2020.

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 September 2020 are as follow:

SUSTAINABLE CEMENT RDI (France, Switzerland)

The IC approved the use of the EFSI guarantee for an operation that supports research, development and innovation (RDI) and capital investments to support the decarbonisation of the production processes for the production of cement and its derivatives. The investments contain the implementation of measures for improving energy efficiency and the development of breakthrough technologies for reducing emissions. The proposed project is in line with Horizon 2020, as well as with the EFSI objective towards climate change mitigation, centred on the decarbonisation and harmful gas emissions reduction, more specifically in the industrial sector. Up to 66% of the operation will contribute to the EIB Climate Action objective.

The project addresses market failures related to insufficient investments in RDI, due to the positive externalities that arise from them, which are linked to knowledge and technology spill-overs. Furthermore, EIB's support to the project addresses the market failures linked to the lack of long-term capital to finance inherently risky private sector RDI and environmental protection, especially in an industry exposed to cyclicity. The operation will be the first for the EIB with the borrower and falls under the EIB Special Activities category. The EIB would not be able to provide such type of financing support during the period in which the EU guarantee can be used, or not to the same extent, without EFSI. The envisaged EIB financing is expected to result in a quality stamp on the project, providing comfort and a positive signalling effect to the market on the soundness of the promoter's climate strategy, enabling it to attract additional long-term financing, from private investors and other banking lenders in the current uncertain financial context.

VIENNA SCHOOL PPP CAMPI RAPPACHGASSE AND LANDGUT (Austria)

The IC approved the use of the EFSI guarantee for a proposal to support the design, construction, financing, operation and maintenance of two school buildings in Vienna (Austria) under a Public Private Partnership (“PPP”) Availability Scheme. The Project forms part of the City of Vienna’s 2012-2023 education facility construction programme to meet the increasing demand for schooling due to robust population growth in an innovative way, providing nursery and day care services, pre-primary and primary education and leisure activities in a close geographic vicinity. In addition, as the new constructions will follow high standards in terms of energy efficiency and construction materials, which are above the minimum legal requirements, the project will also contribute to Climate Action goals.

The finances of municipalities and cities are under pressure. Available funds are often insufficient for what the expansion and upgrade of the school infrastructure requires. If financed purely from its budget, the City of Vienna could not keep up with the demographic development and the respective need for new schools to the same extent and within the same timeframe. The project, which is procured under a PPP scheme, would contribute to the implementation of the ambitious plan of City of Vienna to invest in educational infrastructure with accelerated timetable and less straining to the public finances, which would otherwise constrain the project implementation.

With the support of EFSI, EIB helps to accelerate the investments in the school estate. The EIB will be able to offer financing with a maturity, which matches the economic life of the project to all qualified bidders participating in the tendering process. Such financing is currently not readily available from commercial sources, which results in a suboptimal investment situation.

EPIC BROADBAND NETWORK DEVELOPMENT (Cyprus)

The IC approved the use of the EFSI guarantee for supporting the financing of the roll-out of a fixed Very High Capacity (VHC) broadband access network in Cyprus, based on fibre to the home (FTTH) technology. The project will accelerate the fibre roll-out in the country, which has one of the lowest ultrafast broadband take-up rate in the EU. The proposal is fully in line with the EU priority objectives, namely the Gigabit Society initiative, to enable all households to have access to broadband connections of at least 100 Mbps upgradeable to Gigabit speed by 2025. The project generates positive network externalities by enabling more users to benefit from the access to information, digital services and better quality communication. It also generates further externalities to other sectors of the economy supporting innovation, competitiveness, education, e-health care and digital economy.

The operation addresses the failure to invest in alternative competing digital infrastructure, because of the market power inequalities of the local market. The increased infrastructure and services competition shall contribute to lowering end-user prices and thereby to an acceleration of the take-up rate of Very High Capacity Network services. The project addresses failures in the financial market caused by the fact that the economic lifetime of digital infrastructure exceeds the tenor of loans that are typically available on domestic capital markets and from commercial banks. This is exacerbated by the condition of the developer and the guarantor as small market players, with a very limited geographical scope of activity, as they operate in small countries and with constrained access to international capital markets. The operation falls in the Special Activity category of the EIB, and the EIB would not be able to provide such type of financing support during the period in which the EU Guarantee is available, or not to the same extent, without EFSI.

MADEIRA ELECTRICITY NETWORK MODERNISATION (Portugal)

The IC approved the use of the EFSI guarantee for an operation that concerns investments in electricity distribution networks and uprating of a small renewable hydropower generation plant, in Madeira and Porto Santo islands, Portugal. The proposal is in line with the EFSI objective of supporting the development of the energy sector, in accordance with the Energy Union priorities, in particular through the development and modernization of energy infrastructure and the expansion of the use or supply of renewable energy. The operation will contribute to a significant step forward in the Madeira Archipelago Region's efforts to update the existing infrastructure, which is key to efficiently use renewable energy sources and achieve the expected 2030 target of 50% in renewable energy utilisation. As such, the project will be 41% eligible for the EIB's Climate Action objective. Equally, it addresses the objective of supporting less-developed regions and transition regions, as 100% of the operation will be deployed in a Cohesion region.

