



EIB support for TENs

**Workshop on PPP and High Speed Rail
The Portuguese Experience**

January 28th 2010



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1.The European Investment Bank (EIB)

European priority objectives



- ❖ Within the Union:
 - ❖ Cohesion and convergence
 - ❖ Small and medium-sized enterprises (SMEs)
 - ❖ Environmental sustainability
 - ❖ Knowledge Economy
 - ❖ Trans-European Networks (TENs)
 - ❖ Sustainable, competitive and secure energy



1. The European Investment Bank (EIB)

European priority objectives



- ❖ Outside the Union:
 - ❖ Private sector development
 - ❖ Infrastructure development
 - ❖ Security of energy supply
 - ❖ Environmental sustainability
 - ❖ Support for EU presence in Asia and Latin America via Foreign Direct Investment (FDI)



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3.3.2 Investment Focus

2. Trans-European transport network (TEN-T)



TEN-T PRIORITY AXES AND PROJECTS 2005

Trans-European transport network (TEN-T) Priority axes and projects

1. Railway axis Berlin-Venona/Milan-Bologna-Naples-Messina-Palermo
2. High-speed railway axis Paris-Brussels-Cologne-Amsterdam-London
3. High-speed railway axis of south-west Europe
4. High-speed railway axis east
5. Botines line
6. Railway axis Lyons-Trieste-Divača/Sooper-Divača-Ljubljana-Budapest-Ukrainian border
7. Motorway axis Igoumenitsa/Patras-Athens-Sofia-Budapest
8. Multimodal axis Portugal/Spain-rest of Europe
9. Railway axis Cork-Dublin-Belfast-Stranraer
10. Malpensa airport
11. Øresund fixed link
12. Nordic triangle railway/road axis
13. United Kingdom/Ireland/Benelux road axis
14. West coast main line
15. Galileo
16. Freight railway axis Sines/Algeciras-Madrid-Paris
17. Railway axis Paris-Strasbourg-Stuttgart-Vienna-Bratislava
18. Rhine/Main-Main-Danube inland waterway axis
19. High-speed rail interoperability on the Iberian peninsula
20. Fehmarn belt railway axis
21. Motorways of the sea
22. Railway axis Athens-Sofia-Budapest-Vienna-Prague-Nuremberg/Dresden
23. Railway axis Gdansk-Warsaw-Bres/Bratislava-Vienna
24. Railway axis Lyons/Genoa-Bale-Duisburg-Rotterdam/Amsterp
25. Motorway axis Gdansk-Bres/Bratislava-Vienna
26. Railway/road axis Ireland/United Kingdom/continental Europe
27. Tall Baltica axis Warsaw-Kaunas-Riga-Tallinn-Helsinki
28. Eurocaprail on the Brussels-Luxembourg-Strasbourg railway axis
29. Railway axis of the Ionian/Adriatic intermodal corridor
30. Inland waterway Saina-Scheldt

Priority axes and projects	Priority project numbers
Road	13 Road project
Rail	6 Railway project
Inland waterway	8 Multimodal project
Motorway of the Sea	10 Inland waterway project
Airport project	21 Motorway of the sea
Port project	10 Airport
15 Galileo	

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2.1 TEN-T – Investment challenges

Investment challenges for the European Union :

- 75 200 kilometers of roads
- 79 400 kilometers of railways
- 430 airports
- 270 international seaports
- 210 inland ports
- traffic management systems, user information and navigation services



