

Draft

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

Discussion Paper

**Prof. Kurt Bodewig
Prof. Carlo Secchi**

MARCH 2019

For feedback about this draft,

Please write Carlo Secchi at carlo.secchi@ec.europa.eu

and

Kurt Bodewig at kurt.bodewig@ec.europa.eu

Disclaimer

This report includes considerations and proposals for future reflection and potential development in line with the opinion of the authors and does not prejudice the official position of the European Commission. The report has not been subject to any specific assessment by the European Commission and hence does not imply its support.

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

Draft Discussion Paper – March 2019

*Prof. Kurt Bodewig & Prof. Carlo Secchi
European Coordinators*

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 bn 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 Discussion 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 from 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 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. It also 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.

Last, the Paper is a call to jointly 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.

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 CEF2 Regulation proposal 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 who bring forward a sound TEN-T project pipeline on the one hand and the financial market on the other hand who criticizes a lack of mature projects ready to be invested in. 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. These include the systematic use of a business plan on top of a 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 the normal EIB 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 the golden rule and on the flexibility in the context of the Stability and Growth Pact.

Fostering an investment-friendly environment

Further actions are needed 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 the project and to sell it to the financial market when stable enough.

Conclusions

The European Commission is called to continue improving its support 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 European Parliament and the Council are called to adopt the relevant proposals (InvestEU, CEF2, 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 the projects that absolutely need a grant. 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.

Acknowledgments

The authors wish to express their gratitude for the support and advice obtained thus far from the other European Coordinators (with whom ideas were discussed in Brussels on 19 December 2018), the Commission services and the public and private bodies consulted.

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

Draft Discussion Paper – March 2019

*Prof. Kurt Bodewig & Prof. Carlo Secchi
European Coordinators*

1. Introduction

The European Union has jointly set 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 concrete 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 to improve the transport investment framework in Europe, there are still a number of obstacles. In particular, there first remains 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 from the project promoters that there is 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, the topic of financing is evolving fast and a number of communications, reports and studies have also been published by different entities¹ since the last CBS Progress Report.

That is why the two European Coordinators wish to stimulate the discussions further with the present Discussion Paper. First discussions with stakeholders, both within and outside the European Commission have taken place, such as an Investors' roundtable in November 2018 involving representatives from financial institutions, national banks, investors' groups etc.

Additional recommendations can be made at this stage, adding to the original Action Plan of 2015 and its Progress Report of 2018. The present Discussion Paper first highlights the relevant changes and evolutions that have occurred in the general and specific context of the transport sector and then develops additional or strengthened recommendations. Last, it opens up the

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"

debate as to the need to improve the EU granting system. The purpose is also to provide further guidance to the European Institutions and to the Member States at this crucial moment in time when many new Regulations are under negotiation for the next multi-annual financial framework 2021-2027.

2. General and specific context of the transport investment framework

For the period 2021-2027, the Commission indicated a wish to focus on three main policy areas: 1) Jobs & Growth, 2) Sustainable Development and Climate Change and 3) Defence Protection. Transport would be 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 its 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 bn 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 currently picking up transport infrastructure projects. To achieve this, the Commission, the Member States and the project promoters need to address a number of challenges, which will be elaborated in this paper.

2.1 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 and expected to mobilise up to €7.9 billion of investment.

Building on this positive experience, the European Commission is currently working on the set-up of a CEF blending facility to become available around fall 2019 for alternative fuels and for ERTMS, as a pilot before the start of Invest EU. It is expected to include different implementing partners, not only the EIB. The challenge will be to give an “optimal” grant level, to be set upfront so as to speed up the bank’s due diligence and minimise the administrative burden for applicants in closing the financial package. By “optimal”, it is meant the level which is just sufficient to make the project attractive enough for banks and institutional investors (i.e. properly mitigate the risk and increase the financial viability), but not more, in order to maximise the number of projects that can be supported within the available budget.

Next to it, the Commission has presented in June 2018 its proposal for a CEF II Regulation, which is currently under negotiation with the European Parliament and the Council. The CEF II Regulation foresees the possibilities to blend grants with InvestEU financing, to scale up the blending facilities and to continue blending calls.

2.2 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 at the beginning.

2.3 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 EFSI Advisory Hub and eight proposals have been received so far.

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 and commercial banks on top of the EIB, which was one of the concerns addressed by the CBS Action Plan.

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 a high level of 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 (and other sectors with a similar challenge). The idea is to avoid that the EU support instruments 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.

2.4 The Action Plan on financing sustainable growth

Following the final report of the High Level Group on Sustainable Finance in January 2018², 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 and is currently under public consultation in its first round.

It is important that it also 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.

3. Further recommendations of how to bridge the gap between the transport project 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 below given to additional recommendations or specific additions.

3.1 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. That is why recommendations to strengthen that pipeline have been presented.

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.

However, it became clear from further discussions with stakeholders that the transport project pipeline is less 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 investors, each project must be technically sound and that the project pipeline must also be improved in that regard.

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 is that the focus is put here on projects (selected or in any case approved by the competent national public body) which are mainly based on debt financing. The

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

development of a project by a corporation through equity acquisitions or merging and sourcing of resources for working capital is only partially covered. Anyhow, this kind of corporate financing applies less to CEF transport projects. In other words, the focus is on the case of a specific project confronted for funding with the financial market³, 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 following "bankability" 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) 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. Of course, the higher the return of cash flow is concentrated in the early years, 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) 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.

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.

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.

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 develops), thus lowering its cost.

Since the concept of risk is rather crucial, it is important to detail further 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 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. Financial instruments to share demand risks or enhance the credit rating of the projects are also in some cases essential to trigger private finance.
- 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 instrument⁵.

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 and that DG MOVE signed, in April 2018, an agreement with JASPERS to offer free-of-

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.

charge advisory services to project promoters preparing CEF blending project proposals, and supporting investment in sustainable urban mobility through ELENA.

In addition, the following further actions are needed:

- 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 and a fully developed financial model which shows real expected costs and revenues.
- **The European Commission, the Member States and the Regions 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**. 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.
- 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).
- 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.

3.2 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 easier and faster for projects on the core network. The proposal, which is currently 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.

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

“Smart TEN-T” is a very good and promising initiative since it 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 will be reinforced by the application of one single set of national rules for the public procurement of cross-border projects. This will also save millions of administrative costs for project promoters.

3.3 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 Forums 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 vs. 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 project⁷ financed under CEF I as well as the

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.

Ferrobonus and Marebonus schemes⁸ 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 Resolution⁹, 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 rule). The Eurostat rule on debt would apply only if the guarantee turns into a real liability.

3.4 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 additional further actions are still needed:

- It is clear that, while the **Eurostat guidance on PPPs** has been a major step forward, it still **has the opportunity to be further improved**. Stakeholders' feedback indeed indicates that there remain 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

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.

that later case, the criteria for making the project "bankable" are somewhat different from the ones listed earlier in this paper¹⁰.

- 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 the compliance of such a model with Eurostat rules should be carried out first.

4. 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 and to better address the expectations of potential investors i.e. make the projects bankable by meeting the number of 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.

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.

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 the ones who absolutely need a grant or a grant component benefit from the EU instruments. Investors certainly have a role to play in indicating which level of grant is needed in which case.

NOTES



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

