Action Plan

Enabling the uptake of the TEN-T project pipeline by the financial market

Prof. Kurt Bodewig
Prof. Carlo Secchi

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The European Coordinators are designated by the European Commission, DG MOVE, in order to facilitate the coordinated implementation of the TEN-T core network corridors.

Prof. Kurt Bodewig is the European Coordinator for Motorways of the Sea. From 2014-2018 he was the European Coordinator of the Baltic-Adriatic Corridor. He is a former Federal Minister of Transport, Infrastructure and Housing of Germany. He is Professor for Transport Policy and Infrastructure at the University of Applied Sciences Osnabrück and Guest Professor for Transport Policy, Infrastructure and Logistics at the Hefei University in China. From 2013 until 2016, he has been president of two Commissions of the German Länder on ‘Sustainable Financing of Transport Infrastructure in Germany’ and on ‘Construction and Maintenance of the German transport network’ (“Bodewig Commission”).

Prof. Carlo Secchi is the European Coordinator of the Atlantic Corridor. He is a former Member of the Italian Senate and of the European Parliament, where he was Vice-President of the Economic, Monetary Affairs and Industrial Politics Commission over 1994-1999 and a member of the High Level Group of the reform of the statute and financial treatment of the members of the European Parliament in 2000. He was the Rector of Bocconi University over 2000-2004 and is Professor Emeritus at Bocconi of European Economic Policy. He is also active in several boards and institutes. He has been involved with the TEN-T policy already since 2009, as Coordinator as well as Chair of the ‘Expert Group on TEN-T financing’ that contributed to the revision of TEN-T and the launch of the Connecting Europe Facility.

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Authors
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Prof. Carlo Secchi, European Coordinator

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Glossary

CBA	Cost-benefit analysis
CBS	Christophersen-Bodewig-Secchi
CEF	Connecting Europe Facility
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIPP	European Investment Public Portal
ELENA	European Local Energy Assistance
ERTMS	European Rail Traffic Management System
ESIF	European Structural and Investment Funds
JASPERS	Joint Assistance to Support Projects in European Regions
MFF	Multiannual Financial Framework
NPB	National Promotional Bank
PPP	Public Private Partnership
Ro-Ro	Roll on, Roll off (for a ship carrying trucks)
Ro-Pax	Roll on, Roll off Passengers (for a mixed freight/passengers ship)
SME	Small and Medium-sized Enterprise
SRSS	Structural Reform Support Offices
TEN-T	Trans-European Transport Network

I. Executive Summary

The European Union has set jointly with the Member States very ambitious goals to realise a core trans-European transport (TEN-T) network by 2030 and a comprehensive network by 2050. Realising the core network alone requires investments of around 500 billion EUR over 2021-2030. It is evident that these investments cannot be funded by grants only, nor by the EU financial instruments, even with significantly increased budgets.

This paper complements the "*Action Plan on making the best use of new financial schemes for European transport infrastructure projects*" of June 2015 and its Progress Report of January 2018 of the European Coordinators Prof. Kurt Bodewig and Prof. Carlo Secchi. It is based on numerous discussions with stakeholders both within and outside the EU institutions. The paper aims to help mature the pipeline of TEN-T projects by defining the criteria which they should meet in order to be "bankable", i.e. attractive for the financial market either by themselves or with the help of a grant component. It also goes into additional or strengthened recommendations that can be made based on the latest developments, addressed to the European Commission, Member States and/or project promoters.

Last, the paper is a call to reflect with all actors involved on what are the possible instruments to finance the TEN-T beyond pure grants and more particularly on how to improve the EU granting system with the aim to leverage private finance and to maximise the added value of the use of scarce resources. In that context, the recent experiences under CEF with blending calls and facilities for offering grants based on the financing gap identified by market provides important lessons learnt on how to continue such schemes. The paper suggests calling upon that expertise of the financial market in order to help define the level of grant needed by sector or type of projects and investigating the idea of auction mechanisms to receive grants. .

Context

Generally, there are several positive developments with regard to the overall investment framework for transport infrastructure investments in Europe. For instance, the new design of InvestEU which is expected to replace EFSI as of 2021 is showing a number of improvements, under the caveat that the guarantee mechanism is indeed open to national and commercial banks on top of the EIB and that a share of the Sustainable Infrastructure Window is earmarked for transport. Similarly, the Action Plan on financing sustainable growth and in particular the development of a "green taxonomy" is another step forward as long as it is ensured that it covers all the transport projects which contribute to fight against climate change and provided that they allow for stable planning and indeed a tighter link to policy. Finally, the CEF II Regulation in its agreed text by the legislators (apart from the budgetary amounts) foresees more possibilities to blend grants with InvestEU financing and further develops the concept of blending calls by establishing blending facilities.

