



EIB Response to Changing Markets : New Initiatives and Financial Instruments

**Thomas C. Barrett, Director
European Investment Bank**

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EIB signatures and disbursements





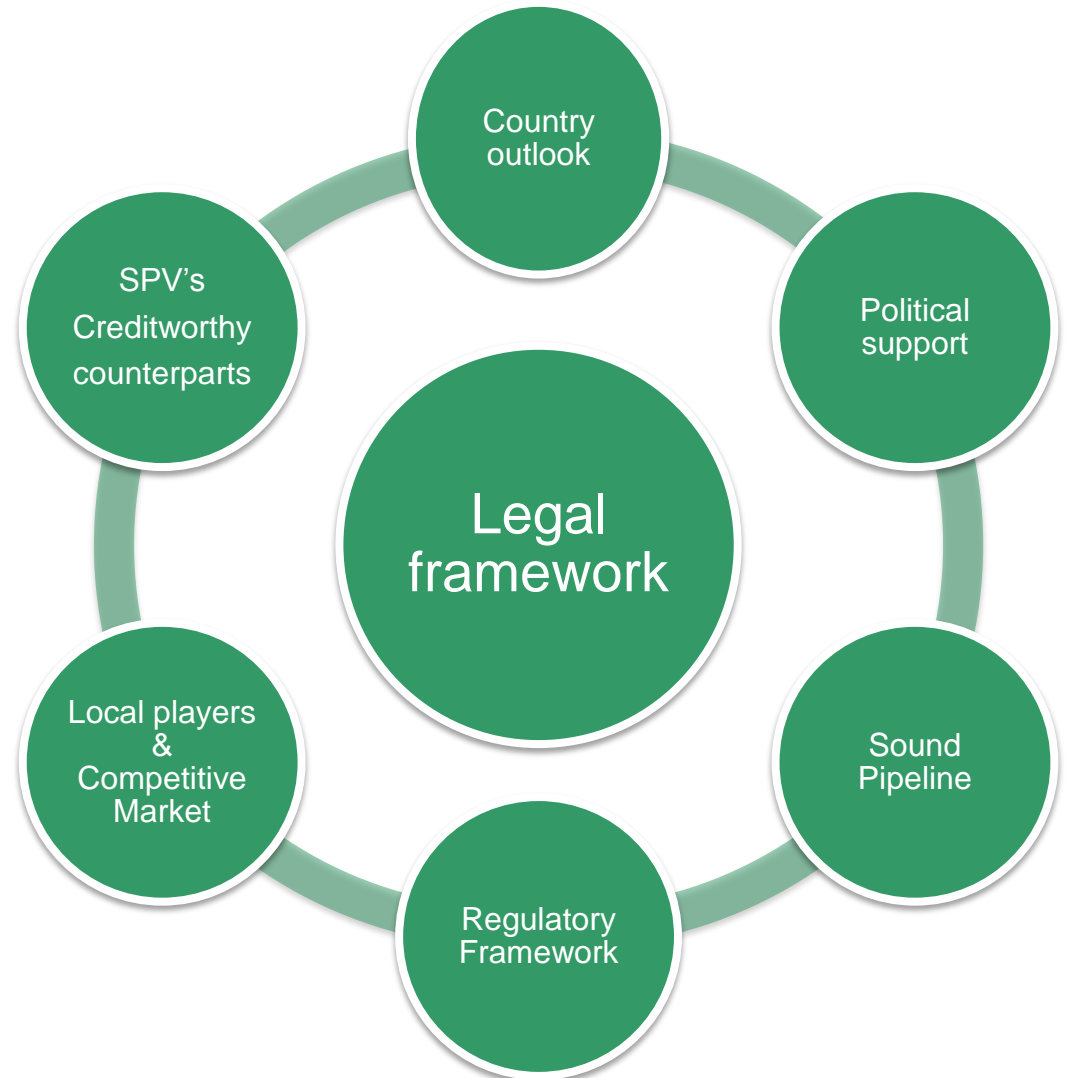
LENDING	BLENDING	ADVISING
<ul style="list-style-type: none">▸ Loans <p>But also:</p> <ul style="list-style-type: none">▸ Guarantees▸ Equity participation	<ul style="list-style-type: none">▸ Combining EIB loans and EU grants▸ Leveraging EU and Member States budget resources	<ul style="list-style-type: none">▸ Strong in-house expertise▸ Technical and financial advice▸ Technical assistance initiatives