2.2 TEN-T - Objectives



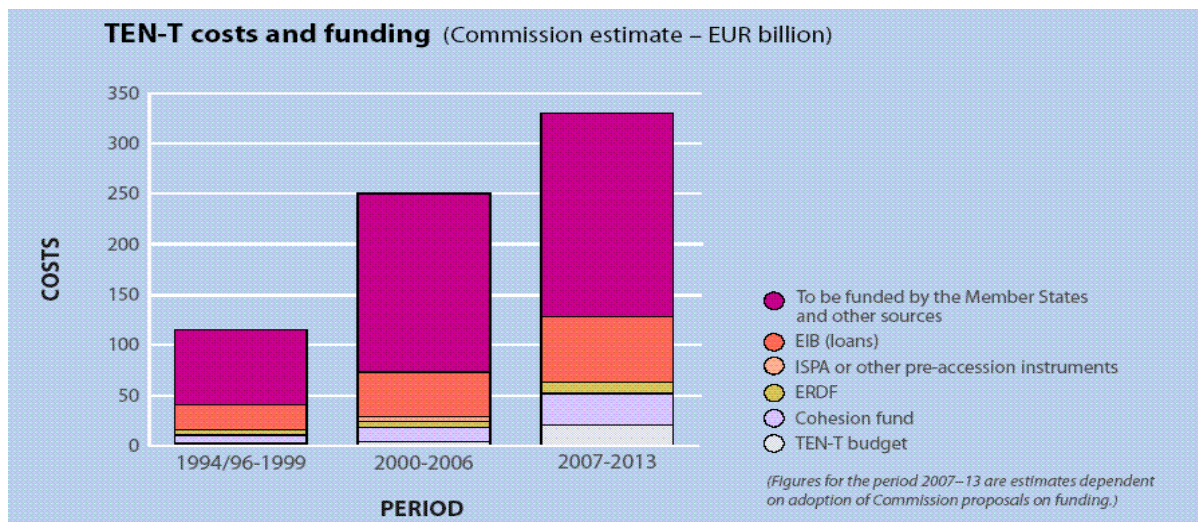
The development of TENs aims to provide:

- ❖ High –quality infrastructure supporting the links between the 27 EU Member States and connecting the EU and the countries of the European Neighborhood area
- ❖ Interconnection and interoperability of existing national networks
- ❖ Access to the basic networks, permeating the benefits of the Trans-European Networks over the whole EU territory



2.3 Financing of Trans-European Networks (TEN)

- ❖ The estimated TENs investment requirement in **2007-2013 is over €300bn**
- ❖ EIB loans finance ca. 15-20% of TENs investments
 - ❖ Commission resources (Structural Funds and TENs) cover ca. 15%
 - ❖ National resources finance ca. 40-50%
 - ❖ Private sector risk finance needed to finance 20-25%
- ❖ TEN-T investment programme is too large for the public sector to develop alone without increased private sector risk participation.