Strengthening the project pipeline

There is still a huge gap between the perception of transport project promoters of bringing forward a sound TEN-T project pipeline on the one hand and the financial market who criticizes a lack of mature projects ready to be invested in on the other hand. Indeed, it is visible that many projects are perceived by the financial market as not (yet) "bankable". There are several criteria to help make a project bankable. Other recommendations to strengthen the project pipeline include the systematic use of a business plan on top of a Cost Benefit Analysis (CBA), the development of more capacity-building programmes and advisory services also at Member State level, the externalisation of the more basic education part of the EU advisory services to free up capacity for the more complex advice related to financial structuring and procurement, more visibility for those EU advisory services and an earmarking for transport of a part of their budget.

Cutting the red tape

The Smart TEN-T Regulation proposal of May 2018 which is still under discussion at Council and European Parliament is expected to bring a number of benefits for the transport infrastructure investment framework by simplifying administrative procedures and reducing delays.

Broadening funding and financing

There is a need to open InvestEU to as many implementing partners as possible on top of the EIB and to earmark for transport a share of the Sustainable Infrastructure Window of InvestEU as well as of EIB's own risk lending. In addition, the country risk should be addressed when setting up a funding, financial or advisory instrument (whether at EU or national level) as similar projects can have different risk levels in the eyes of the financial market in different countries of the EU. Besides, standard classes for small projects should be created with the aim to remove the need to evaluate them individually, thereby avoiding that they are no longer penalised by proportionally higher administrative costs for their due diligence. Moreover, the European Commission and the Member States need to increase their efforts to internalise also the positive externalities, through per customer subsidies or negative taxes for example, so that more sustainable projects become attractive for the financial market. Last, it is needed to continue the debate on mutualisation of risks among Member States, on the golden rule and on the flexibility in the context of the Stability and Growth Pact.

Fostering an investment-friendly environment

Further actions should be envisaged to foster an investment-friendly environment in Europe. First, further clarifications of the Eurostat guidance on PPPs and the issuance of similar guidance on concessions are needed. Second, there are two evolutions of PPPs: either blending or public debt financing (in line with Eurostat rules) – both measures aimed at helping the start of a project and to sell it to the financial market when stable enough.

Conclusions

The European Commission is called to continue improving its supporting instruments and keep them as unchanged as possible for maximum stability. Member States are called to play a bigger role in advisory services and in the internalisation of both negative and positive externalities. The new European Parliament and the Council are called to adopt the relevant proposals (InvestEU, CEF II, Horizon Europe and ESIF within the new MFF, Smart TEN-T). Last but not least, all actors are called to help improving the EU's granting system so that priority is given to projects that absolutely need a grant and that present highest EU added-value. More specifically in the case of blending, the financial market is called to help define what the level of grant needed is for certain sectors or type of projects.

II. Introduction

The European Union has set jointly with the European Parliament and Member States very ambitious goals to realise a core trans-European transport network by 2030 and a comprehensive network by 2050. This translates into estimated investment needs between 2021 and 2030 of around 500 billion EUR. It is evident that these investments cannot be financed by grant funding only, even with an increased budget for the Connecting Europe Facility. This is why, at the request of the Informal Transport Council of Milano in September 2014, the European Coordinators Prof. Kurt Bodewig and Prof. Carlo Secchi (together with the late Vice-President Henning Christophersen) presented in June 2015 an *Action Plan on how to make the best use of new innovative financial schemes*. It includes twelve sets of recommendations on how to improve the investment framework for infrastructure projects in Europe. In January 2018, they published a Progress Report on this Action Plan, taking stock of the developments that took place by then and making additional recommendations.

Even though a lot of progress has been made, still a number of obstacles and challenges remain. In particular, there is still a huge discrepancy between the view of the financial sector that there is sufficient money for investments on the capital market but simply not enough financially mature transport infrastructure projects to invest in, versus the perception of project promoters to dispose of a strong project pipeline on the trans-European transport network. Secondly, there is still room to improve the EU granting system in view of the discrepancy between the amount of investments needed and the budgets proposed for transport for the period 2021-2027 under the Connecting Europe Facility and under InvestEU. In addition to these challenges, the topic of financing is evolving fast and a number of communications, reports and studies have been published by different entities[1] since the CBS Progress Report.

That is why the two European Coordinators wish to further update their recommendations with the present paper. Discussions with stakeholders, both within and outside the European Commission have taken place, including an investors' roundtable in November 2018 with representatives from financial institutions, national banks, investors' groups etc. and a presentation of a draft version of the paper to the Ministries of Transport at the Informal Transport Council in Bucharest in March 2019.

The present paper first highlights the relevant changes and evolutions that have occurred in the general and specific context of the transport sector. It then develops additional or strengthened recommendations. Lastly, it provides first ideas for the debate on how to improve the EU granting system. The purpose is to provide further guidance to the European Institutions and to the Member States at this crucial moment in time when a new Commission and European Parliament come into place and when the next multi-annual financial framework 2021-2027 must be adopted.