Attracting **FUNDING** for long-term growth



Expand Scope for the Enhancement of an Infrastructure Investment and PPP framework

- Increase **sector performance**
- within government **priorities** and
- a **sustainable fiscal framework**



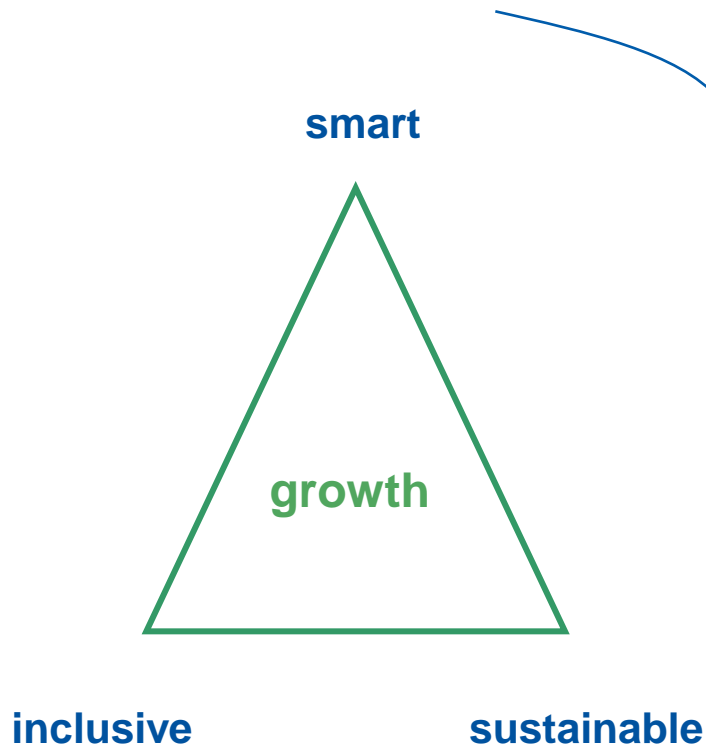


EIB as European Policy Partner



Europe 2020 Strategy

Infrastructure Investment needs of
EUR 1.5-2.0 trillion until 2020



EIB/Commission collaboration on:

Joint financial instruments to leverage private finance
Promoting grant/loan blending
PPP and energy efficiency
Private finance and broadband
The EU2020 Project Bonds initiative

Financial and technical assistance
JASPERS
JESSICA
EPEC



**New sources of finance & smarter
use of public resources**



New paradigms needed for infrastructure finance

Infrastructure planning:

- ❖ Effective management of existing infrastructure
- ❖ Fundamental review replaces incremental planning
- ❖ Prioritisation based on contribution to long term growth

Infrastructure finance:

- ❖ Public sector capital deployed as risk based financial instruments rather than grant finance
- ❖ Results in significant change in public / private funding mix will funding 15% of public infrastructure from private capital impress in 2020?
- ❖ Government as investment enabler, not investment funder

Markets/ Banks:

Challenges facing longer term bank financing and reduction in market capacity

Policy challenge:

Making medium term capital constraints consistent with long term strategic growth



Innovative Instruments are contributing to investment, curtailing the risks borne by public authorities and offsetting the requirements on the banking sector

Need to grow the volume of Innovative Instruments across the EU & candidates

- ❖ The investment requirements of the transport, energy and digital broadband sectors are approximately EUR 2 trillion over the next decade. Around 75% relates to transport
- ❖ Financing needs for major transport infrastructure investments go well beyond the means of national budgets
- ❖ PPPs only presently finance a small share of EU infrastructure investments