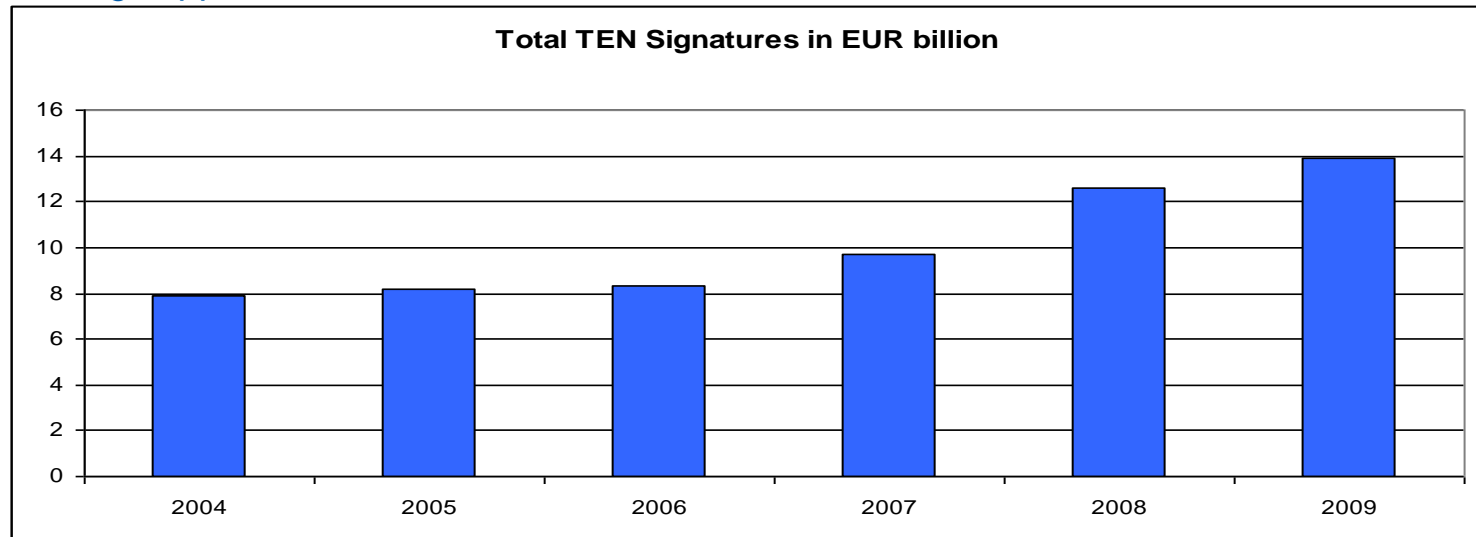


2.4 TENs – EIB's Achievements & Challenges

Clear step-up in EIB TEN lending activity since 2004

Signatures (bn EUR)	2003	2004	2005	2006	2007	2008	2009
TEN-T	4.6	6.6	7.3	7.9	8.3	9.9	
of which Priority TEN-T	1.7	2.2	2.9	2.7	3.1	3.2	
TEN-E		1.3	0.9	0.4	1.4	2.7	
Total TEN		7.9	8.2	8.3	9.7	12.6	13.6
of which PPP in TEN-T	0.4	0.3	0.2	1.3	0.9	2.9	
of which SFF in TEN-T		0.0	0.2	0.0	0.5	1.6	
Rail as % of Total TEN T		40%	42%	37%	46%	27%	

- ✓ TEN; steady and solid progress being achieved: lending to railway sector substantially expanded
- ✓ Priority Projects particularly rail need long term financing and advisory support
- ✓ Strong support and effective collaboration from DG TREN and DG REGIO





2.5 EIB Value added

The EIB contributes real value added to TENs transport and energy infrastructure projects relying on its ability to :

- ❖ Mobilise on competitive terms the large amounts necessary to co-finance the building of this infrastructure;
- ❖ Offers maturities tailored to the long construction and operating periods of the schemes concerned;
- ❖ Provides structured finance as a complement to commercial bank and capital market funding.

European PPP Expertise Centre: Expertise service provided by the EIB and European Commission to support programme and policy development as well as best practice by the public sector for PPP transactions.



2.6 EIB Financing options

The EIB does not finance the total investment of cost of a project, the aim being to capitalise on the Bank's first-rate lending terms to attract other viable sources of financing.

- ❖ EIB contribution does normally not exceed 50% of the total investment cost;

Main financing facilities for TENs

- ❖ Individual loans for capital expenditure programmes or projects costing more than EUR 25 million which are relevant in the context of large-scale infrastructure projects such as TENs;
- ❖ Innovative financial instruments the Structured Finance Facility (SFF) and the Loan Guarantee Instrument for Trans-European Transport Network projects (LGTT);
- ❖ A series of infrastructure equity funds.



2.6 EIB financing options



In addition to standard EIB Senior loans for TENs projects, EIB also provides:

- ❖ **Structured Finance Facility:** to fund projects with a higher risk profile and enable equity financing; mezzanine and guarantee operations for large-scale infrastructure schemes
- ❖ **Loan Guarantee Instrument for TEN Transport projects:** funded by the EIB and EU budget and managed by the EIB, taking the revenue ramp-up risk in the early years of TENs projects. Designed to deal with one of the main obstacles to private sector participation in TENs-T: in PPPs the private sector is often required to assume traffic risk – something it has been reluctant to do.
- ❖ **Marguerite fund :** created at the end of 2009, an investment vehicle for long term institutional investors from both the public and private sectors. The fund will focus on projects in priority energy and infrastructure sectors



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3.3 “2020 European Fund for Energy, Climate Change and Infrastructure” (Marguerite)

3.3.1 Development role

3.3.2 Investment Focus

3.1 EIB Structured Finance Facility - SFF



Purpose of SFF is to increase EIB leverage value added and financing capacity while limiting amounts financed. SFF financing of EUR 4.2 bn in 2008, EUR 5.8 bn in 2009

Corporate Ratings	
Moody's	S&P and Fitch
...	...
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
...	...



