Cross-border investments and obstacles, an EIB perspective

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Working Group on Innovative Solutions to Cross-Border Obstacles
Brussels, 14 December 2016
Outline of the presentation

• What is and what does the EIB Group?

• Cross-border investments from an EIB perspective

• Why IPE and EIAH are likely to change the perspective?
The EIB Group at a glance

• **Largest multilateral lender** and borrower in the world
  (EUR 77.5bn in 2015 + EUR 7bn for the EIF)

  ➔ 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 **450 projects each year** in over 160 countries and four main sectors: environment, infrastructure, innovation and SMEs

• **Headquartered in Luxembourg** and has 36 local offices

• **Around 2 600 staff:**
  • Not only finance professionals, but also engineers, sector economists and socio-environmental experts
  • More than 50 years of experience in financing projects
EIB products and offer

We help catalyse investment by

<table>
<thead>
<tr>
<th>LENDING</th>
<th>BLENDING</th>
<th>ADVISING</th>
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</thead>
<tbody>
<tr>
<td>Loans</td>
<td>Combining EIB finance with EU budget</td>
<td>Support for projects preparation and implementation</td>
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<tr>
<td>But also: Guarantees &amp; Equity participation</td>
<td>Project Bond Initiative, IPE Higher risk projects for innovation (InnovFin)</td>
<td>Support to enhance the use of EU funds</td>
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Support to improve access to finance

Attracting FUNDING for long-term growth
A comprehensive offer of advisory services

Support for projects and investments
- Advisory and technical support in identification, prioritisation, preparation, structuring and implementation of investment projects

Enhance use of EU funds
- Advisory and capacity building support in the implementation of ESIF financial instruments

Improve access to finance
- Enhancing financing condition and creating bankable propositions

Existing services
- JASPERS, ELENA, EPEC, Implementation support programmes
- fi-compass, bilateral services to Managing Authorities
- InnovFin Advisory
Cross-border investments from an EIB perspective (I)
(before the Hub was launched in 09/2015)

• 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)

• 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)
Cross-border investments from an EIB perspective (II)

(what the EIAH may change?)

• What is the European Investment Advisory Hub?
  • A key component of IPE
  • Main goals
  • Delivery mode
  • First outcomes
  • Examples
  • Main orientations for the near future
  • Why the Hub can make a difference?
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
What is the Advisory Hub?

Main goals

A tool to strengthen Europe's investment environment and improve the quality of investment projects.

A joint initiative

A single entry point to a comprehensive offer of advisory services.

An instrument to assess and address unmet needs for advisory support.

A cooperation platform to foster exchanges of know-how, coordinate support and ensure appropriate delivery (NPIs, Managing Authorities).
What is the Advisory Hub?

**For whom?**
- Project promoters
- Public authorities
- Member States
- Private sector

**Web portal + Online contact form + Support team**

**European Investment Advisory Hub (EIAH)**

**DEMAND**
- Project support throughout the project cycle
- Support to Financial Instruments
- Enhance access to finance
- New investment support also in areas relevant to the scope of EFSI
- Identification of needs
- Network of partners
- Integrated collaboration model

**How?**
- Existing advisory programmes and activities
- Additional advisory and technical assistance
- EIAH’s partner institutions’ expertise
**First outcomes**

Situation as at 30.11.2016

**Requests by country**

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of requests</th>
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<tbody>
<tr>
<td>Bulgaria</td>
<td>25</td>
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<tr>
<td>United Kingdom</td>
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<td>Italy</td>
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<td>The Netherlands</td>
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<td>Latvia</td>
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<td>Poland</td>
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<td>Luxembourg</td>
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<td>Cyprus</td>
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<td>Ireland</td>
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<td>Lithuania</td>
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<tr>
<td>Finland</td>
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<td>Slovakia</td>
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<td>Slovenia</td>
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<td>Croatia</td>
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<tr>
<td>Malta</td>
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<tr>
<td>Denmark</td>
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<tr>
<td>Sweden</td>
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<tr>
<td>Estonia</td>
<td>1</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>