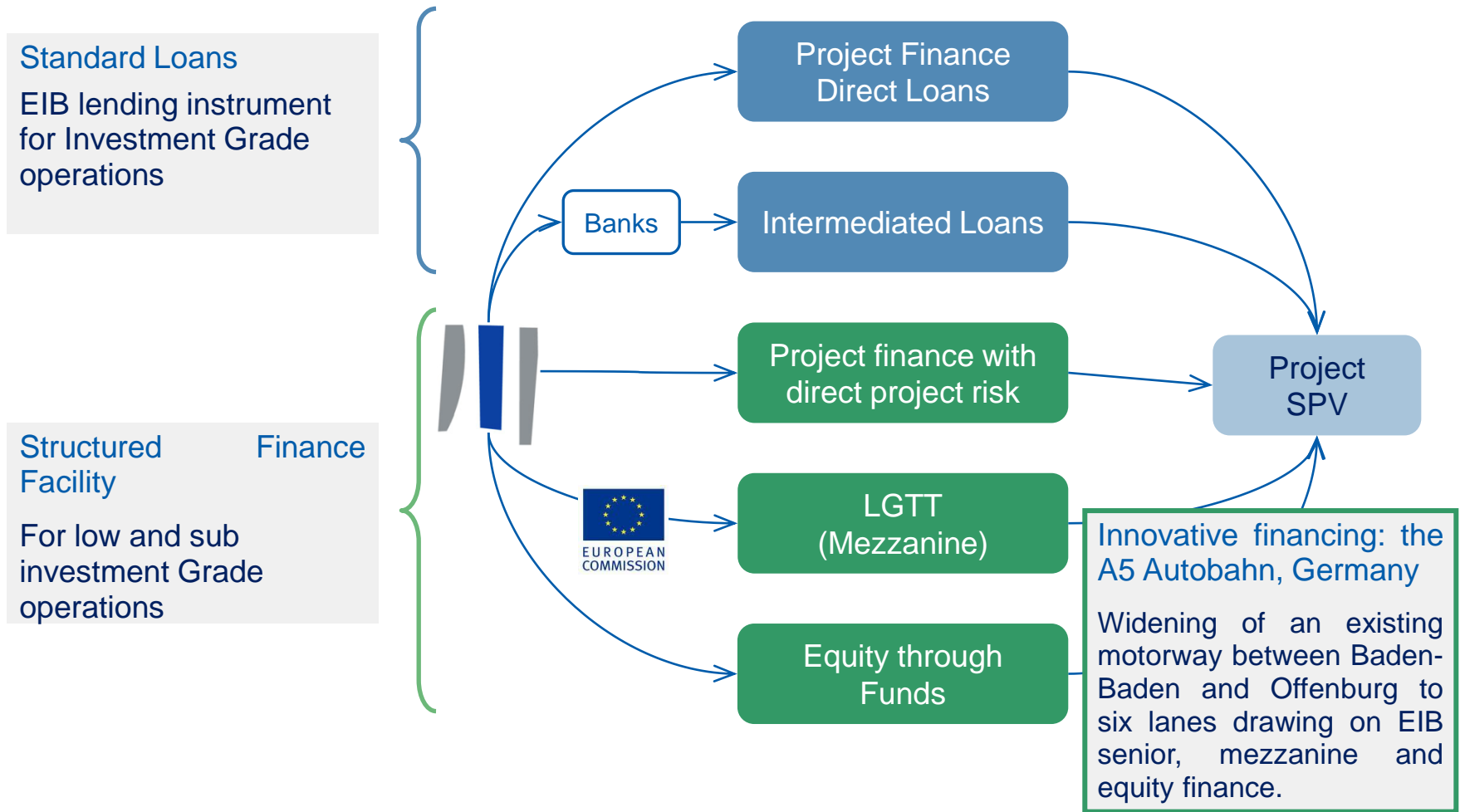
Investment needs are so significant that they will require smarter use of public finance

