



The Connecting Europe Facility & its Financial instruments, catalysts for infrastructure financing

**Matthieu Bertrand, Unit Connecting Europe – Infrastructure
Investment strategies, DG Mobility and Transport, European
Commission**

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Connecting Europe Facility

One instrument – three sectors

The "European
Infrastructure
Package"

Connecting
Europe Facility

Financing
framework 2014-
2020

Transport
Guidelines

Energy
Guidelines

Telecom
Guidelines

Sectoral policy
frameworks
(setting
priorities for
2020, 2030,
2050)

€33.2bn to finance projects of EU
common interest

Connecting Europe Facility: budget

- Budget: **€33.2 billion**

€26.250 billion for transport (including €11.3 billion reserved for Cohesion MS)

€1.141 billion for broadband and digital services

€5.850 billion for energy infrastructure

- To be spent via grants & **innovative financial instruments**

For IFIs: 10% cap, possible flexibility up to 20%, of the budget

The Connecting Europe Facility: an increased budget for the TEN-T 2014-2020

€26.250 bn for TEN-T Project (vs €8bn in 2007-2013!)

- **€14.950 bn for all 28 EU MS**
- **10% available for innovative financial instruments** (*legal limit: 20%*)
- **Stronger concentration of financial support on EU added-value projects**, in particular cross-border projects and bottlenecks in rail and inland waterways, interoperability (ERTMS) and Motorways of the Sea



Eligibility of projects to CEF support defined by the maps of the EU regulation for TEN-T

=> Example of the TEN-T rail freight network, sea ports and inland ports



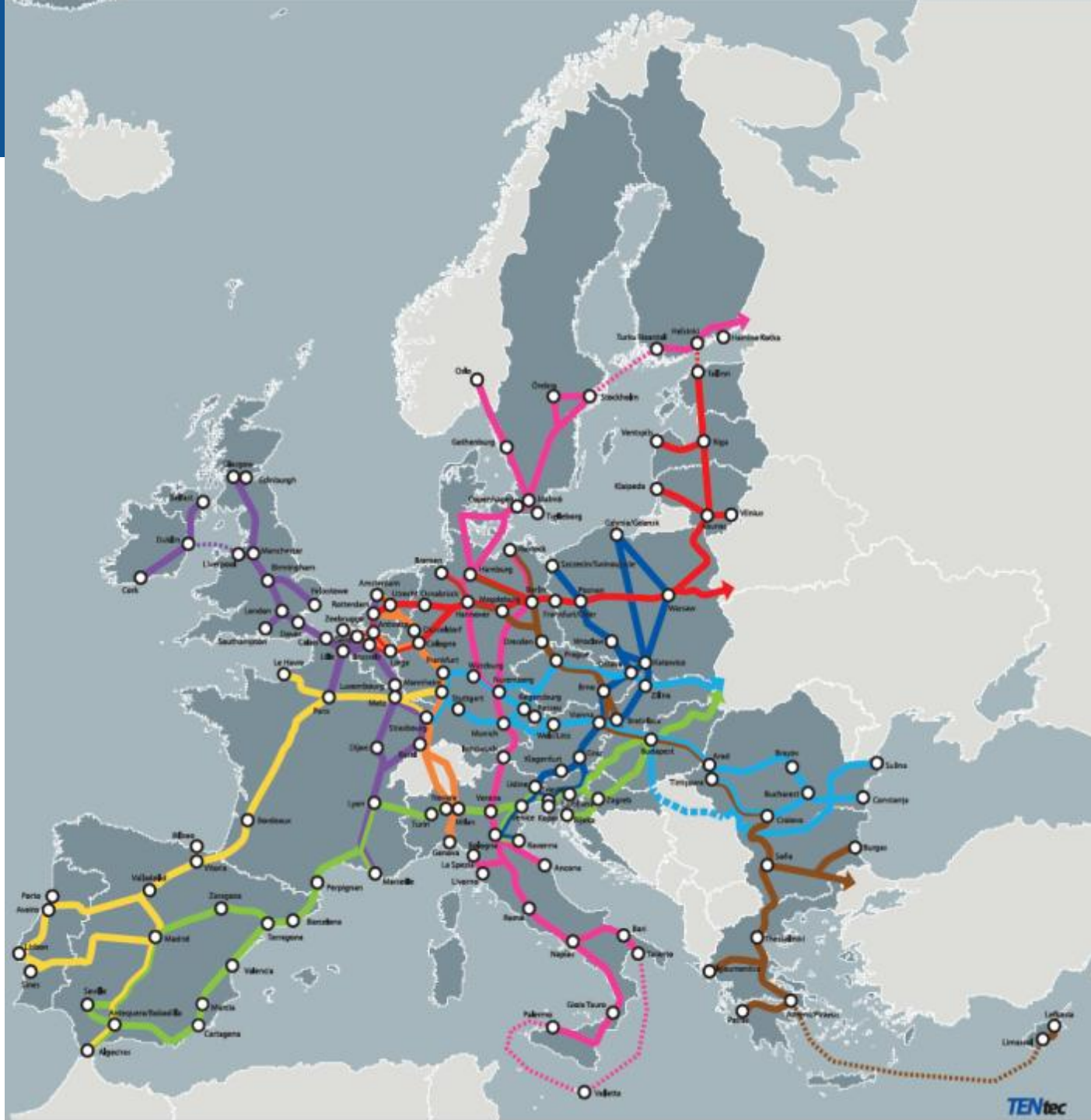
Compr.		Core		Compr.		Core		Compr.		Core	
		Conventional rail / Completed			High speed rail / Completed			Ports			RRT
		Conventional rail / To be upgraded			To be upgraded to high speed rail			Ports			RRT
		Conventional rail / Planned			High speed rail / Planned						

