



# 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

- European Union's long-term lending bank set up in 1958 by the Treaty of Rome.
- 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



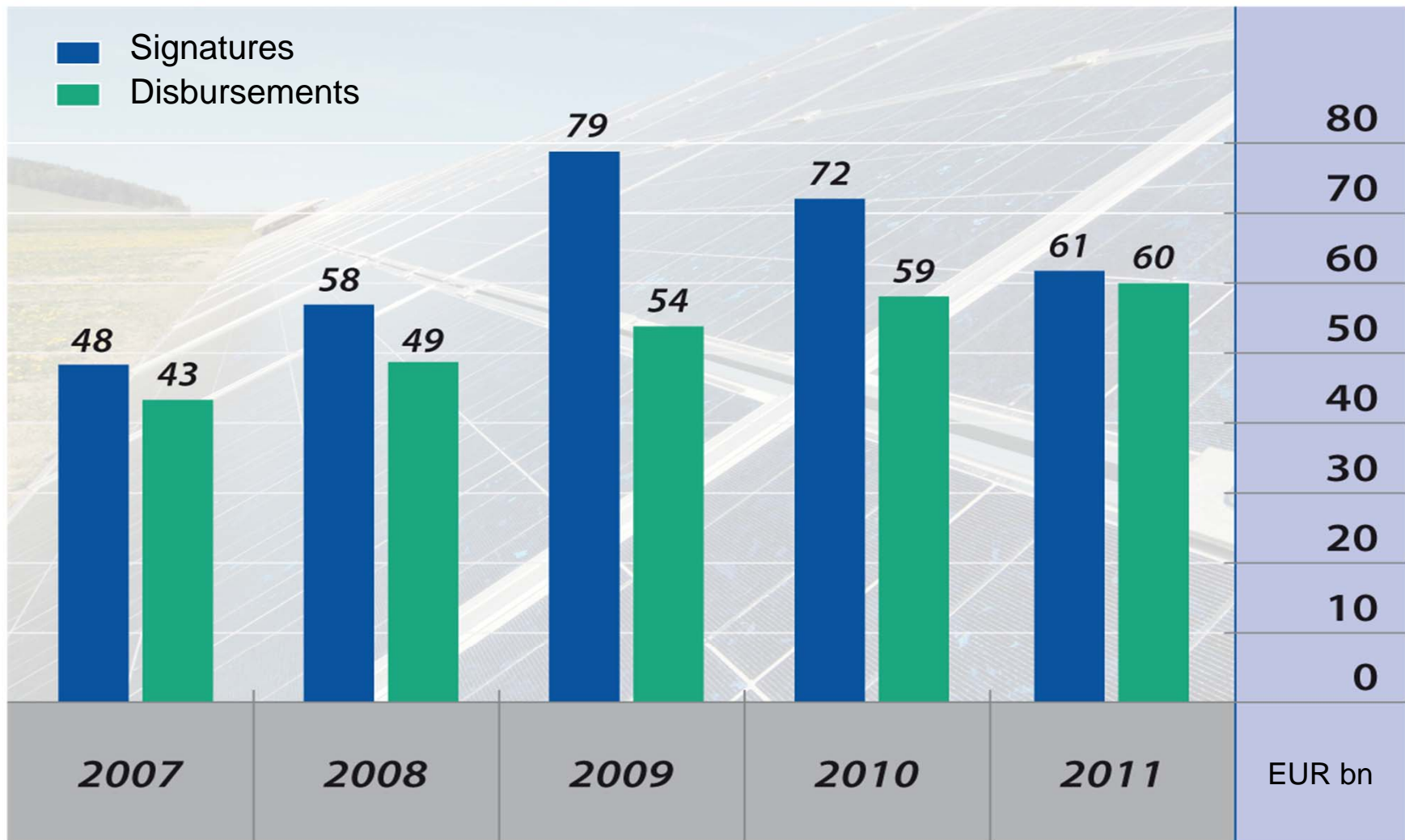
# The European Investment Bank (EIB)