[1]

- COM(2018) 771 final Communication from the Commission "Investment Plan for Europe: stock-taking and next steps"
- EIB Investment Report 2018-2019 "Retooling Europe's economy"
- EP study "EU-funded large-scale infrastructure: deficient project preparation and procurement processes?"
- COM(2018) 97 final Communication from the Commission "Action Plan: Financing Sustainable Growth"

III. General and specific context of the transport investment framework

For the period 2021-2027, the European Commission indicated a wish to focus on three main policy areas: 1) Jobs & Growth, 2) Sustainable Development and Climate Change and 3) Defence Protection which are also reflected in the programme of the recently elected Commission President. Transport is formally placed under the second pillar, but actually responds to the need of all three areas. Indeed, smart and sustainable transport investments create jobs and growth, contribute to the decarbonisation agenda and finally yet importantly, with the military mobility component of CEF II, also adds value to the defence protection of European Member States.

Mainly five European funding instruments will support transport investments in the next multi-annual financing framework: the Connecting Europe Facility II including its blending facilities, Horizon Europe, the European Structural and Investment Funds, the EIB regular loan activities and InvestEU. But even if the proposed budgets for transport under these instruments would be doubled or tripled, there remains a huge gap to reach the 500 billion EUR needed over 2021-2030 to complete only the core TEN-T network. It is therefore essential to increase the level of magnitude at which the market is picking up transport infrastructure projects. To achieve this, the Commission, Member States and project promoters need to address a number of recommended changes which are elaborated in this paper.

1. The evolution from CEF I to CEF II

The implementation of the Connecting Europe Facility I (CEF I) has shown a high level of innovation with regard to the use of financial schemes. Indeed, for the first time €1.4 billion of EU grants have been allocated in the form of blending calls. These calls were published in 2017 and 2018, successfully attracting project proposals leading to 74 projects selected for a grant component, of which 33 have reached financial close by July 2019, and are expected to mobilise up to €7.9 billion of investment.

Building on this positive experience, the European Commission has set up a first CEF blending facility available as of fall 2019 for alternative fuels and for ERTMS. The blending facility is going to be implemented by many partners such as the EIB and National Promotional Banks (NPBs).

Next to it, the Commission has presented in June 2018 its proposal for a CEF II Regulation which has reached a common understanding position between the European Parliament and the Council. The CEF II Regulation foresees the possibility to blend grants with InvestEU financing, to scale up the blending facilities and to continue blending calls.

2. From ex-ante conditions to enabling conditions under the EU Cohesion Policy

In May 2018, the European Commission came forward with a proposal for a new Cohesion Policy under the next multi-annual financing framework 2021-2027. With regard to ex-ante conditions, it proposes to replace them by so-called enabling conditions. Key differences are fewer conditions (from 35 to 20), clearer conditions and a tighter link to policy.

Such conditions are strongly appreciated as long as they will not be a step backwards to less stable planning. Indeed, stable planning is extremely important to lower the political and regulatory risks for private investors. Certainly positive in this regard is the fact that the conditions are proposed to be followed up throughout the implementation of the project and not only ex-ante.

3. The positive evolution from EFSI to InvestEU

In December 2017, the European Parliament and the Council adopted Regulation (EU) 2017/2396 extending the life of the EFSI programme until end 2020, while introducing provisions to improve its additionality and transparency. At the same time, the European Commission published a call for the provision of technical assistance to strengthen the capacity of NPBs and more than ten proposals have been received by July 2019.

In June 2018, the European Commission also presented its draft InvestEU Regulation with InvestEU to replace EFSI over the next financial programming period 2021-2027. InvestEU represents a positive development of EFSI: it will be policy- rather than demand-driven, it will integrate under one roof all EU financial instruments and advisory services and dedicate specific emphasis to sustainable infrastructure. More importantly, it aims to open up the guarantee mechanism to national promotional banks on top of the EIB. This was one of the concerns addressed by the CBS Action Plan with the recommendation to open up also to qualified commercial banks.

Despite the fact that EFSI has been demonstrating positive results overall, it has shown a rather low support of transport infrastructure projects. This is partly explained by the fact that many large operators do not encounter difficulties to access the financial market at good conditions while others are not seeking to finance infrastructure development through loans due to their limited capacity to raise debt.

An additional reason may be that it is more difficult to apply the "user pays" (and the "polluter pays") principle in transport, which has historically been positioned as a public service-based sector where citizens expect to use the infrastructure more or less freely, their taxes being used to build it. While public budgets have been reduced and transport infrastructure has become much more numerous and sophisticated, hence representing a growing monetary burden for governments, citizens are still reluctant to contribute directly through user fees or higher ticket prices. Therefore many project promoters in the transport sector, notably in the rail and urban infrastructure, rely on state resources and implicit guarantees, which in turn makes their risk profile unfit for the use of EFSI and high leveraged financial structures.

