OPEN SESSION

“New Financing Trends and their Consequences on the Tunnelling Projects: The European Perspective”

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EUROPEAN INVESTMENT BANK
Estimated future investment levels (2004-2020)

- Total transport infra (EU-27) = +/- 600 bn
- Of which TENs-T network = +/- 430 bn

Huge investment effort =
EU-15: +/- 0.9% GDP; EU-12 = +/- 0.6 to 1.1%

Main trends: Focus on rail (+/- 50%)

4 predominant countries:
I (+/- 100bn), F (+/- 50bn); SP (+/- 50bn; D (+/- 30bn)
Strong Increase of budgetary grants for NMS (EU-12)

- TENs budget line is minimal: 8.5 bn
  \[= < 2\% \text{ of TENs-T financing needs}\]

- Cohesion and ERDF budget lines are massive: 347 bn
  \[\checkmark \text{Of which 282 bn for 113 “Convergence regions” = +/- 35-40\% of TENs-T financing needs}\]
  \[\checkmark \text{Of which 65 bn for “Growth and employment regions = +/- 15\% of TENs-T financing needs in EU-15}\]

- EIB lending in support of TENs-T investment
FINANCING TENs-T = EIB LENDING TARGETS (2007-2013)

- Overall Target (EIB Governors: European Action for Growth)
  75 bn = 17% of Total TENs-T investment in EU-27
  Leverage effect: +/- 225bn (= 60% of total TENs-T)

- Of which 13 to 15 bn in EU-12
  = 19-20% of total TENs-T investment in NMS

- Of which 55 to 60bn in EU-15
  = 15-17% of total TENs-T investment in EU-15
Meet a double Challenge

- Help “New” MS to achieve their economic transition
- Help “Old” MS to maintain their investment level despite lowered budgetary resources

Therefore, strong needs for:

- Coordination of respective national transport investment policies
- Capacity building in new member states
- Private sector involvement
- Addressing the issue of risk management
TYPICAL TENs-T investment profile

- Construction
- Ramp-up
- Long Term Growth

Risk
Risk²

Financing
Revenue
Market Capture

\( \text{€} \)
THE WORLD HAS CHANGED!

Since mid ’90s, completion of integration and Monetary Union has:

- Maximised **macro-economic convergence** among EU-MS
- Placed EU and MS’s **budgetary policies** under growing constraints
- Speed-up merger and acquisitions processes among market players, allowing **Corporates to develop at a continental size**
- Deepen and **broaden financial markets**
- Fostered **exchange of experiences** among EU economies (ex. PPP)
EIB INVOLVEMENT REQUIREMENTS

- Project matching with EU policy objectives
  - EU integration / EU standards ("aquis communautaire")
  - Economic and social cohesion ("regional development")
  - Environmental protection / improvement
  - Freedom of movement (Treaty of Rome’s 3 Liberties)

- Technically sound
- Economically justified
- Financially viable (at least for the debt component)
- Construction and commercial risks well appraised and managed

i.e.: not just the project or one of its components; the project fitting with its environment
External factors
  • Market size: Origin - destination + network effect
  • GDP growth and final consumption capacity
  • “Willingness to pay” = time value, service value, image effect
  • Alternative offered by competing modes of transport
  • Political back-up & commitment

Project-specific factors:
  • Average time gains
  • Frequency of services & network connectivity
  • Pricing framework
  • Qualitative factors: Convenience, comfort, reliability, etc.
WHAT CAN EIB OFFER? (I)

- Financing options tailor-made to TENs projects
  - Long/extra long term maturities (up to 35 years)
  - Early disbursements & grace periods
  - (construction + ramp-up periods)
  - When appropriate: feasibility studies financing

- Risk sharing financial options (PPP)
  - Structured Finance Facility (1,25bn € provision)
  - TENs Loan Guarantee Facility (1bn € provision)
  - TENs Risk Capital Facility (90m €)

- Expected leverage effect on private capital mobilisation: 20bn €
WHAT CAN EIB OFFER? (II)

- Capacity building for project identification and set-up:
  
  • JASPERS Technical Assistance (in the NMS)
  • TEN’s Center of Expertise (all EU)
  
  ✓ Support to national policy definition
  ✓ Best practice dissemination
  ✓ Advisory activities to planning authorities, project and staff training

- Close coordination with EU Commission to enhance synergies between EIB loans and EU grants
Characteristics:
- Common in transport
- Leverage: Moderate
- Incentives: Moderate

Issues:
- Interface problems
- Ability to slice up project

Fiscal risk depends on payment mechanism & guarantees
Models (2) Parallel Co-finance

- **Component A**
  - EU Grant
    - National
  - Private

- **Component B**
  - Private

**Separate construction contracts**

- **Savings**

**Single operations SPV**

- **Private**

**Unitary payments or**

- **User charges**

**Characteristics:**
- Common in transport
- Leverage: Moderate
- Incentives: Moderate

**Issues:**
- Interface problems
- Ability to slice up project

Fiscal risk depends on payment mechanism & guarantees
Models (3) Payment subsidy

**Characteristics:**
- Similar to UK PFI credits?
- Leverage: High
- Incentives: High

**Issues:**
- Only for availability schemes
- Eligible expenditure period
- Regulations unclear

Fiscal risk depends on payment mechanism & guarantees
Models (4) Co-Investor (Fund or Project)

- EU Grant
- National
- Private

Investment Fund or Project

Projects

Characteristics:
- Like urban regeneration funds
- Leverage: High
- Incentives: High

Issues:
- Social objectives vs profitability
- Selection of private partner
- Recycling of profits

No fiscal risk as funding on equity basis
For further information, please visit: http://www.eib.org

About EIB financing of the TENs:
About EIB's role in financing PPPs:
About EIB's financing instruments:
About ex-post evaluation of PPP projects financed by the EIB:
About EIB's technical assistance to infrastructure projects "JASPERS":
About project appraisal: