

Opportunities for the transport sector under the Investment Plan

Non-paper to Ministers for 8 October 2015 Transport Council

1. Introduction and purpose

Safe, reliable, resource efficient, and high quality transport links are the backbone for the internal market and economic activity in Europe, and essential for the European integration and for the quality of life of our citizens. The transport industry directly employs more than 10 million people, accounts for 4.5% of total employment, and represents 4.6% of GDP¹.

Maintaining the EU transport system, increasing its efficiency and capacity, and making it more sustainable and environmentally-friendly requires huge efforts at all levels – EU, national, regional and local – both in terms of policy development and financing.

A wide range of financing options at EU-level for transport infrastructure exists, including the European Structural and Investment Funds (ESI Funds), European Fund for Strategic Investment (EFSI) and the Connecting Europe Facility (CEF), including related financial instruments, to complement Member States funding resources. Meeting the huge infrastructure needs in the coming years, including for proper maintenance and operation of infrastructure, is and will remain a major challenge for the sector. Addressing this challenge in a sustainable way requires strategic and efficient use of public resources, which would also enable them to attract private sector finance. Meeting this challenge will underpin growth and boost jobs across the EU.

This paper looks at the investment needs in the transport sector, the barriers to investment and the challenges faced by the market. It then outlines the financing and non-financing sources of support that have become available in response to the challenges of the investment environment in the transport sector, highlighting specific EU-level initiatives and proposing practical steps to fully exploit the opportunities created by the Investment Plan for Europe. It also provides examples of existing projects which have benefited from blended mechanisms and financial instruments.

2. The new infrastructure framework: TEN-T policy

As of January 2014, the new TEN-T infrastructure policy became applicable. This policy aims to close the gaps between Member States' transport networks, remove bottlenecks that still hamper the smooth functioning of the internal market and overcome technical barriers such as incompatible standards for railway traffic. The Union Guidelines for the development of this trans-European transport network (TEN-T Guidelines)² establish obligations incumbent upon Member States that should help ensuring that the "core" and "comprehensive" TEN-T networks be completed by December 2030 and December 2050 respectively, and identifies projects of common interest to the EU. Economically justified and tailored to demand investment needs have been identified not only in core European networks, but also in relation to projects that could be delivered at national level in areas of sustainable transport.

The investment needs in the European transport system remain immense. Seven years after the global financial crisis started, the pace of economic recovery in the EU is still slow and the level of investment in the transport sector remains subdued.

To manage the impact of such under-investment, it is necessary to mobilise and scale up private investment to facilitate the financing of projects. This will enable Member States to catch up with their infrastructure as well as to invest into the infrastructure of tomorrow, such as the development of alternative fuels infrastructure and vehicles and intelligent transport systems.

The Investment Plan aims to catalyse long-term investments across various areas through capitalising on established EU funds, such as the ESI Funds and the CEF in order to leverage private investments,

¹ European Commission – Report: Employment in the transport sector (http://www.transport-research.info/Upload/Documents/201401/20140117_205136_81493_PB05_WEB.pdf)

² Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network, OJ L 348, 20/12/2013

provide transparency in project pipeline as well as streamlined and strengthened advisory support and improving the regulatory environment at EU as well as at national level. To maximise the impact of the Investment Plan for achieving objectives of the TEN-T policy, concerted efforts will be needed to pool together the different available resources and thus enhance the effectiveness and credibility of Union actions.

3. Investment Needs and Barriers

Investing in a more efficient, well maintained and greener transport system is essential for the competitiveness of Europe. The cost of EU infrastructure development to match the demand for transport has been estimated at over EUR 1.5 trillion for 2010-2030³. Overall about EUR 600 billion⁴ are needed by 2030 for the nine TEN-T Core Network Corridors, while the Commission estimates that about EUR 250 billion are necessary on the Core network for the completion of the missing links, to solve the main bottlenecks and to implement the European traffic management systems over 2014 – 2020. A recent study⁵ carried out for the Commission assesses the impact of completion of the TEN-T core network as equivalent to a growth in GDP of 1.8% and 10 million additional jobs created by 2030.

Years of public spending restrictions have resulted in underinvestment in the maintenance and refurbishment of key economic infrastructure. Tackling this backlog and restoring the economic life of these assets to sustainable and safe levels is needed. Rehabilitation of strategic infrastructure, normally yields very high economic returns, and would normally not be associated with long permitting and construction lead times.

Current minimum capital investments requirements in Europe in the transport sector are estimated at around EUR 130 billion per annum, while the actual level has been, since the beginning of the crisis, on average EUR 100 billion. Over a 5 year period, the accumulated “investment shortfall” in the transport sector since the crisis is estimated to be around EUR 120 billion.