- ❖ Innovative financial instruments to leverage private finance to complement grant funding of projects
- ❖ Co-financing with banking and capital market institutions – the EU capital markets are a significantly under-utilised source of finance for infrastructure, particularly large transport



EIB Financing Instruments

- ❖ EIB has at its disposal a wide and flexible portfolio of financing instruments

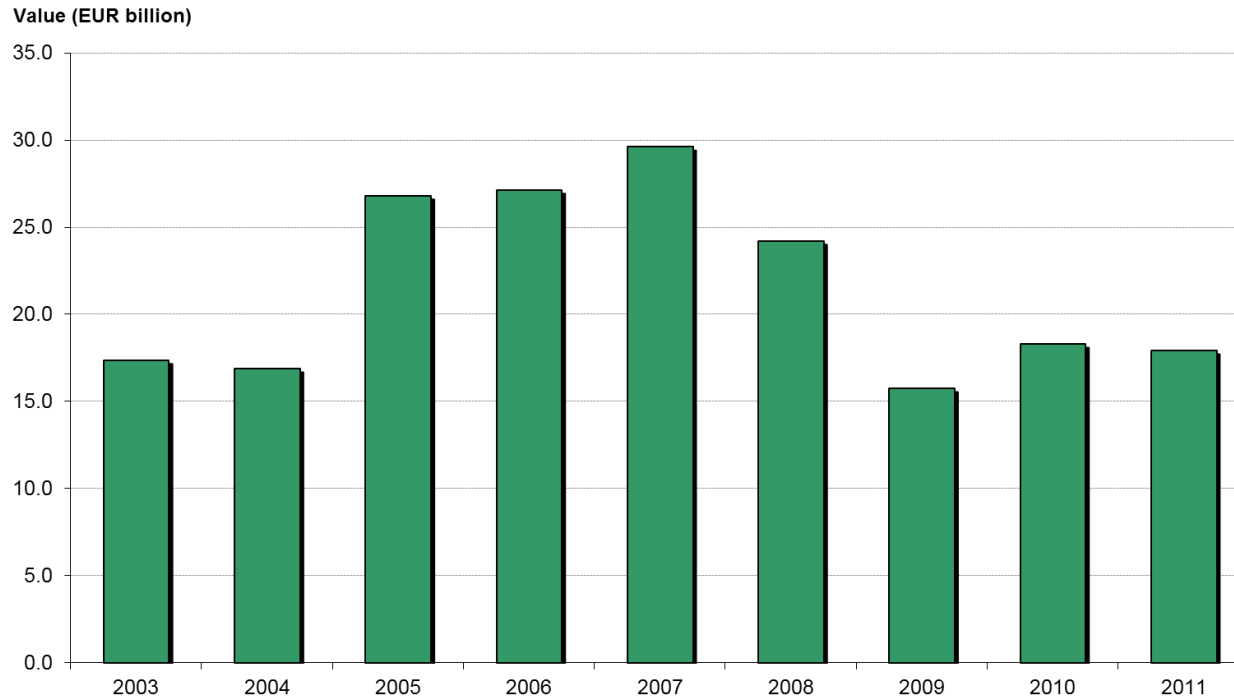




The European PPP Market in 2011 - Global Overview



European PPP Market 2003-2011 by Value



Source: EPEC PPP database

Key figures:

Value

- ✦ EUR 17.9 billion in 2011
- ✦ EUR 18.4 billion in 2010

Deals

- ✦ 84 in 2011
- ✦ 112 in 2010

Average deal value

- ✦ EUR 213 million in 2011
- ✦ EUR 163 million in 2010

Large deals (>EUR 500 million)

