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"Challenges of investment and financing"

1. A few words on the EIB

The EIB, a financial institution attached to the EU, acts as a guide and transformer of savings, financing investments which embody the aims of the EU's socio-economic policies. It finances itself by borrowing on the capital markets (€ 70-80 billion per year) and it has been mandated to manage the EU's budgetary resources to conduct financial engineering operations and/or provide concessional financing.

The railways have always been considered a priority by the EIB, as they combine 3 of its chief aims: ensuring the free movement of persons and goods, protecting the environment and promoting economic and social cohesion (sustainable land use and urban development). On average the railways account for 8% of our investments, i.e. € 6 to 7 billion per year, half of which goes to urban or suburban railways (in France: 29 metro and tram networks and 14 regional express services), with the other half financing the mainline network: *European HSLs*, rolling stock, upgrades for the incumbent operators in Central Europe and major engineering works such as the *Øresund Bridge*.

Over the past 5 years nearly € 400 million have been invested in the railways of Mediterranean partner countries (Turkey excluded). Here are a few examples: *Cairo metro*, *Tunis regional express service*, *Rabat-Salé tramway*, the *Phosphate Line* (*Chott El-Jerid – Gabès*) in Tunisia. Turkey has been the recipient of more substantial financing (€ 3.6 billion), for the *Bosphorus Tunnel*, the *Ankara-Istanbul HSL, TCDD's motive power rolling stock*, etc.

The investment challenges of the forthcoming decades, in Europe and throughout the Mediterranean, are linked to 2 factors:

- on the one hand, ever tighter constraints on public resources restricts the capacity of states (or local and regional authorities) to finance railway infrastructure and equipment;
- on the other hand, major investment is needed due to increasing urbanisation and the need for regions to boost their attractiveness.

The Commission has accordingly estimated that EU transport systems require an investment of roughly € 700 billion between now and 2030, while on the southern side of the Mediterranean (Turkey excluded) the transport sector is expected to attract around € 75 billion over the same period.

Therefore the challenge for investment promoters and funders is to determine what makes these investments credible, trustworthy and thus able to attract private capital.
This leads me to consider that there are two types challenge to be met: the challenge of governance, and that of financial trust.

2. The challenge of governance

Infrastructure cannot be sustainable if its development is not based on **a vision of the sector, of services** to be provided to the populations in question and of socio-economic **stakeholders** that public authorities intend to involve and unite around a project.

The example of the HST is a perfect illustration of this point. Projects such as the *Madrid-Seville HST* or the *Moroccan HST* are above all conceived as contributors to a national identity, to a vision of the future and to individual development through outstanding service. In contrast, indecision on launching a HST project on one of the 4 potential corridors in North America simply reflects the fact that a railway project does not by nature garner the support of American society.

Three levels of governance: at national level, **political** governance must provide the vision and generate widespread public support; at **technical level**, governance must ensure the vision is translated into a project; at **local** level, project governance must be attentive to imbalances among different stakeholders, be they constructors, operators or local populations, and take into account peripheral issues such as urban development or revitalisation, or the balance among regions.

This is why the EIB assesses infrastructure projects on the basis of what we call an "integrated" approach, which can be summarised in 3 points:

- The project has to be assessed as part of a **network**, and the network as part of an **economy**. In this regard, let us note that in an integrated economy (such as the EU or, potentially, the Mediterranean region), investments in regional governance structures able to support concepts such as the TEN in Europe and the "land and sea motorways" of the UfM are never without use.

- A project has to be coherent with the general **economic policy** of the country; the project assessment thus has to take into consideration the non-financial "positive externalities" – the positive impact on factors such as society, environment and energy. In the context of a railway project forming part of a broader initiative (urban revitalisation, for example the Tangier project) this calls for an **integrating authority**, a governance structure overseeing the project in all its complexity.
- Finally, when the project is based on a risk-sharing concession arrangement or a partnership contract (PPP), the overall project should have a governance structure specific to the partnership, allowing the contracting or awarding public authority to oversee the project and ensure a long-term contractual balance among the parties.

I think this side note on governance issues is essential. Indeed finance is always subject to policy; effective governance will thus always increase the credibility of the investment, which in turn will be easier to finance.