While a change of mentality and more individual ownership of the climate change challenge are wished for, it cannot be expected that this situation will change from one day to another. Hence, it is important that investment support programmes such as EFSI and InvestEU in the future dedicate special care to sustainable transport. The idea is to avoid that the EU support instruments, including grants, address projects which would have been picked up by the market anyway and rather intervene where the market sees too high risks and too low returns. The EU granting system should be improved towards that goal.

4. The Action Plan on financing sustainable growth

Following the final report of the High Level Group on Sustainable Finance in January 2018[2], the European Commission came forward in March 2018 with an Action Plan on financing sustainable growth. It contains ten specific actions; the most important one for transport being the establishment of an EU classification of sustainable activities, which is referred to as the "green taxonomy", and the establishment of green standards for the bond market. This taxonomy is being developed. In June 2019 the technical group on sustainable finance issued two reports on green taxonomy and green bonds standards to support the work of the Commission, which they then shared for stakeholders' consultation.

It is important that the green taxonomy covers all the transport activities that can help fight climate change and broadly addresses environmental challenges, as it can give rise to a new asset class in the financial markets. Another important action is to foster investments in sustainable projects. This is amongst others addressed by the Sustainable Infrastructure Window of InvestEU.

[2] https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

IV. Further recommendations on how to bridge the gap between the transport projects pipeline and the financial market

The recommendations around four different streams that were made in the Progress Report of January 2018 remain valid. Emphasis is here given to additional recommendations or specific additions.

Stream 1: Strengthening the project pipeline

In the Progress Report of January 2018, it has been emphasised that a major condition for private investors to select transport infrastructure projects is the existence of a stable pipeline of mature projects.

Quoting EIB's Investment Report 2018-2019: "Sound project selection, preparation and implementation is key (…). Evidence suggests that infrastructure investment can be hampered by limited implementation and planning capacity even in countries with ample financial capabilities. A comprehensive analysis of all economic and social costs and benefits should be conducted before starting any infrastructure project. Application procedures for EU funds can be used to promote the comprehensive use of cost-benefit analysis". This quote is in line with the recommendations in the Progress Report of January 2018, although additional evaluation instruments and criteria should be used to complement cost-benefit analysis (CBA).

Even if the TEN-T project pipeline includes meaningful projects for the realisation of the network, with political support and positive CBA values, it became clear from further discussions with stakeholders that this project pipeline is less financially mature than initially thought. Looking at the close to 3000 projects identified on the TEN-T Corridors, many of them are either fully relying on state and EU grants resources or still need to reach maturity from the financial sector's perspective. It goes without saying that before reaching out to investors, each project must also be technically sound. More clarity on criteria for a project to be "bankable" i.e. able to attract private financing, should help project promoters in properly structuring projects from the early stage.

An important preliminary remark before listing the criteria is that the focus is put here on projects which are mainly based on debt financing. The development of a project by a corporation through equity acquisitions or merging and sourcing of resources for working capital is only partially covered. In other words, the focus is on the case of a specific project confronted for funding with the financial market[3], which is mainly interested in that project from a financial point of view and neither in its operations nor governance. Another preliminary remark is that projects of course need to be economically viable before being assessed on the "bankability" criteria. A last important preliminary remark is that the market is not binary divided into bankable and non-bankable projects but rather into projects with different levels of opportunity to generate revenues. The "bankability" criteria are to help turn them into bankable ones. Advisory services should be used whenever necessary to help apply these criteria.

1) On the cost side, the project must have a life-cycle perspective, including maintenance costs and provisions for unforeseen circumstances. The project must be sustainable over time in order to keep up its standards and provide the expected revenues.

2) The length of the construction period before going into operation, including permitting and procurement processes, must be clearly assessed and cannot exceed five years (3 or 4 years is even better). A project with an already finalised procurement and permitting procedure is an asset.

[3] The financial market is made up of different types of actors. It is important to identify them and be aware of the timeframe in which they are expecting to get a return on their investment as well as of the level of stability they need to invest. Banks are normally the ones which allow the longest leadtimes but require a higher level of stability. Private investors are normally the ones which expect a return rather fast but are more ready to take risks. In between these two ends of the spectrum, one can find insurance companies, financial institutions other than banks, large project promoters etc.

3) Revenues must be assessed on a prudential basis with a sound market analysis. It makes a difference if a project is an isolated initiative or part of a wider development plan/strategy for an area which is likely to stimulate economic growth and additional demand. For cross-border projects, the continuation of the connection in the neighbouring country must be ensured, including for roads for what regards the tolling system.