- ✦ 7 in 2011
- ✦ 10 in 2010

European PPP Market

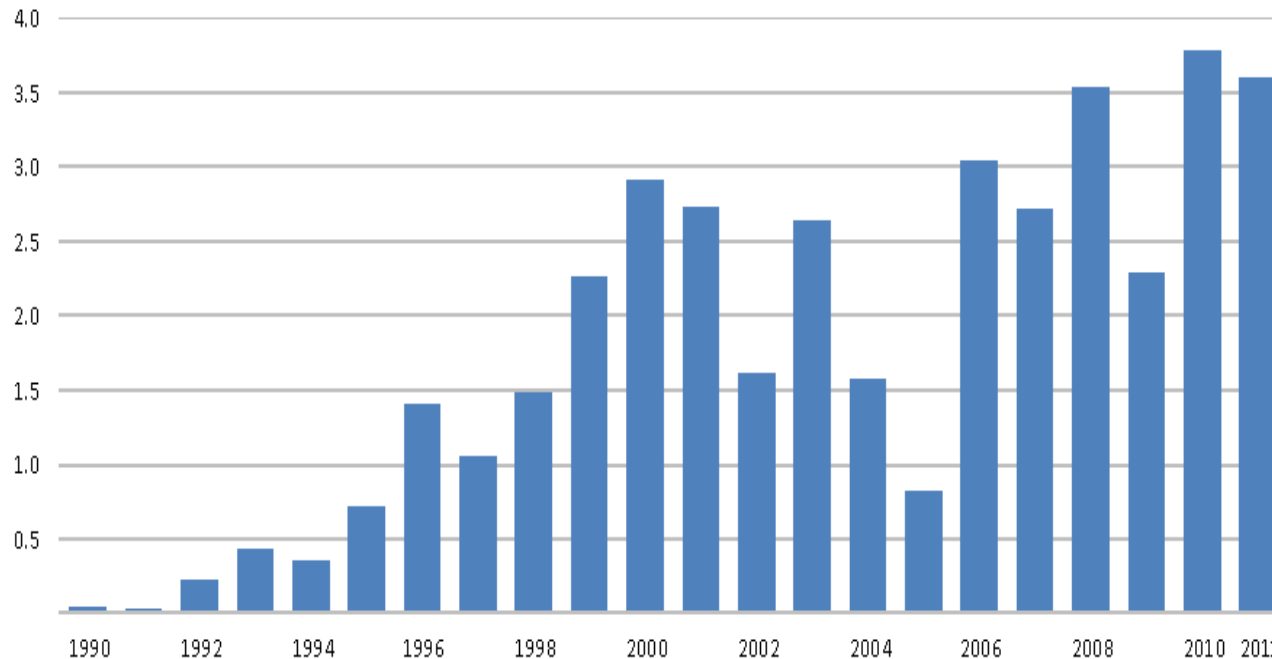
In value terms the market in 2011 was in line with that of 2010, but it shrunk significantly in terms of transaction number. Much of the market value is attributable to a limited number of very large transport transactions. Most notably, the EUR 5.4 billion Tours-Bordeaux HSR project alone accounts for 32% of the global market value.



EIB PPP Financing



EIB lending volume to PPP transactions by year – EUR billion



- EIB has provided substantial **policy support and organisational capacity** to foster the development of PPP markets and investments since the 1990s.
- **EIB lending** has been a **key source of medium and long term debt** for the European PPP market since 2007

Source: EPEC PPP database

Since 1990, EIB has progressively broadened geographic and sector spread of its PPP lending. The Bank is now one of the major funders of projects in Europe with a portfolio of about 140 projects and investment of around EUR 30 billion. Annual signatures averaging above EUR 2.5 billion since 2000, reaching EUR 3.8 billion in 2010 with EUR 2.6 billion in the transport sector. In 2011 signatures reached EUR 3.6 billion of which EUR 2.7 billion in the transport sector.