SFF allows EIB to increase the leverage on its own Funds and those of the Commission Budget through Structured Finance



3.1 EIB Structured Finance Facility - SFF



SFF allows EIB to reach projects with a credit quality that previously might not have qualified for EIB financing

- Strategic objectives established by the Bank include the building of a significant and sustainable SFF programme, transforming these activities into a mainstream element of the Bank's lending with a focus on high priority sectors of TENs, i2i, energy and cooperation in partner countries
- SFF may nevertheless also be used for other priority objectives where appropriate, such as SMEs



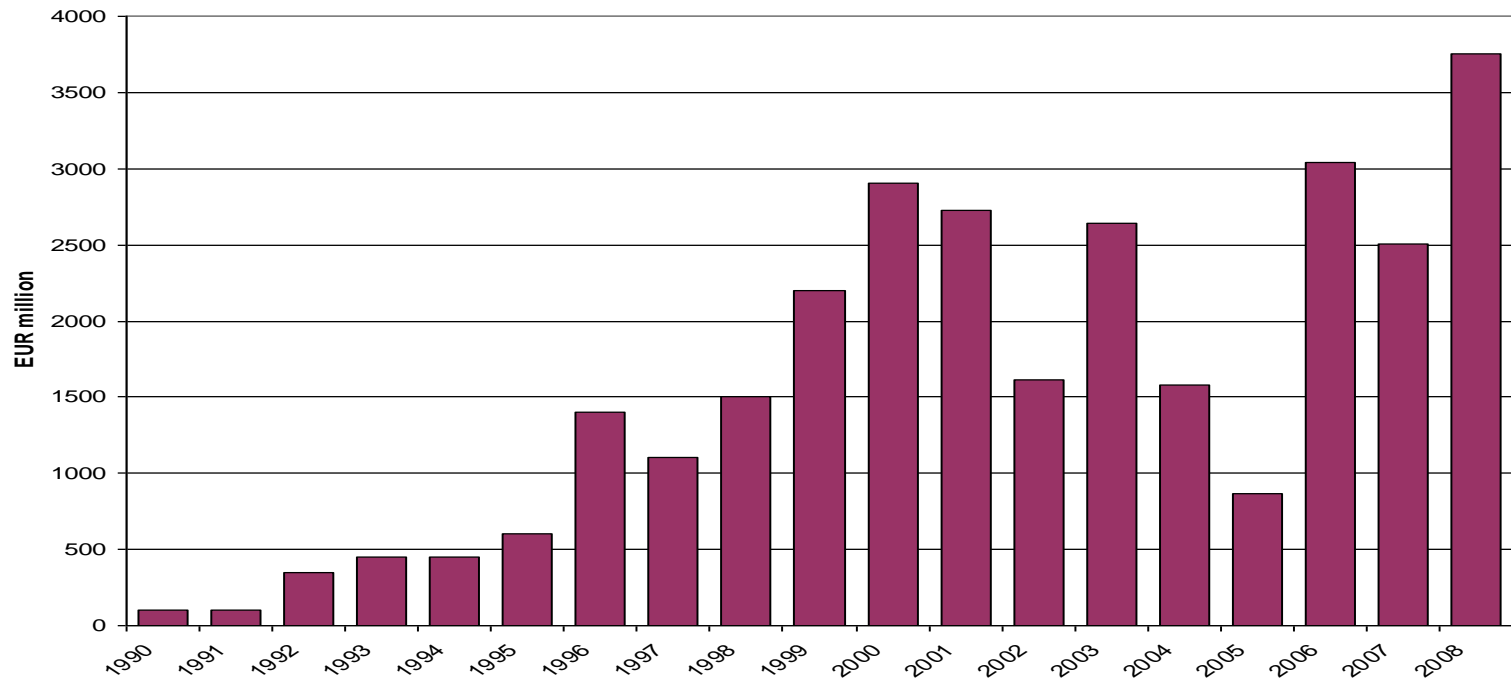
3.1 Public Private Partnerships (PPPs)

- ❖ Compelling logic for PPPs based on:
 - ❖ Need to improve cost and quality in strategic public services and infrastructure
 - ❖ Scarcity of public capital – infrastructure investment needs outstrip the ability of the public sector to fund
 - ❖ Procurement Procedures that improve Value for Money for public sector
- ❖ Maturity of market varies across EU member states : some committed to very significant programmes (UK, Germany: target for PPP to meet 15% of public infrastructure investment requirements)
- ❖ Diversity of PPP models across Europe – a key advantage of PPP is its flexibility to meet different economic and political priorities
- ❖ Strong track record of operational projects in Europe focused on transport, but also waste, water, defence, health, education, custodial services etc
- ❖ EIB a key funder – ca. EUR 29 billion of PPP assets to 2008
- ❖ Challenges to the European market:
 - ❖ The credit crisis has had significant impact on volume of transactions, speed of closing, margins, tenors. Syndication and wrapped bond markets dried up.
 - ❖ Public authorities as a counterpart - some remain ill-equipped for the new demands of planning, negotiating and delivering PPP deals