The project contributes to the integration of low-carbon generation sources and thus to the reduction of carbon and air pollution externalities, as well as to increasing the quality and security of the electricity supply. The operation addresses several market failures deriving from the size of the served market, the relevant geographic positioning, the regulated status of the promoter, and the expected decrease of financial backing from the public authorities. This context makes it unlikely for the promoter to access alternative long-term financing sources, such as the capital markets, and to obtain the needed financing at sustainable terms. The EIB financing will therefore bridge the sub-optimal investment situation originated from the lack of financing, matching the economic life of strategic projects and facilitating the timely implementation of the project. The financing provided by the EIB provides a quality stamp on the project and the long term sustainability of the promoter's financing plan. The significant catalytic effect materialises in the expected crowding-in of private financing from commercial banks. It will be one of the first operations to be financed by the Bank under EFSI in a Portuguese outermost region.

VENETO WATER UTILITIES ABS (Italy)

The IC approved the use of the EFSI guarantee for the proposed participation in a non-granular securitisation transaction providing long-term financing for a group of small integrated water utilities in the region of Veneto.

The operation addresses a persistent gap in the availability of long term-funding required for investments into the water and waste-water infrastructure in Italy. As a result of long-standing under-investment, the infrastructure is on average more than 30 years old and leakage is at unacceptable levels. The investment programmes to be financed support the security of water supply in the catchment area, but also bring benefits for public health, environmental protection and resource efficiency, in times of increasing water scarcity. 39% of the proposal will directly support Climate Action, both through climate mitigation (11%) and climate adaptation (28%) investments.

The Investment Committee welcomed the innovative structuring of the proposal, which crowds-in both private capital and the Italian NPB CDP to support the asset class, as well as other private sector financiers alongside the ABS structure. It recognised the EIB's High Technical and Financial contribution to the project, without which the investments of the underlying utilities could not proceed in the required scope and timing.

EIFFEL ENERGY TRANSITION COVID-19 TOP-UP (Regional - EU countries)

The Investment Committee approved the proposed investment of EUR 40m with EFSI support into a Top-Up fund to augment the investment capacity of the Eiffel Energy Transition Fund, a specialised debt fund providing financing to small scale renewable energy and energy efficiency projects during their development phase, when the availability of capital is most constrained.

An investment into the initial fund was approved by the Investment Committee in 2016 and has already greatly exceeded the forecasted EFSI eligible Investment Mobilised at the time. The Investment Committee recognised and welcomed the support of 1.4bn of investments across 1,281 small-scale projects already achieved, resulting in 1.443MW of renewable energy capacity – sufficient to cover the needs of 1,000,000 households and avoiding 1,061,000 tons of CO₂ per annum.

With the onset of COVID-19 the ability of developers of small scale projects to attract financing has deteriorated, which justifies an increase in combined funds size via the parallel Top-Up fund. The incremental Investment Mobilised supported by the proposal is expected at EUR 559m, with resulting additional CO₂ savings of more than 500,000T CO₂/annum. The proposal supports Climate Action target in its entirety, and is expected to directly benefit Cohesion regions with at least 15%.

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.

AM HIGHTECH AND SUSTAINABLE STEEL RDI – COVID-19 (France, Belgium, Spain, Luxembourg)

The IC approved the use of the EFSI guarantee for an operation supporting RDI activities that cover the development of more sustainable iron and steelmaking processes, aiming at GHG emissions reduction, and the development of high-tech high value-added steel products, through the development of breakthrough technologies. In line with the EFSI objective of supporting research, development and innovation, the RDI activities supported by the operation will contribute to increasing the EU knowledge and technological base in steelmaking, automotive, construction, energy and packaging industries, and thus to support, directly and indirectly, economic growth and employment. Up to 40% of the operation will contribute to the EIB Climate Action objective. Equally, the operation addresses the objective of supporting less-developed regions and transition regions, as 56% of the operation will be deployed in Cohesion regions. Finally, given the global footprint of the promoter, the RDI programme will be implemented across a number of European countries and the operation will qualify as multi-country EFSI project.

The project addresses market failures related to insufficient investments in RDI, due to the positive externalities that arise from them, which are linked to knowledge and technology spill-overs. Moreover, a high degree of collaboration with industrial partners, universities, research centres and customers and in more fundamental research activities, even with competitors, adds further positive spill-over effects to the wider industry and steel community. EIB's support to the project addresses market failure linked to the lack of long-term capital to finance inherently risky private sector RDI, especially in a highly cyclical industry such as steel manufacturing. Furthermore, under the current financial context, characterised by major uncertainties caused by the Coronavirus outbreak, weak GDP trends, volatile raw material and steel output prices. The operation falls under the EIB Special Activities category. The envisaged financing is expected to result in a quality stamp on the project providing comfort and a positive signalling effect to the market on the soundness of the promoter's strategy.

HYPO VORARLBERG COVID-19 ENHANCED SUPPORT FOR EE (Austria)

The Investment Committee approved the use of the EFSI guarantee for the proposed participation in a synthetic securitisation of corporate loans originated by Hypo Vorarlberg, to support new financing for energy efficiency investments by private individuals and corporates in Austria. It therefore supports in its entirety Climate Action.

The proposal is part of EIB's efforts to provide support for investments into energy efficiency, which are important for the achievement of national and European Climate targets, but likely to be postponed in the context of the economic fallout of the Covid-19 crisis.

At full deployment, the new eligible portfolio is expected to support energy efficiency investments resulting in primary energy savings of 3,600 MWh per annum and CO2 emissions savings of 1,590 t/annum.

The Investment Committee recognised the High Scores for the Contribution to EU Policy and the EIB contribution of the project, and the Excellent 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.

Wilhelm MOLTERER
Managing Director