EUROPEAN INVESTMENT BANK

Public Private Partnerships Schemes and Railways Financing Workshop

UNECE
Geneva, November 07, 2012
1. Introduction to EIB
2. Decision Making Considerations
3. Risk Considerations
4. Conclusions
The European Investment Bank (EIB)
Long-term finance promoting European objectives

- Shareholders: 27 EU Member States
- Governance
  - Board of Governors – EU Finance Ministers
  - Board of Directors - Member States & European Commission
  - Management Committee – EIB’s executive body
  - Audit Committee – independent, non-resident
The European Investment Bank (EIB)
European priority objectives

- Within the Union:
  - Convergence
  - Small and medium-sized enterprises (SMEs) and mid-cap enterprises (midcaps)
  - Environmental sustainability
  - Knowledge Economy
  - Trans-European Networks (TENs)
  - Sustainable, competitive and secure energy
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)
Signatures and Disbursements from 2007 to 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Signatures</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>48 EUR bn</td>
<td>43 EUR bn</td>
</tr>
<tr>
<td>2008</td>
<td>58 EUR bn</td>
<td>49 EUR bn</td>
</tr>
<tr>
<td>2009</td>
<td>79 EUR bn</td>
<td>54 EUR bn</td>
</tr>
<tr>
<td>2010</td>
<td>72 EUR bn</td>
<td>59 EUR bn</td>
</tr>
<tr>
<td>2011</td>
<td>61 EUR bn</td>
<td>60 EUR bn</td>
</tr>
</tbody>
</table>
EIB Rail Lending 2007-2011

EIB lending to Rail including Public Transport 2007-2011
(EUR 35bn)

- High Speed Railway 36%
- Metro 23%
- Urban Railway 7%
- Tramway 13%
- Railway 21%
EIB Financing Instruments

EIB has at its disposal a wide and flexible portfolio of financing instruments to support TEN projects.

**Standard Loans**
"Traditional" EIB lending instrument
Guaranteed basis
Represents the bulk of EIB’s lending volumes

**Structured Finance Facility (SFF)**
Established in 2001
Expands the ability of EIB to provide financing
Allows lending to projects with higher risk (PPP’s)
Allows for more flexible financing solutions

- **Direct Loans**
  - Public or Private Sector
- **Intermediated Loans**
- **(PPP) Project finance with direct project risk**
- **Mezzanine PBCE / LGTT**
- **Equity through Funds**

11 September 2012
EIB Lending 2007-2011

- EIB’s transport lending policy
  - Reflects EU policy and directives
  - Railways are a priority in terms of reducing greenhouse gas emissions per transport unit
  - Development of the Trans European Transport Railway Network (TEN-T)

- In Summary, the EIB is enthusiastic about rail financing...
- ...but seeks to finance economically and environmentally sustainable projects...
1. Introduction to EIB
2. Decision Making Considerations
3. Risk Considerations
4. Conclusions
Decision Making Considerations

Financial sources / shareholder structure:

- Public / Public
- Private / Private
- Mixed / Mixed-Private
Decision Making Considerations

- Is it PPP the most adequate option?
  - Is it affordable for contributors or users?
  - Can risks be adequately allocated?
  - Is the project bankable, is it attractive to investors, public financing in place?
  - Does it deliver value for money?
  - “Balance sheet treatment” considered?
Decision Making Considerations

Technical aspects

- Design speed –
  - New or upgraded conventional infrastructure to 160 km/h
  - New or upgraded conventional infrastructure for 200 – 230 km/h
  - New infrastructure > 250 km/h
Decision Making Considerations

Technical aspects

Type of operation –
- exclusive exploitation: e.g. shinkansen
- mixed high speed exploitation: e.g. TGV
- mixed conventional model: e.g. AVE
- fully mixed model: e.g. ICE and Rome-Florence

Mixed traffic freight/passenger?

Access barriers?
Decision Making Considerations

Flexibility / capacity:

Source: J. Campos, G. de Rus, Transport Policy 2009
Decision Making Considerations

Average cost / km:

Decision Making Considerations

Key issues to consider in variability of project costs:

- Technical solution: design speed, upgrade vs. new infrastructure, type of operation

- Terrain:
  - topography: hilly, flat
  - landscape: urban, rural

- Technological solution (i.e. type of trackwork, railway technology, etc.)
Decision Making Considerations

Key issues to consider in variability of project costs II:

- **Procurement:**
  - public: classic, turnkey; enough competition?
  - PPP: shareholder structure allows for competition in procurement of infrastructure?

- **External factors:** permits, political support, public support, etc. – potential delays?
1. Introduction to EIB
2. Decision Making Considerations
3. Risk Considerations
4. Conclusions
Risks Considerations

General risks I

- Too optimistic cost estimation
- Unforeseen technical problems
- Too optimistic timetable
- Teething problems due to innovative technology
- Complex projects with large number of technical interfaces: trackwork, electric supply, signalling, telecom, etc
Risks Considerations

General risks II

- Industry concentration: only few players
- Incomplete land acquisition process
- Too optimistic demand forecasts
- Insufficient political support
- Insufficient public support, incl. NGOs
- Open environmental issues
Risks Considerations

Additional risks involved in PPP rail projects I

- Inadequate project preparation:
  - Political support for PPP solution; is PPP the best solution?
  - Inadequate legal framework

- Capital intense projects; raising money is challenging and expensive

- Insufficient revenues (optimistic forecasts) in case of demand risk allocation – is the institutional framework adequate to allocate demand risks?
Risks Considerations

Additional risks PPP rail projects II

- SPV shareholder structure:
  - Are the shareholders strategic investors, i.e. rail technology producers, construction companies?
  - Is the senior lender / underwriter involved in equity?
- Are the risks of such a capital intense project delivering value for money e.g. PSC?
- Inadequate risk allocation
- Is the possibility of financial rebalancing adequate?
Risks Considerations

Demand forecasts matter

- Poor track record in accurate demand forecasting; e.g. Taiwan, Eurotunnel
- Market response matters; e.g. low cost carriers, competitive routes / lines, improved road links, etc. difficult to anticipate
- Ramp-up can be long and severe (e.g. missing or inadequate accesses)
- Long term investments: factors determining the demand can vary (e.g. economic environment, new competitive infrastructure, pricing structure/level, regulatory framework, etc.)
1. Introduction to EIB
2. Decision Making Considerations
3. Risk Considerations
4. Conclusions
Financing Railway Infrastructure

**Summary - General**

- Project preparation is crucial
- Political and public support is necessary
- Best technical solution shall be adopted
- Accurate traffic forecasts
Financing Railway Infrastructure

**Summary - PPP**

- PPP must deliver **value for money**
  - to the public promoter
  - to the private investor
- Risk allocation must be adequate
- Revenue and cost streams must be accurately identified and quantified
Thank you

Alfredo Diaz
a.diaz@eib.org
www.eib.org