Obstacles to cross-border investment & Innovative support from the EIB

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Working Group on Innovative Solutions to Cross-Border obstacles
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Outline of the presentation

• What is and what does the EIB Group?

• Cross-border investment from an EIB perspective

• A window of opportunity for bringing together all stakeholders?
The EIB Group at a glance

- **Largest multilateral lender** and borrower in the world (EUR 78.2n → total investment supported: EUR 250bn in 2017)

  → A quite simple economic model:
  - We raise funds on the international capital markets
  - We pass on favourable borrowing conditions (due to an AAA rating and a not for profit model) to our clients

- Some **900 projects each year** in over 160 countries and four main sectors: environment, infrastructure, innovation and SMEs

- **Headquartered in Luxembourg** and has 40 local offices

- Around **3400 staff**:
  - Not only finance professionals, but also engineers, sector economists and socio-environmental experts
  - 60 years of experience in financing projects
EIB products and offer

We help catalyse investment by

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<th>LENDING</th>
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<td>Loans</td>
<td>Combining EIB finance with EU budget</td>
<td>Support for projects preparation and implementation</td>
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<td>But also:</td>
<td>Project Bond Initiative, IPE</td>
<td>Support to enhance the use of EU funds</td>
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<td>Guarantees &amp;</td>
<td>Higher risk projects for innovation (InnovFin)</td>
<td>Support to improve access to finance</td>
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Attracting FUNDING for long-term growth
The traditional EIB approach in relation to CB investments

- **Around 100 cross-border projects financed by the Bank** since its creation (mostly major TEN-T projects in the transport or energy sector)

- **Evaluation of 11 cross-border TEN-T projects** (2006, available on line): substantial opportunities for the EIB to provide VA, acknowledgement that cross-border projects are prioritised by the Bank, potential JASPERS role at EU-wide level

- A **limited number of global loans** (with regional public sector banks) or **framework loans** (co-financing of INTERREG programmes)

- **Partial Involvement of the Bank in the framework of the macro-regions strategy** (e.g. Danube and Baltic): project preparation support, pilot experiences for a limited period of time

- **Cross-border dimension also captured through Foreign Direct Investment** (more than 4600 FDI projects financed by the Bank since 2000, potential tech and know-how transfer beside financial aspects)

- Since 10 years, **advisory instruments** have also dealt with cross-border investments, in particular JASPERS (Meuse river), JESSICA (implementation of a Urban Development Plan at Alzette-Belval in Lorraine)
A renewed EIB approach in the context of the IPE

The 3 pillars of the Investment Plan for Europe

Mobilize EUR 315bn of additional financing

…through the European Fund for Strategic Investments (EFSI)

Support investment in the real economy

…through the European Investment Advisory Hub and the European Investment Project Portal

Create an investment-friendly environment

…through improvements of the European regulatory environment

- A demand driven instrument to support projects across the Union as well as cross-border projects
- Possibility to establish multi-country platforms to promote cross-border projects
- Key role of the Advisory Hub managed by the EIB
What is the Advisory Hub? **Delivery mode**

**DEMAND**
- Project promoters
- Public authorities
- Member States
- Private sector

**European Investment Advisory Hub (EIAH)**

**For whom?**
- Web portal + Online contact form + Support team

**How?**
- Existing advisory programmes and activities
  - Project support throughout the project cycle
  - Support to FI & IP
  - Enhance access to finance
- Additional advisory and technical assistance
  - New investment support
  - Identification of needs
- EIAH’s partner institutions’ expertise
  - Network of partners
  - Integrated collaboration model
With EFSI 2.0.

a stronger focus on CB projects and dimension

• Reinforcement of additionality of the projects supported with cross-border infrastructure projects, including related services, having been specifically identified as providing additionality

• To better address market failures or sub-optimal investment situations, projects supported shall typically have features such as (…) cross-border characteristics or “consist of physical infrastructure linking two or more Member States or of the extension of physical infrastructure or services linked to physical infrastructure from one MS to one or more MS” (art. 5.1)

• Support to motorways should be avoided, unless it is needed to support private investment (…) in cross-border transport projects involving at least one cohesion country

• The EIAH shall provide
  • targeted support on the use of technical assistance for project structuring, on the use of innovative financial instruments and on the use of public private partnerships
  • support for the preparation of projects (…) referred to Article 5(1), i.e. having cross-border characteristics (art. 14.1)

• On that renewed basis, the AS of the EIB
  • Has started to participate in conferences and WG linked to CB issues
  • Establish contacts with different stakeholders with a view to develop new partnerships, e.g. managing authorities of Interreg Ops, MOT, macro-regions, etc.
Convergence of policies & instruments, a window of opportunity?