## 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

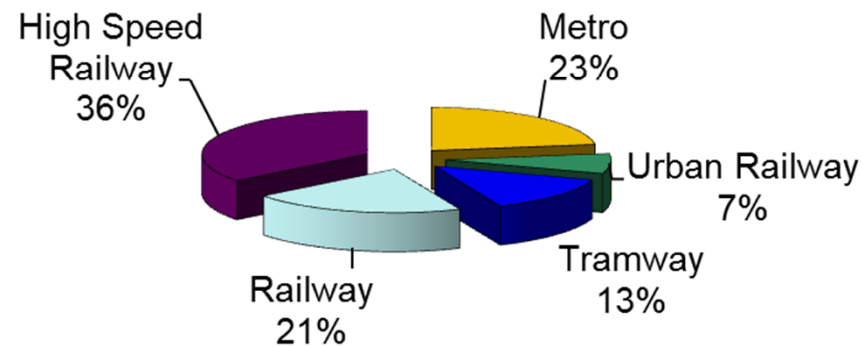




# EIB Rail Lending 2007-2011



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



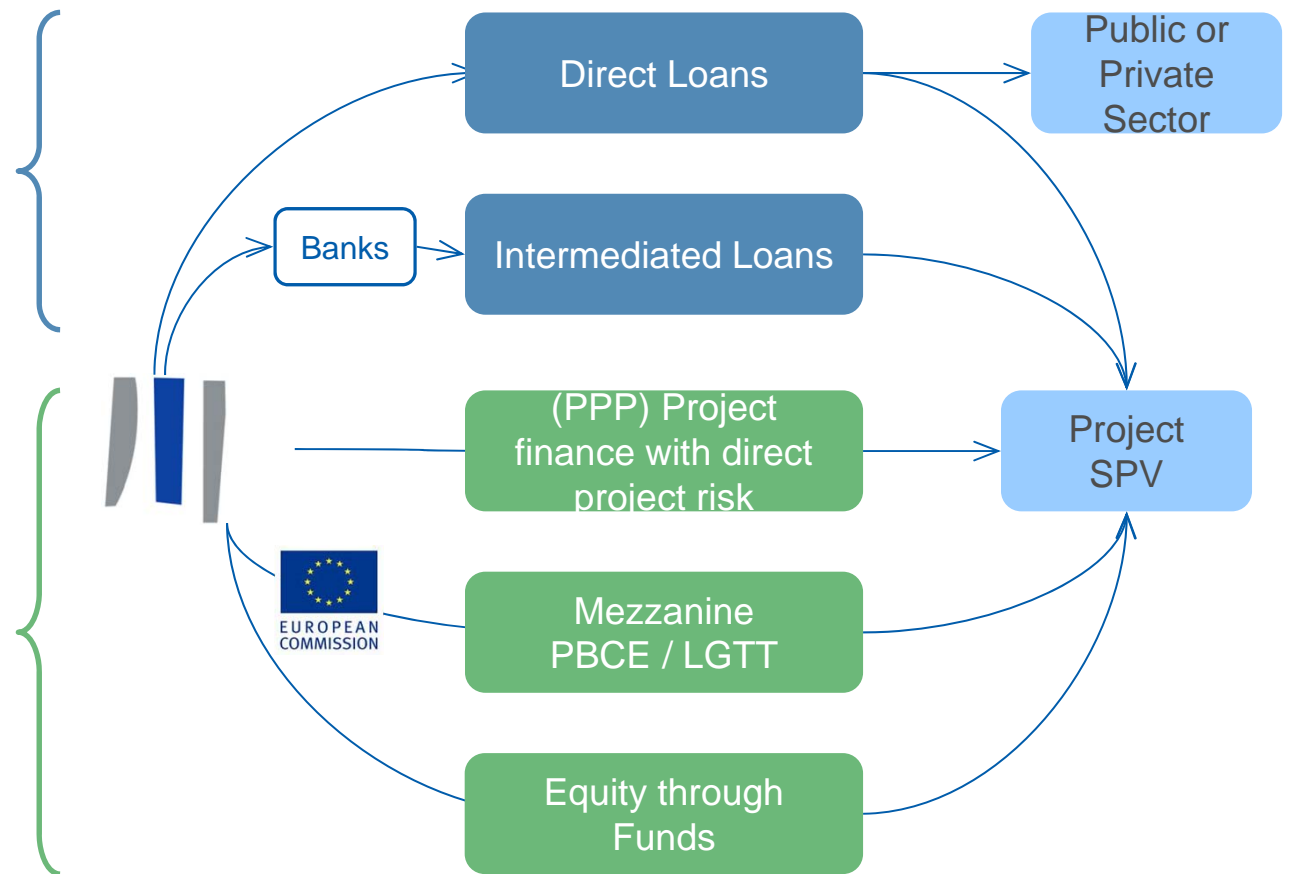
# EIB Financing Instruments



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







## 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...