4) The project must provide a well elaborated business and financial plan (incorporating the above elements)[4] and must include all information necessary to carry out an independent due diligence, if the investor wishes to do so. It should be made visible how the return on investment will be ensured e.g. which pricing model will be applied etc. The higher the return of cash flow is concentrated in the early years, of course the better.

5) The higher the expected risk, the higher the rate of return required by the investors (compared to the situation prevailing in the financial market). Consequently, all elements/actions able to mitigate risk should be clearly pointed out.

6) The rate of return can be fixed or variable (i.e. lower, at least at the start) if associated with a participation in the revenue flows.

7) If a project enjoys an "investment grade rating", the investor will be able, if/when he wishes to do so, to refinance it or sell all or part of it, on a specialised market (such as the Estate and Infrastructure Exchange EIX) and/or to other institutional/long-term investors. This makes the project's financial package more liquid and consequently lowers its cost. In order to enhance the chances of financing, it is therefore advisable to get a rating for the project (at least for large projects). That rating can be provided by a bank or insurance company of relevant European dimension or it can be asked to a specialised agency. An EU guarantee can of course be considered as an implicit investment grade rating, rendering the use of a rating agency unnecessary.

8) If, in the future, a project can qualify for the "green taxonomy" to be set under the Sustainable Finance Initiative, its bonds or financial instruments should be better accepted by the market (specifically so if a specific asset class is developed), thus lowering its cost.

Since the concept of risk is rather crucial, it is important to further detail what it encompasses:

- "Market risk" is associated with the soundness of the demand forecast (including regulatory elements which may affect it) while in addition "country risk" plays an important role. This is particularly important for greenfield projects whose demand forecasts are subject to uncertainties.
- The overall risk level depends also on the composition of the financial package. A grant element (like in the blending facility) from EU or other public funds reduces the capital cost to be financed and the risk level associated. The grant element can also come from regular national subsidies for the operations.
- An equity component is needed to leverage debt and can play a similar role, but needs to be remunerated at market price i.e. proportional to the rather high risk of such a form of financing, and implies conditionalities related to ownerships and to exit strategies.
- Guarantees from governments, notably to cover construction risks can be decisive to close financing. Public financial instruments to share demand risks or enhance the credit rating of the projects are also in some cases essential to trigger private finance.

[4] For CBA, guidelines exist from the European Structural and Investment Funds at https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/cba_guide.pdf. For business and financial plans, one can refer to the documents required to apply for an EIB loan at https://www.eib.org/attachments/application_documents_en.pdf.

- The risk associated to the project promoters and sponsors is also a crucial element in the investors' decisions. While each case is specific, categories can be made depending on the mode of transport, the type of projects and the type of funding or financial instrument[5].

Stakeholders' feedback indicates that staff reduction in public administrations has been detrimental to the quality of projects and to reach the criteria of a "bankable" project described above and that this is even more acute in Eastern than in Western Europe. In that context, it is very much welcomed that the European Commission is working on guidelines for advisory services, that it is supporting advisory services in sustainable urban mobility through ELENA and that DG MOVE signed, in April 2018, an agreement with JASPERS to offer free-of-charge advisory services to project promoters preparing CEF blending proposals.

<u>In addition, the following further actions are needed to strengthen the projects pipeline:</u>

- Particularly in the case of projects meant to be supported also by private funds, it is of utmost importance that project promoters complement the assessment criteria used from a public policy perspective, like CBA, with other criteria and instruments relevant from a private investor point-of-view, such as a well-developed business plan (with pessimistic, realistic and optimistic scenarios and/or a sensitivity analysis) and a fully developed financial model which shows real expected costs and revenues.

- The European Commission, the Member States, the Regions and the National Promotional Banks where not yet the case should set up more capacity-building programmes. This is both for project preparation and for project implementation with a focus on financial closure and on procurement strategies. This very clear need for capacity-building has been emphasised not only by stakeholders but also by the study of the European Parliament "EU-funded large-scale infrastructure: deficient project preparation and procurement processes?" and in the EIB Investment Report 2018-2019.

- In pooling all its advisory programmes under InvestEU, the European Commission could consider externalising the more basic 'general education' advice to a more local network such as business schools and public administration schools. It could also consider using innovative IT tools such as massive open online courses to support education of professionals in emerging multidisciplinary areas such as digitalisation of transport and alternative fuels. These ideas would allow focusing its own services on the more complex technical and financial issues.