• **Convergence of policies**
  (towards the recognition of the importance of CB dimension)
  - Current **extension and enlargement of the IPE** (Reg. (UE) 2015/2017) via EFSI 2.0: priority character of CB projects reinforced whilst additional means provided
  - EC Communication “**Boosting growth and cohesion in EU border regions**” mentions IPE as a potential contributor to the development of border regions
  - **Academic & political recognition** of additional growth potential in CB regions (8%)
  - **Next post-2020 MFF** represents a fertile ground for debate: future of regional and cohesion policy, role of the EIB, possibility to go beyond the grants vs loans debate

• **Convergence of instruments and budget lines**
  (towards a possible enlargement of the financial means dedicated to CB projects and programmes)
  - **Combination of EFSI and ESIF money** is currently operational (FI & Inv. Platforms)
  - **Beyond ERDF** other SF such as EARDF are also envisaging the use of FI
  - **Possibility to extend such FI to border regions** to be further explored (see below)
  - **EIB Advisory potentially very supportive for CB projects**: such projects are often non-mature and complex projects requiring specific technical, legal or financial expertise that the EIB AS and the EIAH is currently offering
The possible convergence of stakeholders, a pipedream?

- The 2 categories of stakeholders managing CB projects/programmes
  - On the one side, **local and regional authorities managing Interreg OPs** having a small budget to spend and dealing principally with small size and “soft” CB projects
  - On the other, **large financial institutions (including the EIB)** dealing mainly with large infrastructure CB projects (interconnection of Ten-T in particular)

- Bringing together these 2 groups of stakeholders?
  - **Possible combination (and co-financing?)** of a series of small-middle size projects with one (or 2) large scale project under the same framework or integrated programme
  - Major projects have often a **strong structuring impact** on their environment
  - Impact of such projects can be optimised when they are designed and developed in **coordination with smaller scale local projects**
  - All practitioners and experts of the regional policy acknowledge that **such an integrated approach usually better address local needs and specificities**
  - Good news is that these stakeholders are both **acknowledged experts** in their respective fields of intervention (good knowledge of local realities on the one side, good financial expertise on the other) and **long-lasting/established stakeholders**
• Conclusions of the evaluation
  • The artistic value of the work, combined with the promoter’s high level of expertise, matched the willingness of local actors to grasp this as an opportunity to foster a new economic impetus incarnated in a very innovative support programme

• Why this example can be transposed in a CB context?
  • Could have been a CB projects
  • Illustration of the possibility to combine hard and soft dimensions
  • Conditions
Workable options

Outstanding questions

• Short- or mid-term option
  • Identify a sufficiently mature large or mid-size CB project which could serve as a testing case for bringing together some of these stakeholders

• Longer-term option
  • To set-up a dedicated financial instrument (or investment platform) or framework loan to finance a cross border integrated programme associating all these stakeholders

• Prerequisites to be gathered:
  • Initial goodwill and sufficient alignment of interests among stakeholders
  • Local or national leader to support the project all along the process

• Outstanding questions
  • Institutional maturity: compatibility with political agenda and local priorities?
  • Legal feasibility
  • Applicability of the integrated approach?
  • Coordination entity: is EGTC a reasonable option?
  • Size and scale of relevant territory
  • Existence of a business case: financial viability and sustainability of the model?
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A few examples of projects supported by the Advisory Hub

**Renewable Energy projects**
Following the request from a national government for help with the structuring and financing of several small-scale renewable energy projects, the Hub is providing support to develop the underpinning strategy and to clarify major issues (e.g. a proper demand analysis and cost-benefit analysis).

**Broadband projects**
The Hub is looking at various high-speed broadband projects in underserved areas, and is working to help assess/establish an investment and financing model that ensures sustainable implementation, as well as technical support.

**Ecology programme in the Danube region**
Request for project implementation/co-ordination support for a major ecology programme in the Danube region. A consultant will be engaged by the Hub to develop a roadmap prioritising the delivery of a series of critical sub-projects/actions and identify possible sources of funding.

**Transport PPP-project in an EU member state**
Promoted via the national roads agency, the project relates to a TEN-T axis road. Advisory input focused on techno-economic review of project documentation as well as support with PPP structuring.
“means a special purpose vehicle, managed account, contract-based co-financing or risk-sharing arrangement or arrangement established by any other means by which entities channel a financial contribution in order to finance a number of investment projects.

Investment platforms may include:

(i) National or sub-national platforms that group together several investment projects on the territory of a given Member State;

(ii) Multi-country or regional platforms that group together partners from several Member States or third countries interested in projects in a given geographic area; or

(iii) Thematic platforms that group together investment projects in a given sector.”

Article 2, EFSI Regulation N°2015/1017
• Pooling of projects with thematic or geographic focus
• Flexible geographic scope - possibility to finance projects in a region, country, a group of countries incl. macro-region (multi-region platform)
• Flexible form: co-financing agreement, SPV, Fund, etc.
• Possibility for an EGTC to set up Investment Platforms not yet explored
• More efficient risk allocation between investors (lower transaction and information costs)
• Useful to pool or bundle small projects
• Possibility to combine EFSI and ESIF, EIB and/or other support (Member State, private investors)
• Cooperation with National Promotional Banks and Institutions under specific rules (explicitly envisaging a “regional cross-border platform”)
• EIB-AS and EIF-MM Services dedicated to the design of and support to local / regional Investment Platforms