The Connecting Europe Facility

Projects to be financed by CEF: transport

- Grant focus on **cross-border sections and bottlenecks** for the **cleaner modes of transports** (Railways, Inland Waterways)
- Focus on projects located on the **9 trans-European Corridors**
- Support to the deployment of **European traffic management systems for a more efficient use of the existing infrastructure** (SESAR, ERTMS...)
- Support to the deployment of **new technologies and innovation for decarbonisation** of transport (Electrification, LNG... & intelligent transport systems)

**Support to
be focused
on the 9
core
network
corridors
defined in
the CEF**



Financial instruments under the CEF

Why?

How?

Financial instruments under the CEF – Why?

Limited € available: €26bn to cover €500bn needs!

Limited eligibility of grants under CEF

- **Mostly Core Network (5% can go to comprehensive network when cross-border)**
- **Rail, Inland Waterways, Connections to ports and airports, Traffic Management systems, MoS. Road cross-border only.**

Full eligibility for Financial Instruments

- **The whole TEN-T network, Core & Comprehensive**
- **All projects eligible under TEN-T Guidelines**
- **All modes of transport**
- **Ground and on-board components of traffic management systems or alternative propulsion systems**

Financial instruments under the CEF – Why?

Huge investment needs identified for EU transport system

- **€1500bn for EU transport system by 2030**
- **€500bn on the TEN-T alone by 2020**
- **€250bn on the TEN-T Core Network by 2020**

Financial constraints

- **Reduction of national infrastructure investments programme**
- **Restriction of bank lending for long-term/risky projects**

Need to attract new sources of funding for infrastructure

Financial instruments under the CEF – Why?

Added Value of EU Financial instruments: Leveraging

- **3 types of leverage**

- Financial** – multiplication of scarce budgetary resources by attracting additional finance

- Policy** – financial intermediaries pursue EU policies

- Institutional** – EU can capitalise on the resources and expertise of financial intermediaries