Credit Enhancement through Loan Guarantee for TEN-T (LGTT)

List of Transactions

- ❖ **IP4 Amarante – Vila Real (PT)**
 - First LGTT to close (2008)
 - EUR 20 million LGTT
 - 30-year DBFO
- ❖ **Baixo – Alentejo (PT)**
 - 344 km motorway
 - EUR 25 million LGTT
 - 30-year DBFO
- ❖ **Autobahn A5 (DE)**
 - Range of EIB instruments applied
 - EUR 25 million
 - Successful closing in the middle of the financial crisis
- ❖ **C-25 Eix Transversal (ES)**
 - One of few demand-risk PPPs in Spain
 - EUR 70 million LGTT
- ❖ **Autobahn A8 (DE)**
 - Both shortlisted bidders submitted offers with LGTT
 - EUR 60 million LGTT
- ❖ **LGV SEA (FR)**
 - First rail project to include LGTT
 - Largest HSR PPP in France
 - EUR 200 million LGTT, largest to date
- ❖ **London Gateway (UK)**
 - First port project to include LGTT
 - LGTT protects container throughput
 - GBP 100 million LGTT

**Total investments of more than
EUR 12bn enhanced by LGTT**



Project Bond Programme - the next phase 2012-2013

- ❖ The Project Bond Initiative is designed to attract institutional investors to finance new infrastructure projects by enhancing the creditworthiness of the senior debt
- ❖ This proposed EU-EIB initiative builds on existing experience with other joint EU-EIB financial instruments, such as the Loan Guarantee Instrument for TEN Transport projects (LGTT)
- ❖ The innovative financing instruments developed under the Initiative are proposed as part of the Connecting Europe Facility
- ❖ The Project Bonds proposal does not imply any burden on public budgets
- ❖ Under the Initiative credit enhancement instruments will be provided to allow the project companies themselves to issue bonds



EIB Equity / Funds



The EIB undertakes a variety of equity activities to complement its product offering in support of European priority objectives, for example:

- ❖ ***Infrastructure and Environmental Funds***: Within the EU and in the Mediterranean Partner Countries (FEMIP) the Bank is an active investor in infrastructure and environmental equity and debt funds. It supports both traditional and innovative fund concepts.
- ❖ ***Carbon Funds***: The EIB is a major sponsor of carbon funds with a view to extend market capacity and complement rather than substitute for private sector participants and intermediaries.
- ❖ ***JESSICA Urban Funds*** (Joint European Support for Sustainable Investment in City Areas): The EIB is active in the promotion of urban development funds as part of the JESSICA initiative. The initiative supports investments in sustainable urban development in the context of the EU's cohesion policy. These investments which may take the form of equity, loans and/or guarantees, are delivered to projects via Urban Development Funds and, if required, Holding Funds.



EIB Advisory 'Instruments'

Enhancing PPPs in Europe through technical and financial assistance



- ❖ EPEC - European PPP Expertise Centre
- ❖ strengthen the ability of the public sector to engage in Public Private Partnership (PPP) transactions by helping Members to share experience and expertise, analysis and good practice

JESSICA

- ❖ JESSICA – Joint European Support for Sustainable Investment in City Areas
- ❖ Innovative financing instrument for integrated urban development, launched by EU Commission (DG Regio) and supported by EIB
- ❖ Higher productivity of SF / public funds - use Leverage Effect and Expertise



- ❖ JASPERS - Joint Assistance to Support Projects in European Regions
- ❖ Technical assistance partnership to prepare major projects between DG REGIO, EIB, EBRD, and KfW
- ❖ Increasing the capacity of the beneficiary countries to make the best use of EU funding



Moody's (October 2010)