3.1 EIB Annual Loan Signatures for PPPs



Signature of PPPs varies annually in line with project completions. Approvals to date have been over EUR 36bn; to 2008 signatures of EUR 29bn with an average of over EUR 2.0bn p.a. since 2000





3.2 Loan Guarantee Instrument for TENs Transport Projects (LGTT)

- ❖ **LGTT is a specialized risk based instrument developed by the EIB in cooperation with the European Commission.**
- ❖ **It is designed to provide contingent mezzanine debt and thereby to protect senior debt in TENs projects that are exposed to traffic risk.**
- ❖ **It provides up to 20% of additional mezzanine debt funds to meet traffic downside scenarios**

“Market pull”:

- ❖ **Many green field transport projects are sub-investment grade unless supported or guaranteed by government/public authorities or credit enhanced.**
- ❖ **Senior lenders require expensive additional buffers (e.g. lower gearing/higher cover ratios, contingent mezzanine debt and equity)**
- ❖ **In particular in current market circumstances, projects need supplementary robustness in order to attract private financings in traffic related infrastructure investments.**



3.2.1 Loan Guarantee Instrument for TENs Transport Projects (LGTT) Leverage effect on external funding



- ❖ European Commission and EIB have committed a total of €1 billion over the next years (until 2013).
- ❖ The Capital Commitments of €1bn enable LGTT Guarantees of € 5bn to be issued based on a 20% provisioning ratio. Residual risk is borne by the EIB Balance Sheet.
- ❖ As LGTT represents 10-20% of senior loans, €20-40bn of senior loans can be supported.