- **Addressing suboptimal investment situations**

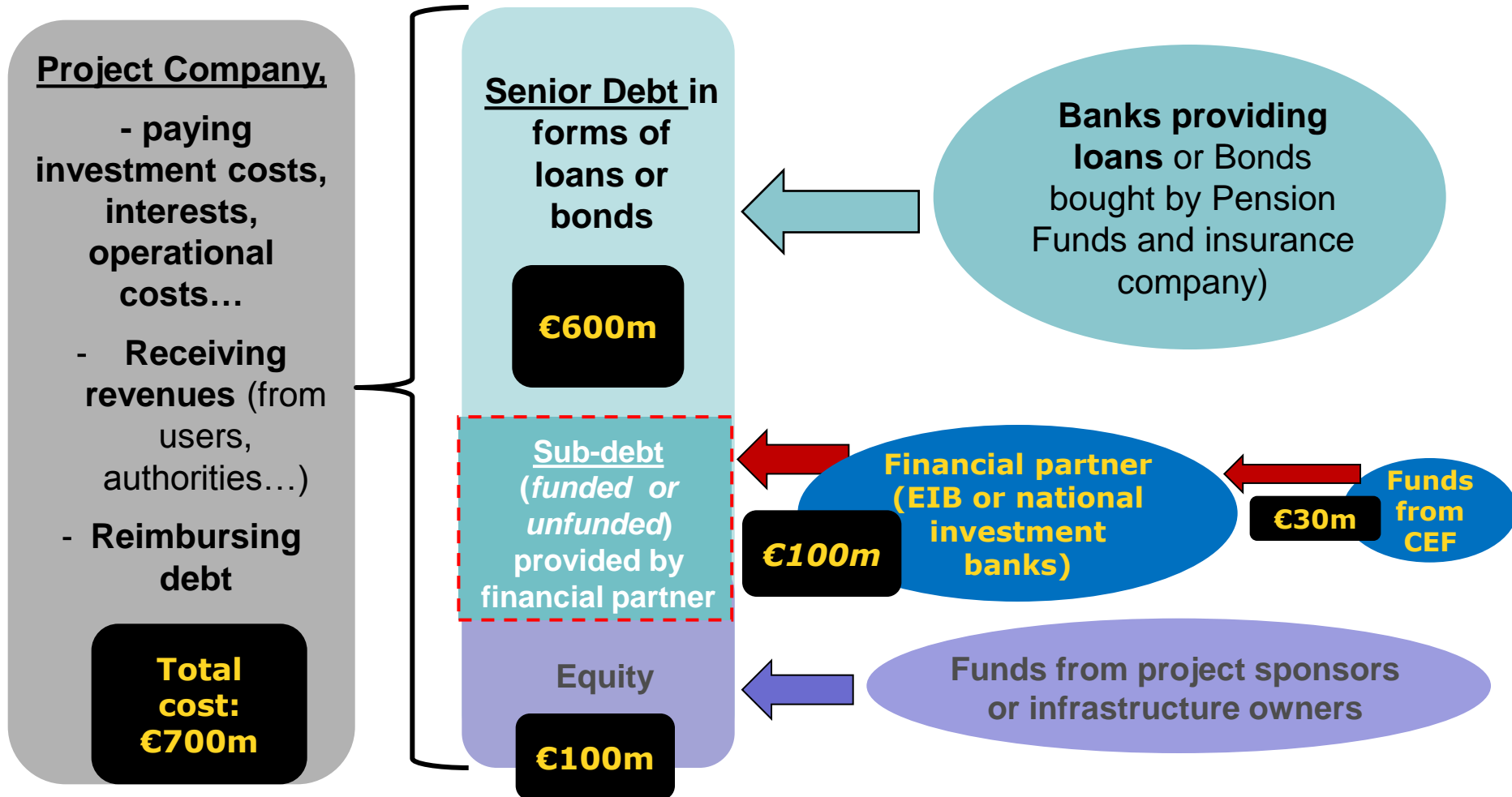
- FIs address projects with low financial profitability (but positive) and high risks => investors would not go there alone

- Allows keeping grants for projects that have no financial profitability but high societal benefits

Guiding private investments towards EU policy goals

CEF Financial instruments: how does it work?

€ 1 million from the EU Budget can generate € 20+ million in investments (leverage effect)



Financial instruments under the CEF – How?

Management of FIs under the CEF

- Implementation by **financial partners (EIB)** in accordance with Financial Regulation – no calls for proposals – direct contact with DG MOVE & EIB.
- **Possible combination** of innovative financial instruments and grants to optimise the impact of financing

Role of EU and financial partners

- EU determines general **eligibility criteria** (TEN-T Guidelines + CEF article 7)
- EC/EIB helps develop **project pipeline** where appropriate
- **EIB selects specific projects** using standard eligibility criteria and credit risk policies, select **type of support – help on financial structuring**
- **EU and EIB share risk, but EU risk capped at budgetary contribution, no contingent liabilities.**
- **CEF provides support to institutions, project promoters to develop capacity to use FIs – identification of horizontal schemes**

Financial instruments under the CEF – How?

Grants from the CEF as catalysts for use of CEF FIs

- **CEF offers support for PPP project preparation**

Build solid EU level **project pipeline** to exploit financial instruments

Send clear signal to private sector of **commitment to PPPs**

Consolidate experience to **achieve consistency and standardisation** where feasible and to share best practice

- **First results: added value of TEN-T study support**

Better preparation of technical, financial and legal aspects of projects through calls and expert advisors

Improved **project discipline** and communication through milestones

Upstream advice on EU financial instruments , more informed decision-making for all partners

Better preparation of procurement authorities & procurement documentation and procedures bond-friendly

Advice on **opportunities for CEF** grants with financial instruments

CEF grants can support PPP project preparation - feasibility to maturity

Feasibility studies necessary for value for money assessment and preparation of business case:

Market scan, Risk analysis

Affordability & 'Bankability' – development of funding and financing models

Identification of output requirements

Development of public sector comparator and 'shadow bid'

Mature project preparation phase, studies necessary to bring project to tender:

Defining output requirements and service quality standards

Financial studies to explore sources of financing, including capital markets solutions

Preparation of draft PPP contract

Support during procurement phase to make tender bond-friendly

Financial instruments under the CEF – How?