EXHIBIT 11
Cumulative default rates by origination year cohorts for the period 1990 - 2008

	n(0) (Note 1)	1	2	3	4	5	6	7	8	9	10
1990	47	0.0%	10.6%	10.6%	15.1%	24.3%	26.9%	26.9%	26.9%	26.9%	26.9%
1991	64	0.00%	7.80%	7.80%	11.10%	17.90%	21.60%	21.60%	21.60%	24.20%	24.20%
1992	91	5.50%	7.70%	11.20%	17.10%	19.70%	19.70%	19.70%	21.40%	21.40%	21.40%
1993	108	1.90%	4.70%	9.70%	12.90%	12.90%	12.90%	15.60%	15.60%	15.60%	15.60%
1994	134	3.00%	6.90%	10.20%	10.20%	11.10%	13.10%	13.10%	14.30%	14.30%	15.80%
1995	225	2.30%	4.90%	6.00%	7.90%	10.00%	10.00%	10.80%	14.60%	15.70%	15.70%
1996	281	1.90%	3.90%	6.10%	8.50%	9.00%	11.90%	14.50%	15.90%	15.90%	15.90%
1997	349	1.50%	4.60%	8.30%	9.10%	11.90%	15.50%	17.50%	18.10%	18.10%	18.10%
1998	443	2.60%	5.60%	7.20%	9.90%	14.70%	16.50%	17.00%	17.00%	17.50%	17.50%
1999	582	2.30%	3.80%	6.50%	11.50%	14.00%	15.10%	15.50%	15.90%	15.90%	15.90%
2000	695	1.40%	4.00%	10.10%	13.20%	14.60%	14.90%	15.20%	15.20%	15.20%	
2001	810	2.40%	9.50%	13.20%	14.40%	14.60%	14.90%	15.10%	15.10%		
2002	915	7.00%	11.90%	13.40%	13.80%	14.00%	14.20%	14.40%			
2003	947	4.50%	6.00%	6.30%	6.70%	6.80%	7.00%				
2004	1006	1.50%	1.90%	2.30%	2.70%	3.10%					
2005	1057	0.30%	0.80%	1.10%	1.40%						
2006	1085	0.40%	0.70%	1.10%							
2007	1178	0.30%	0.90%								
2008	1368	0.50%									
Study Data 1990-2008		2.00%	4.10%	6.00%	7.60%	8.90%	9.90%	10.60%	11.20%	11.40%	11.50%
Moody's Baa 1983-2009		0.20%	0.54%	0.97%	1.47%	2.03%	2.60%	3.13%	3.66%	4.20%	4.82%
Moody's Ba 1983-2009		1.21%	3.43%	6.17%	9.04%	11.44%	13.64%	15.60%	17.48%	19.32%	21.13%

Notes:
 (1) N(0) represents the number of active projects as at January 1.
 (2) Comparative cumulative default rate data reproduced from Moody's Special Comment, "Corporate Default and Recovery Rates 1920-2009," (February 2010) - see Exhibit 35 (Average Cumulative Issuer-Weighted Global Default Rates by Alphanumeric Rating, 1983-2009)

- Period: 1983-2008
- 2,689 projects, analysis of a subset of 213 projects for which at least one senior secured bank loan got defaulted
- Out of 213 projects, 116 emerged from default
- 10 year cumulative default rate (11.5%) lower than default rate for corporate issuers of low investment grade/high speculative grade (Ba – 21.13%)

Source: Moody's (2010)



Contacts for EIB Technical and Financial Advisory Services

Chris Blades
EPEC
Head of Division
blades@eib.org

Gianni Carbonaro
Municipal and Regional
Head of Unit
G.Carbonaro@eib.org

Stefan Kerpen
Technical Assistance Management
Head of Unit
S.Kerpen@eib.org

<http://www.eib.org>



Growth & jobs: Building Europe's infrastructure



- EUR 9bn for EU transport networks
- Favouring rail over roads
- Almost a third of financing achieved through private public partnerships - PPPs



Growth & jobs: Accelerating innovation



- EIB lent EUR 10bn for innovation, education and ICT
- Through risk-sharing instruments, innovative ideas turn into business reality



- Balanced development strengthens the fabric of the Union
- EUR 20bn of cohesion financing for 74 regions in Europe



Climate Action: Favouring renewables and energy efficiency



- Financing the installation of over 4000 mega watts of wind and solar plants, to power over 2 million households
- EUR 7bn for renewables and energy efficiency