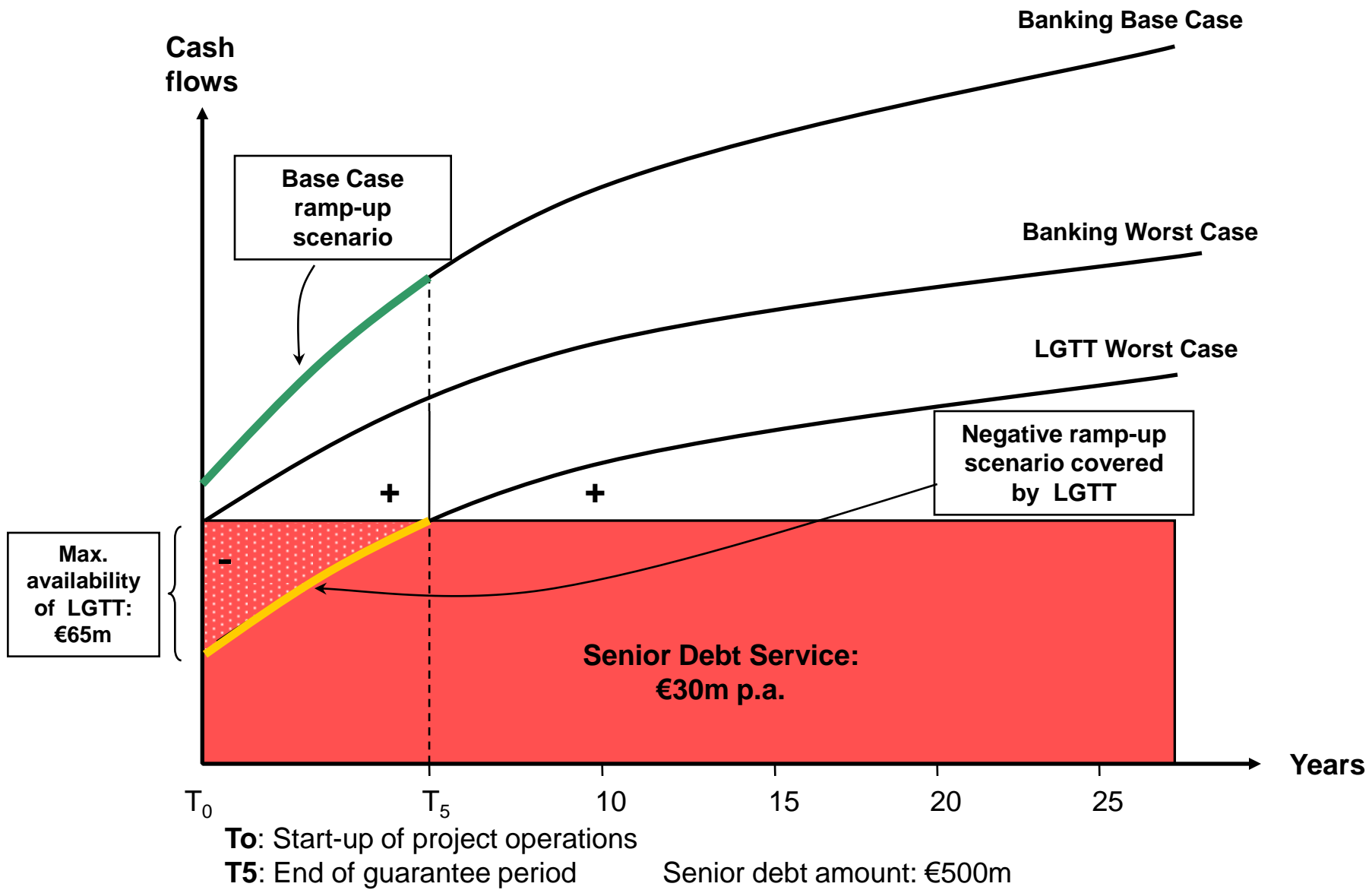


3.2.2 LGTT - Overview

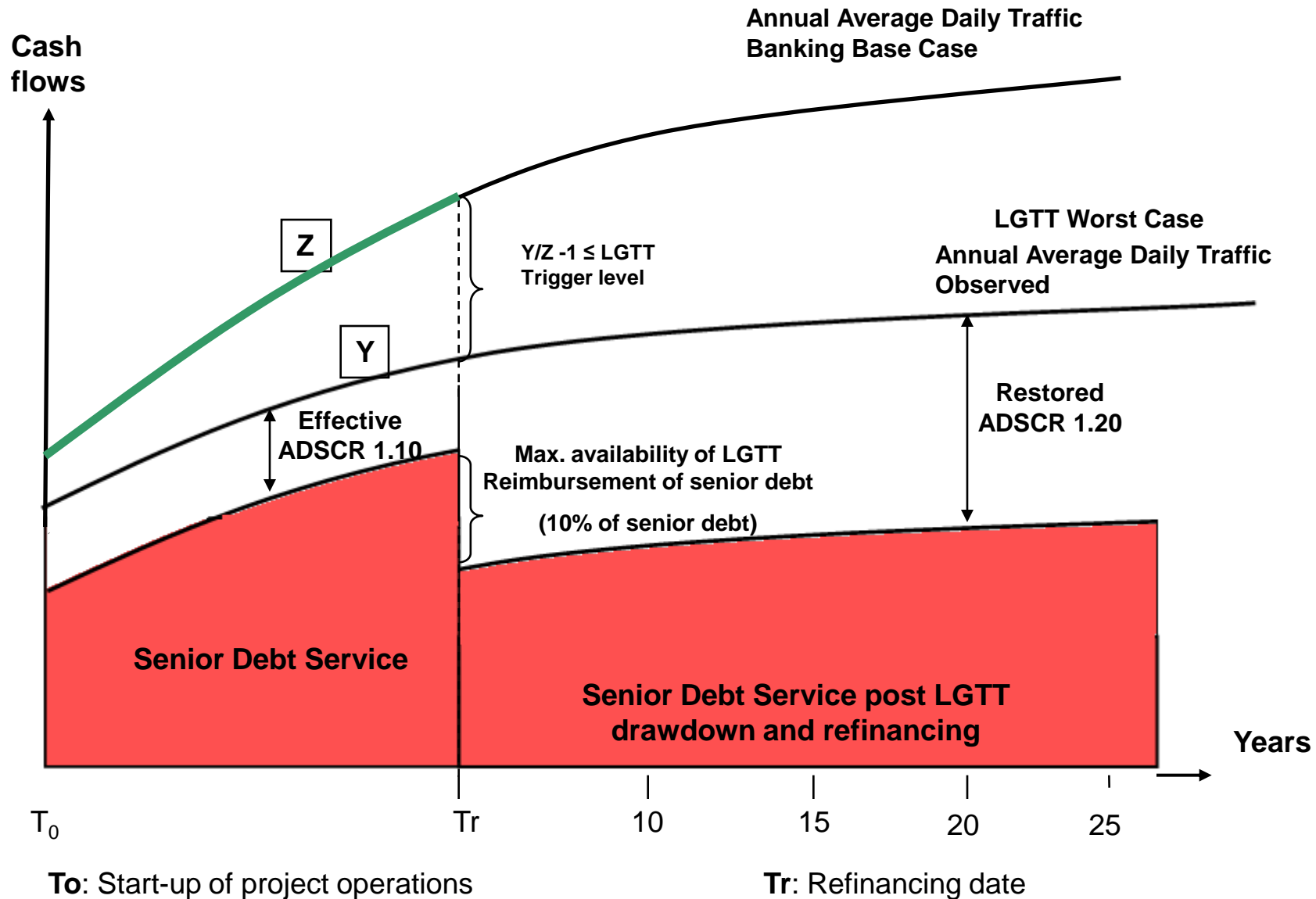
- ❖ **Availability period:** up to 7 years from construction completion
- ❖ **Size:** up to 20% of senior debt facilities; maximum €300m per transaction
- ❖ **Effect:** to lift senior debt credit quality of sound TEN-T projects from near-investment grade to investment grade – funding cost reduction expected to be significantly higher than cost of guarantee.
- ❖ **Mezzanine instrument:** The LGTT is a stand-by mezzanine funding instrument. EIB will only be repaid out of cash available post senior debt service.