*excludes 21 requests from non-EU countries

**Total of 321 requests**

- 243 project-specific requests
  - Public sector: 79
  - Private sector: 152
  - Other (e.g. NGOs): 12

**Project-specific requests by sector (Tot. 243)**

- Education: 1.6%
- Agriculture: 4.1%
- Environment: 4.5%
- Health: 5.8%
- Other: 5.8%
- R&D/Innovation: 8.2%
- Telecommunications & Digital: 9.1%
- Urban/Rural development: 10.7%
- SMEs / start ups: 14.8%

*The category “other” includes project-specific requests in which the sector is not indicated
A few examples

**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/coordination 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.
Outlook

Main orientations for the Hub (2016-2020)

- **Main sectoral and thematic priorities**
  - EFSI 1.0: energy efficiency, TEN-T, and urban mobility
  - EFSI 2.0: COP 21-oriented, potential EFSI and possibly *cross-border projects*
  - Investment platforms and capacity building activities *(and cross-border platforms are envisaged)*

- **Main strategic orientations**
  - Strengthening, expansion and deepening of partnerships with a view to promote a cooperative approach
    - clarify roles and responsibilities, ensure alignment of interest, demonstrate Hub’s VA via a pilot phase of deepening on a voluntary basis, define a common reporting structure
  - Consolidating EIAH relevance, additionality and efficiency for a greater impact on the real economy
    - increase visibility, address market asymmetries, streamline management of requests, enhance synergies with EFSI
Why and how Advisory Support can make a difference?

- Cross-border projects are often complex projects which requires specific expertise: beside technical aspects, legal and financing issues.

- Such expertise is exactly what EIB AS and the EIAH is offering in complement to the skills of projects holders.

- Cross-border projects usually generate important externalities which make them less attractive and inappropriate for EIB business model. EIB is not well fitted for small-size projects not immediately bankable, grants remain often the most adapted financing solution.

- Environment, transport and energy projects are probably the most relevant cross-border projects from an infrastructure perspective (e.g. flood protection).

- Importance of political support or mandate (that the Hub may acquired with EFSI 2.0).

- One of the main entry points to access to support for setting up/ design of dedicated CB investment platforms (next slides).
Investment platforms

Key features

• 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
Investment Platform

**Definition**

“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
The ESIF/EFSI Complementarities Brochure notes the following possible combinations:

1. MA could set up a **new** investment platform in which EFSI and other investors would invest their resources including in the form of a layered fund.

2. MA could make an ESI Funds programme contribution into an **existing** investment platform set up with EFSI resources (and other private sector investment) at national, regional, transnational or cross-border level.

3. MA could set up a financial instrument (with or without a Fund of Funds) in which the investment platform set up with EFSI support could participate as an **investor** (at the level of FoF or Financial Intermediary)

4. MA could set up a financial instrument with ESI Funds programme contributions. The investment platform set up with EFSI support would intervene **directly at project level** on a deal by deal basis.
Investment platform options

• External investment platform

Other investor(s) → ESI Funds → EFSI support → Financial instrument (National, regional, transnational, cross-border or EU level) → Project

• Integrated investment platform

Other investor(s) → ESI Funds → EFSI support → Financial instrument (National, regional, transnational, cross-border or EU level) → Investment platform → Project

#ficompas

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‘Layered Fund’ opportunities

Typically structured in 3 segregated classes of risk (‘like’ risk ‘like’ return)

1. **Senior debt tranche** (low risk) - private and institutional investors and NPBs
2. **Mezzanine tranche** - financed by EIB (using EFSI if additional according to EFSI Regulation, e.g. if falling under ‘special activities’ classification of the EIB). Open to NPBs and private investors
3. **First-loss-piece / Equity tranche** (high risk-taking): financed by ESI Funds or other

- Could provide debt and/or equity financing to portfolios of targeted projects
Would you like to know more?

Consult the Hub’s advisory offer  www.eib.org/eiah

Request support from the Hub  www.eib.org/eiah/contact

Contact for more info  ballaguy@eib.org

Europe’s gateway to investment support