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## 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

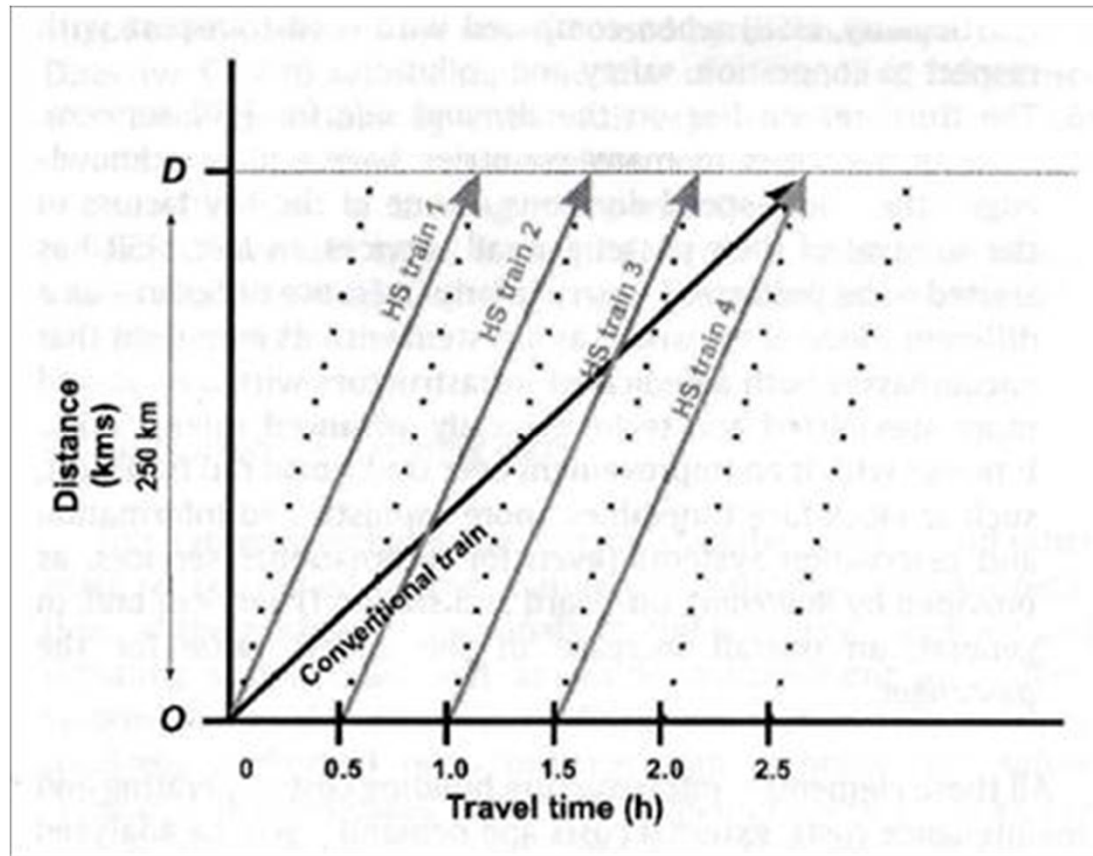
- Type of operation –
  - exclusive exploitation: e.g. shinkansen
  - mixed high speed exploitation: e.g. TGV
  - mixed conventional model: e.g. AVE
  - fully mixed model: e.g. ICE and Rome-Florence
  
- Mixed traffic freight/passenger?
  