Projects targeted for financial instruments under CEF:

Projects with identifiable revenue streams or commercial benefits and long-term repayment:

- **Motorways with tolls, shadow-tolling, availability schemes**
- **Airports, logistics platforms & Ports development (e.g. New terminal)**
- **High Speed Rail, IWW locks, dedicated port or airport connection...**
- **Alternative fuelling infrastructure and on-board equipment
Traffic Management Systems equipment (e.g. ERTMS)**

Horizontal solutions may be offered for TMS or alternative fuels

Possible combination with grants for first movers, but limited amount of grants to be made available

CEF - Financial instruments

Type of Financial instruments

- Equity instruments

Risk-capital, e.g. **Marguerite Fund**

Investing in equity reduces the need for debt and reduces the level of risks

- Debt instruments

Guarantees and risk-sharing instruments, e.g. **LGTT and Project Bonds**

- LGTT to support bank lending

- Project Bonds made to support investment from Capital Market investors (Pension funds, insurance companies)

CEF can contribute to the **RSFF (Risk-Sharing Finance Facility)** under FP7/Horizon 2020).

- Corporate Debt support foreseen under CEF

Financial instruments: examples under the 2007 - 2013 TEN-T Programme

- ***Equity investments through Marguerite:***
 - Autovía de Arlanzón (A-1) Motorway (Spain)
 - Zagreb airport
 - Several wind farms and solar energy projects
- ***Loans and Guarantees for debt (LGTT)***
 - High speed rail line Tours – Bordeaux (France)
 - Autobahn 8 Augsburg-Ulm (Germany)
 - Autobahn 5 (Germany)
 - C25 – Eix Transversal (Spain)
 - London Port Gateway (UK)
- ***Pilot Phase of the Project Bond Initiative***
 - 2 transport projects signed in BE & DE , 5 projects in total
 - Several transport projects expected to be signed in early 2015

Example of an LGTT project: Tours – Bordeaux High Speed Line

- High speed line between Paris and Tours exists, after Tours only traditional tracks
- Construction and operation of a 300km high speed rail link between Tours and Bordeaux
- €200 million LGTT supporting €3 billion senior debt and €7.8 billion total investment
- LGTT proved decisive to attract senior lenders; state guarantee more protected
- Break-through: First time a rail transaction has been structured this way.
- Benefit: journey time between Paris and Bordeaux will be reduced from 3 hours to 2 hours; substantial stimulus for the French economy



Results of the Project bond pilot phase

- **5 projects signed to date:** 2 in Energy, 2 in Transport (A11 in Belgium and A7 in Germany) and 1 in broadband. Target of 5 to 7 project is reached
- **Strong interest by capital market investors** in Bonds protected by the Project Bond instruments
- **Explicit demand** from investors for future projects, huge market potential based on institutional demand for long term infrastructure
- PBI PP made European institutional investors **aware of the real opportunities** of investing in infrastructure.
- A real market is emerging, enabling to overcome the bank lending crisis and to **potentially bridge the infrastructure financing gap.**
- However process slower than expected and **lack of a strong pipeline of suitable projects**



The new Commission's €300 bn package: an increased push for financial instruments?



The €300 bn package, an increased role for FIs?

- President-Elect Juncker announced a package of **€300 bn additional public and private investments**, notably for infrastructure.
- **It is unlikely that MS will contribute more to the EU budget**, Target will be to **increase the leverage** of EU funds
- Wider use of FIs to be foreseen, reduction of available grant funding is possible
- FIs to be wider in scope and target riskier projects
- New partnerships to be developed (National Development Banks, Long Term investors...)

"Public money will be used as a catalyst for productive, real investment by the private sector" –

Jyrki Katainen, Hearing at the EP, October 2014

The €300 bn package, an increased role for FIs?

Work on the development of a real and genuine project pipeline

- **Step change needed on project pipeline preparation**
by developing **tailor-made technical assistance**:
 - at the level of project financial structuring
 - at the horizontal level (assistance to administrations & project promoters)
- **Use the strength and market knowledge of new partners**
National Development Banks have in-depth knowledge of and about projects in need of financing
Potential investors have also strong relations with project promoters
- **Work on the identification of projects ongoing (EIB/EC)**
Special EIB/MS/ Commission Task Force
Christophersen Report requested by the Transport Ministers Council

Conclusions

- **Grant funding is limited, even if the CEF budget has increased**
- **Grants will be focused on cross-border sections and main bottlenecks on the rail and IWW sectors**
- **Projects asking for CEF grant support should first prove that they cannot benefit from financial instruments**
- **Political context pushes for an increase use of financial instruments**
- **Project preparation should be done with the view of potentially attracting private finance, possibly with support of CEF financial instruments**
- **CEF grant can support feasibility & preparatory studies to help studying private financing options.**
- **Technical assistance to be provided by EIB for financial structuring**
- **Projects identification ongoing, contact EC if you have projects!**



Dank u!

Questions?

Matthieu.bertrand@ec.europa.eu