To support the implementation of an effective governance structure, the EIB, with financial support from the EU, is able to provide various technical assistance tools:

- **ELENA**, a tool that assists in developing investment plans geared towards energy efficiency in urban surroundings.[1]
- **JASPERS,** a platform of expertise available to countries in Central Europe for defining infrastructure investment plans, setting project priorities and providing advice for financial arrangements.[2]
- **EPEC,** a platform of expertise on using PPP available to public authorities in our Member States and partner countries in the Mediterranean region[3] (as part of our PPP regional initiative launched in Casablanca on 30 May 2011[4]).

3. The challenge of financing

In a globalised economy characterised by fierce and now omnipresent competition, the main cause of crises is the overabundance of liquidity and especially wealth imbalance among countries at one level and among different social strata within those countries at another level.

I mentioned earlier the investments needed for transport infrastructure: € 700 billion for Europe and € 75 billion for the south of the Mediterranean.

[1] http://www.eib.org/products/elena/index.htm
[2] http://www.eib.org/products/jaspers/index.htm
[3] http://www.eib.org/products/epec/index.htm
[4] http://femip10.eib.org/major-issues/path-to-ppp.htm

These amounts are considerable at first glance, but let us compare them to the following ones:

- $ 1800 trillion is the amount of liquidity in the world, of which 8 to 10 % is placed in savings;
- € 16 trillion is the amount of savings managed in the 28 Member States of the European Union;
- € 15 to 19 billion is the amount of capital flight from the southern and eastern shores of the Mediterranean and the Gulf towards Europe (in some cases with negative interest rates!).

Therefore, for the public banker that is the EIB (or, at national level, the CDC, the KfW, the CDG in Morocco, etc.) the aim is not to provide public financing as a substitute to the use of private savings, but rather to gauge the amounts and types of involvement that can **catalyse a maximum amount of private investment** around its own action. In this respect a leverage ratio of 1 to 3 is aimed for on average.

For this purpose 3 lessons need to be drawn from the crisis we have been experiencing since 2007, which has triggered a worldwide recession and an increase of 75 million in world unemployment.

- Investors need to be convinced to finance the **real economy** once again. That is the work of the regulator, carried out in Europe by Commissioner Barnier and supervised by the ESCB.
- Savers have to be persuaded to make **long-term** investments in the real economy. At present, of the € 16,000 billion of savings in Europe, 40 % are placed in investments of under 3 months and only 0.97 % is placed in long-term investments.

Although in raising € 70-80 billion on the markets every year (40 % from outside the euro zone) the EIB provides savers across the world with a long-term investment vehicle, much more needs to be done.
The **efficiency of public spending** has to be a chief concern, either in providing assistance to the most vulnerable or in implementing guarantee or risk-sharing instruments as a means of incentivising private investors. In other words, a transition is needed from a subsidy culture to a culture of financing the economy.

This is the change that Member States and the European budgetary authority have set in motion in recent years. By deciding (in June 2012) to invest € 10 billion in increasing the capital of the EIB, our shareholders have enabled us to raise 60 billion additional euros for 2013-2015, which represents € 180 billion of additional investment in the European economy over 3 years.

Similarly, in the multiannual budgetary framework for 2014-2020, the EIB will be experiencing a threefold increase in the European budgetary resources at its disposal (reaching € 8.2 billion) for the purpose of developing financial engineering instruments for the benefit of very small enterprises, SMEs and major infrastructure.

Therefore the EIB's new forms of involvement in major infrastructure projects are aimed at enhancing confidence in the project, either by issuing seals of approval (on the basis of our technical, economic, environmental and financial assessment) or financing "senior", subordinated, equity, quasi-equity, guarantee or credit enhancement loans (with the European project bonds).

To conclude I would like to remind you of the prerequisites for the success of the "ecosystem" of major infrastructure financing;

i. Good governance and solid support for the project from its users and environment;
ii. A public financial operator that brings credibility to the project and supports the financial engineering;
iii. A budgetary authority that understands the purpose of financial engineering backed by a limited amount of public resources and committed to the long term;
iv. A powerful and sophisticated private financial system able to support major projects by converting savings and making its action coherent with that of the relevant public sector.

Thank you for your attention.