[5] Four main cases in terms of risks associated to project promoters and sponsors can be distinguished:

1) Corporate finance low risk: if the project promoter (or a concessionaire under a concession agreement or a public service contract or a different contractual agreement of a similar nature) is an investment rated company and even better if the company has a guarantee from its sponsor (which can be the State or another public authority), the investment is bankable and due diligence can be simplified. The risk is very limited and recourse rely on the company strong balance sheet rather than on the project itself. The promoter can issue corporate green bonds linked to its investment plan for investors to buy. Typical case: a semi-public rail company.
2) Project finance low risk: if highly rated Governments/sponsors wish to cover the technology-, permitting- and demand-related risks through a full availability payment PPP, the overall risk of the project can be relatively low. However, this typology of PPP, while it makes sense to improve project quality and address construction risks, may have to be accounted in the Government's balance sheet.
3) Project finance high risk: if the project is using a non-recourse or limited recourse financial structure where the project promoter is a new company without assets/collateral and relying only on project cash flow, the due diligence is very complex and focused on the project itself. The promoter can issue project green bonds linked to the project, but may need financial instruments for credit enhancing and a good public bank to perform the due diligence and to find investors/commercial banks interested to buy or co-finance. Typical cases: a PPP motorway project, a PPP port project.
4) Corporate finance/project finance high risk: if the company is sub-investment rated and has not collateral or guarantees, the risk can be very high or even non-bankable. The due diligence is very complex. The promoter can issue green bonds using security schemes to pool small projects together to reach the necessary size. Public banks and financial instruments can play a role. Typical cases: a private company, a SME or mid-cap, new services companies in alternative fuels or logistics, private concessionaires of ports, freight rail.

- The **European Commission** should do further efforts **make its advisory services more visible**. There are still many project promoters, even within transport ministries, who are not aware of the existence of the Advisory Hub (to become the InvestEU Hub) and the EIPP.

- The **European Commission should earmark a sufficient proportion of the proposed InvestEU Advisory Hub budget for sustainable transport**, to continue and scale up the support that is currently provided by the EIAH, JASPERS and ELENA.

- **Member States should consider setting up their own advisory services** tuned to their national specificities and coordinated with the EU advisory services. They could possibly use the structural reform support offices (SRSS) as a starting point.

- **The European Commission** should **analyse the financing aspects of submitted CEF projects** to draw further learnings, for those where it is relevant, about **attractiveness factors for private financing**.

- Under InvestEU and any European guarantee scheme, the **European Commission** should consider imposing a **set of contractual clauses** that would increase the level of stability and decrease the level of risk for private investors. For example, indemnities to be paid in case of early termination of a concession contract.

Stream 2: Cutting the red tape

In May 2018, the European Commission proposed to the European Parliament and the Council the so-called "Smart TEN-T" Regulation[6] focused on making permitting and procurement procedures easier and faster for projects on the core network. The proposal, which is still under discussion in European Parliament and Council and that builds on one of the recommendations of the CBS report, is to be seen in conjunction with CEF II as an enabling condition for delivering the core network by 2030. Indeed, it is essential that permitting and procurement procedures are made simpler and faster to reduce uncertainties and costs for private investors.

The "Smart TEN-T" proposal provides for a streamlined legal framework and the coordination of permit granting procedures to help tackle delays in project implementation. It requires the establishment of a single competent authority at national level (one-stop-shop) which will be in charge of an integrated permitting procedure for the authorisation of TEN-T projects. This is reinforced by the application of one single set of national rules for the public procurement of cross-border projects. This should also save a lot of administrative costs for project promoters.

<u>In addition, the following further actions are needed:</u>

- **Member States** should consider adapting their legislation if not yet the case to **make unsolicited proposals to public procurement calls eligible**, as such proposals can increase the cost-effectiveness of certain projects, reducing the risk of paying a surcharge resulting from processes that can be unconsciously biased in favour of incumbents.

6 COM(2018) 277 final Proposal for a Regulation on streamlining measures for advancing the realization of the trans-European transport network

Stream 3: Broadening funding and financing

In the Progress Report of January 2018, it is pointed out that there is a clear split between projects that need a grant and those who can attract private financing without help or with limited help such as a small loan or guarantee from the EIB/EFSI programme. This principle is still valid and in this respect, the InvestEU Regulation proposal is very much welcome as a positive evolution of EFSI, bringing in more financial partners.

In addition, the following further actions are needed:

- It is absolutely vital that the European Commission includes for InvestEU as many implementing partners as possible, such as national promotional banks, commercial banks and other private financial institutions, on top of the EIB. This is firstly to create sound competition between these partners, leading to better services, secondly to limit the crowding out effect that a programme limited to the EIB could create (a concern which the CBS Report already voiced regarding EFSI and which the Commission partly addressed under EFSI 2.0) and thirdly to allow those other implementing partners to participate with equity funding if they are interested to do so.

- Moreover, it could be investigated in due time whether national platforms can be created inside InvestEU.

- The European Commission should earmark for transport a share of the Sustainable Investment Window of InvestEU. Transport is responsible for close to 25% of CO2 emissions but also holds a lot of greening potential thanks to alternative fuels: electrified rail, LNG for maritime shipping etc. However, transport projects tend to generate fewer revenues than projects in other sectors such as energy and therefore a higher proportion of them need the public leverage of financial support programmes such as InvestEU. The experience with EFSI evidences that, without a special provision such as earmarking, transport is bound to get a lower than proportionate share of such programmes.