3.2.3 Mechanics of LGTT revolving liquidity support



3.2.3 Mechanics of LGTT single drawdown





3.2.4 LGTT benefits



- **LGTT provides contingent mezzanine debt to mitigate downside traffic risk scenario**
- **LGTT makes the capital structure more robust to traffic; project and financial uncertainties**
- **LGTT particularly designed to mitigate refinancing risk in Mini-Perm structures.**
- **State guarantee for senior debt where it exists, is more protected when LGTT is present in the financial structure**
- **In current market circumstances, LGTT proved decisive to attract senior lenders and to close PPP projects with traffic risk components.**



3.2.5 Signed LGTT Operations

- 3 operations in the road sector

IP4 Amarante Villa Real	Portugal
A5	Germany
Baixo Alentejo	Portugal



3.3 “2020 European Fund for Energy, Climate Change and Infrastructure” (Marguerite)



- ❖ The Fund’s objective is to make a significant contribution to the development of Trans-European Networks in Transport and Energy (TEN-T and TEN-E) as well as to the combat of climate change and implementation of the EU's 20/20/20 objectives, in particular by supporting renewable energy technologies.
- ❖ The Fund targets an equity base of EUR 1.5bn and an associated Credit Facility of EUR 5bn focused on TEN-T; TEN-E and Renewables
- ❖ Major publicly funded Core Sponsors (EIB, CDC (France), CDP (Italy), ICO (Spain), KfW (Germany) and PKO (Poland)) are backing this Fund
- ❖ Invitation to the Commission to invest in the Fund as a full member
- ❖ Substantial long-term private sector as well as other public sector institutional investors expected
- ❖ Access to significant deal flow potential in priority sectors throughout Europe
- ❖ Core Sponsors maintain close dialogue with regulatory & public authorities in their home countries and with EU
- ❖ Focus on solid IRR targets - Fund to give preference to projects with satisfactory Economic Rates of Return (ERR)



3.3.1 Marguerite (2020) Development Role



The fund will fulfil a clear policy role by the following means:

- ❖ Geographic investment area targets all 27 EU Member States.
- ❖ Investments to focus on sectors/projects with solid IRR and satisfactory Economic Rates of Return (ERR)
- ❖ Focus on projects in priority energy and infrastructure sectors as identified by the Fund as well as the Commission; the Core Sponsors and other investors
- ❖ Fund will be an investment vehicle for long term institutional investors from both the public and private sectors.
- ❖ Priority towards Greenfield projects



3.3.2 Marguerite (2020) Development Role



Investment focus: mainly Greenfield projects in **three priority sectors:**

- ❖ Transeuropean Transport Networks (TEN-T)
- ❖ Transeuropean Energy Networks (TEN-E)
- ❖ Renewable energies;



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