- Access barriers?



# Decision Making Considerations



Flexibility / capacity:



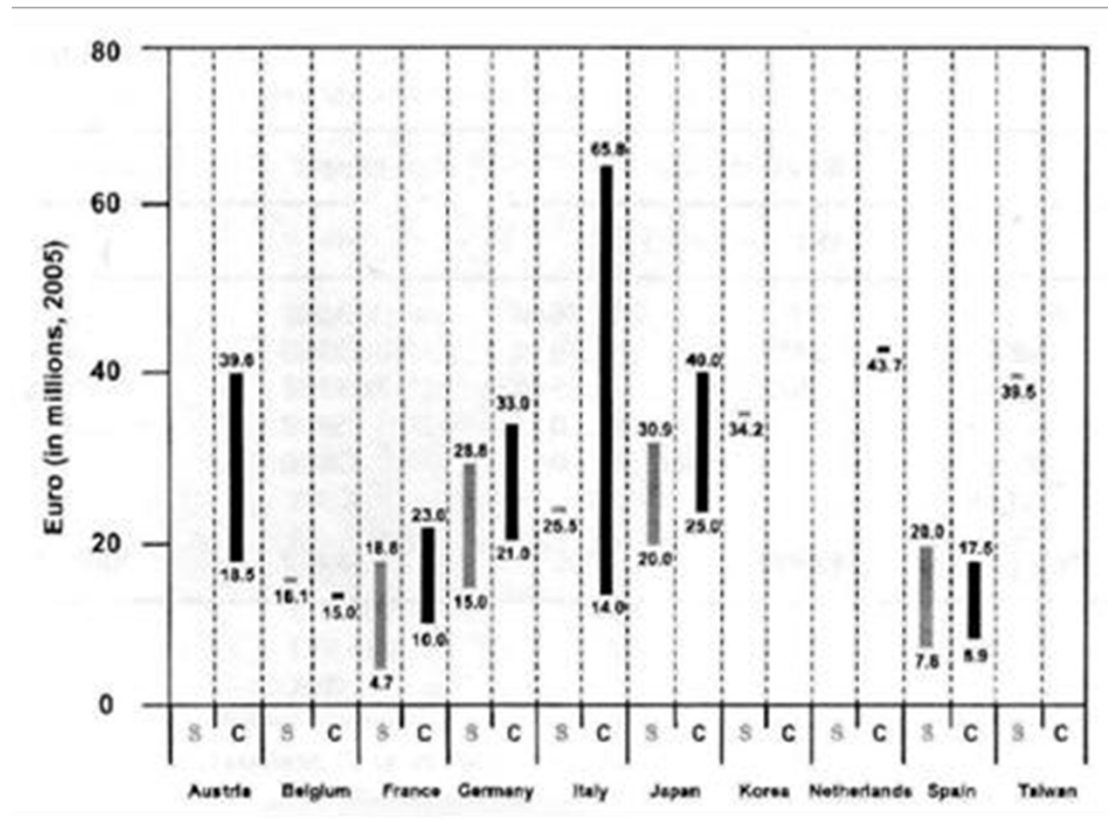
Source: J. Campos, G. de Rus, Transport Policy 2009



# Decision Making Considerations



Average cost / km:



Average cost per kilometer of new HSR infrastructure. Notes: S = Lines in Service: C = Lines under Construction (2006), Source: HSR Database. Elaborated from UIC (2005b). Data exclude Planning and land costs





## Decision Making Considerations



Key issues to consider in variability of project costs I:

- 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?



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## 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.)





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# 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**

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