- In parallel, the European Commission should also ensure that a sufficient share of the normal EIB own risk lending is earmarked for transport. That share has been regularly decreasing over the last ten years.

- The European Commission and the Member States should consider dedicating specific attention to higher risk countries and compensate the country risk with dedicated financial tools. Indeed, the risk is not always with the projects themselves but sometimes with the country where they are located. This is clearly shown by the different spread levels in interest rates on sovereign bonds. Consequently, similar projects may have different risk levels in different countries of the EU. Compensating for the country risk is already done to some extent in the CEF calls, which foresee a higher co-funding rate for the cohesion countries.

- It is essential that the European Commission covers in the green taxonomy that is under development in the context of the Sustainable Finance initiative all the transport activities that can help the transition to sustainable transport investment, fight climate change and address environmental challenges, and that it can give rise in the near future to a new asset class for the financial market.

- The European Commission should make the European Investment Portal more visible. Similar to what has been noticed with the Advisory Hub, there are still too many project promoters, including within national ministries, who are not aware of the existence of the Portal. It however represents an opportunity, especially for smaller projects that struggle more than bigger ones from both the point of view of the administrative evaluation costs and of lower visibility. Amongst the possible ideas, the Corridor Fora and webpages should be leveraged to that purpose.

- The European Commission should consider creating "standard" classes of small projects that would not need to be evaluated individually. As already explained, smaller projects have a competitive disadvantage versus larger ones in the eyes of private investors because the administrative cost of evaluating them is proportionally much higher. The CBS Progress Report of January 2018 put forward the idea of splitting projects between bankable and not-bankable parts suitable for respectively grants and private financing. However, it is acknowledged that this may be too complex in certain cases. Nevertheless, further efforts are needed for pooling homogeneous projects, especially small ones. For example, this is what is done with the Green Shipping Guarantee Programme developed by EIB. In addition, it is recommended to establish standard classes of small projects to receive a common risk assessment. This would eliminate the need to evaluate them individually with the same level of scrutiny as non-standard projects and remove their competitive disadvantage in terms of administrative evaluation costs. Although this has been tried already by certain financial institutions with limited success, it may be worth giving it a further try, building on lessons learnt from the previous trials.

- The **European Commission and the Member States** should bring forward the idea of **internalising negative impacts of projects in accordance with the "user pays" and "polluter pays" principles**. The new study of the European Commission "Sustainable Transport Infrastructure Charging and Internalisation of Transport Externalities" is therefore very much welcome. From a public policy perspective, both negative and positive externalities are taken into account in a CBA. However, in the case of a business plan for private investors, positive externalities are often not internalised. **A study on how to quantify and internalise also the positive externalities for the private investors** should be undertaken. Ideas to internalise positive externalities include, next to public support to projects (grants, guarantees etc.), a **per unit (i.e. per customer) subsidy**. This is for example the principle behind the Ecobonus project[7] financed under CEF I as well as the Ferrobonus and Marebonus schemes[8] in Italy. Another idea are **'negative taxes'** i.e. giving a payment for each use of the cleaner mode or vehicle.

- The **European Commission and the Member States** should continue the debate on the "golden rule" in the context of the Stability and Growth Pact. It is recommended to **consider more flexibility and cases of exemptions to the Stability and Growth Pact's rules for certain transport infrastructure investments**. Good investments are bound to make a positive impact on the economy. The Growth and Jobs study that the Commission just conducted for the core TEN-T network evidences that this is indeed the case for TEN-T projects. Such a process supports the fiscal sustainability of a country, which is exactly the objective pursued by the Stability and Growth Pact. Allowing even a fraction of CEF investments as flexibility or exemption would have a positive impact. For reference, the European Parliament noted, in a 2017 Resolution[9], that Member States in economic and budgetary difficulties are unable to co-finance rail freight projects and took the view that projects carried out under CEF should not be taken into account in the Stability and Growth Pact calculations of public debt.

- In addition to the case of "flexibility" already in place for special situations, the **European Commission** should ensure that in InvestEU a Member State could, in addition to an EU guarantee, add a **"secondary guarantee"** to reinforce the financial appeal of the package without falling into the Stability and Growth Pact limitations (enjoying also the Block Exemption from State aid rules). The Eurostat rule on debt would apply only if the guarantee turns into a real liability.

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[7] The Ecobonus project developed an external cost/benefit calculator to quantify 'ecobonuses' to be granted to transporters to shift from trucks to vessels. The level of the ecobonus takes into account the external benefits of cleaner ships.

[8] Marebonus is dedicated to ship owners proposing three-year projects for the development of Ro-Ro and ro-Pax new maritime services, by means of registered ships for freight multimodal transport, or projects for the enhancement of the same services on existing routes, The incentive is estimated on the base of the number of ships multiplied for the distance (in km) subtracted to the Italian road. Ferrobonus, which has just been modified, provides incentives to companies operating rail services and to multimodal rail operators that purchase full train sets and commit to maintain the traffic volumes (in train km) and increase them during the period of time covered by the incentive.

[9] European Parliament resolution of 19 January 2017 on logistics in the EU and multimodal transport in the new TEN-T corridors (2015/2348(INI)), point 13.

Stream 4: Fostering an investment-friendly environment

In the Progress Report of January 2018, it has been underlined that there is a clear need to provide private investors with a friendly and stable environment, not only in terms of simplified regulations but also in terms of visibility and guidance. In the meantime, the European Commission has proposed a review of the Banking Regulation with a 25% reduction of capital requirements for projects addressing public needs, which is much appreciated.

Even if progress has been made, the following further actions are still needed:

- The **Eurostat guidance on PPPs** has been a major step forward. Market feedback however indicates that it can **be further improved**, to avoid cases of misunderstandings that make PPPs appear risky and not appealing. It should be noted that the EIB, in its Investment Report 2018-2019, recommends renewed efforts to assess the pro's and con's of PPPs. This is indeed welcome as to reach a more nuanced narrative with regard to PPPs, also aiming at overcoming their today's generally negative perception. It has to be noted that PPPs sometimes fall under project finance and sometimes under corporate finance when it is part of a company with multiple activities. In that later case, the criteria for making the project "bankable" are somewhat different from the ones listed earlier in this paper[10].

- It is also clear that the **European Commission and Eurostat** should issue **guidance on concessions (and contractual agreements of a similar nature) as soon as possible** as private investors have become extremely concerned by the Governments' mixed support for these schemes and risk of retroactive regulatory actions, and currently prefer to stay away from them, representing a missed opportunity for some projects to be implemented. It has to be noted that concessions fall under corporate finance with the caveats described hereunder for corporate finance PPPs.

- While PPPs remain a suitable structure in a number of cases, **blending facilities, at European and Member States level**, could represent a positive evolution of the underlining concept of risk-sharing and revenue-sharing between public and private sectors. In that respect, it is welcome that the European Commission is building on the experience of the CEF blending calls to set up a blending facility already in 2019.

- As an alternative to PPPs, **Member States and Regions** should consider a **model by which they borrow to fund projects and sell these projects to the private sector as soon as the traffic flows and hence their revenue streams are known**. This would significantly lower the uncertainties for private investors and convince them better than at the stage when the infrastructure has not been built yet. However, an assessment of whether this can be classified "off balance" according to the Eurostat rules should first be carried out.

[10] If the company is investment rated and/or has a guarantee from its sponsor, the project is de facto bankable. If the company is sub-investment rated and has no collateral or guarantees, the risk is very high and the project is not easily bankable. The promoter can issue green bonds using security schemes to pool small projects together to reach the necessary size. Public banks and financial instruments can also play a role.

V. Conclusions

In order to facilitate the update of the transport project pipeline by the financial market, three main conditions are to be addressed:

First, the European Commission should continue to improve its support instruments, be it the Connecting Europe Facility, InvestEU or the European Structural and Investment Funds. It must leverage the review of the TEN-T Regulation to reflect the latest state of the infrastructure investment needs and provide stability until end of 2030. Likewise, it must also give stability to its financial instruments through a strong InvestEU.

Second, Member States and other project promoters need to further increase the level of preparedness of project proposals especially in terms of the financial and business plans. They also need to better address the expectations of potential investors i.e. make the projects bankable by meeting the criteria outlined in this paper. Member States should also play a bigger role in terms of advisory services and the internalisation of both negative and positive externalities. Internalising also positive externalities is very much needed to make a number of strategically important projects more attractive, i.e. profitable for banks, other institutions and private investors. This is certainly the case for rail, for example.

Third, all actors involved, including investors themselves, are called to reflect on how to improve the EU's granting system so that all bankable projects reach and are taken up by the market while only the ones which absolutely need a grant or a grant component benefit from the EU instruments. A possible route to look into is that of an auction mechanism to receive a grant: the beneficiary would be willing to increase its purchase price of the grant only up to the amount that he/she truly needs. Another interesting route is the one already applied in blending calls and facilities i.e. offering grants based on the financing gap, which could be "individualised" by sector or type of projects with the help of financial market's actors.

Contact details:
European Commission – Directorate General for Mobility and Transport
Directorate B – Investment, Innovative & Sustainable Transport
http://ec.europa.eu/transport/index_en.htm
email: move-b1-communication@ec.europa.eu

Offices:
Rue Demot 28
1049 Brussels Belgium

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