To ensure adequate funds to the sector and attract private finance to infrastructure projects, “user-pays” models (real tolls or user fee charges levied on individuals or businesses) or a wider concept of raising and ring fencing funds from the beneficiaries should be considered when appropriate. As an alternative, in particular when affordability is an issue for users, funding sources (i.e. revenues such as availability payments) should be secured while considering financing solutions.

The transport sector, as in all other infrastructure capital-intensive sectors where the public component of investment has a major role, is affected by the need to consolidate public budgets, even in cases where the cost of failing to invest may be much greater for society than the volume of the investment itself. Therefore, it is important to facilitate investment, inter alia by eliminating regulatory barriers⁶. The need to remove regulatory bottlenecks is captured in the third pillar of the Investment Plan and is recognised as a key component to reinforce investment by the ECOFIN. . In this respect, as part of the Action Plan on building a Capital Markets Union, the Commission has reviewed the Solvency II calibrations for both debt and equity investments to reflect the risk of infrastructure projects. The objective is to stimulate long term investment by institutional investors. This in turn is expected to have beneficial consequences for the financing of transport projects.

There are however several other financial and non-financial barriers which specifically limit the attractiveness of transport projects:

- Lack of suitable financing solutions tailored to the specific needs of the various sub-sectors in transport;

³ http://ec.europa.eu/transport/themes/infrastructure/ten-t-guidelines/doc/2015_06_03_cbs_action_plan_final.pdf

⁴ http://ec.europa.eu/transport/themes/infrastructure/ten-t-guidelines/doc/2015_06_03_cbs_action_plan_final.pdf

⁵ For more information see: <http://ec.europa.eu/transport/themes/infrastructure/studies/doc/2015-06-fraunhofer-cost-of-non-completion-of-the-ten-t.pdf>

⁶ As highlighted by Former European Commission Vice-President H. Christophersen, Professor K. Bodewig, European Coordinator, Professor C. Secchi, European Coordinator in the "Action Plan – Making the best use of new financial schemes for European transport infrastructure projects" ("CBS Report"), June 2015.

http://ec.europa.eu/transport/themes/infrastructure/ten-t-guidelines/doc/2015_06_03_cbs_action_plan_final.pdf

- Insufficiently developed (i.e. projects are not properly prepared or structured to meet financing requirements) and non-transparent project pipeline;
- Regulatory and administrative procedures (e.g. national permitting procedures, in particular for cross-border transactions).

Financial products adapted to the needs of specific transport sectors, project sizes or geographies, are required to catalyse investments in certain areas. Projects in sub-sectors such as rail (the ERTMS on trains), alternative fuels (electric, hydrogen or natural gases vehicle fleet and related infrastructure for recharging and refilling), waterborne transport (greening of maritime and inland waterways transport), may benefit from the development and deployment of specific financing solutions.

Building a transparent credible and stable pipeline of projects is important for broadening the sources of funding (private and public investors) and concentrating resources in projects where investment is most needed. Noting the high complexity and the long lead time to maturity of transport projects technical assistance will be essential to ensure a solid pipeline of transport infrastructure projects.

These initiatives have to be supported by addressing investors' risk/return expectations and, in some cases, administrative capacity gaps (e.g. lack of expertise in project development and project structuring, including in relation to assessing and carrying out public-private partnerships (PPP) or investing in complex transport projects) that have so far hindered investment in transport infrastructure in the EU.

Furthermore, **effective transport planning and regulatory stability** is required to address these obstacles and ensure proper project implementation, foster innovation and create a predictable investment environment. Considerable progress in this context has been made in recent years: at EU level the TEN-T Guidelines map out the backbone of the European transport system. Furthermore, for the ESI Funds funding, transport Master Plans were prepared by Member States to carry out investments in mature project pipelines in the 2014-2020 period. Yet, over 50 % of action plans included in the operational programmes co-financed by ERDF/Cohesion Fund to fulfil transport-related ex-ante conditionalities (road, rail and other modes of transport) by Member States and due for completion by end 2015 have been significantly delayed. Cohesion policy provides a framework for Member States and regions to embed transport investments into integrated, cross-sectorial strategies that are tailored to their particular local needs. Local sustainable transport should also be planned in a wider, strategic territorial context, for example via the Sustainable Urban Mobility Plans.

At EU level there is a need for coordination between countries to address missing links, bottlenecks for long distance traffic, interoperability at border crossings, multi-modal connecting points and to share best practices. This is addressed by the new TEN-T policy and notably its nine multimodal corridors, including through the financial support (grants and financial instruments) provided by the Union. Annex 1 provides an outline of existing funding schemes (ESI Funds, CEF, Horizon 2020 and EIB). Furthermore, Member States should use more effectively the possibilities offered by European Territorial Cooperation Programmes in the framework of the EU cohesion policy for cross-border and macro-regional coordination in the development and implementation of transport policies and investments.

Investments will have to target not only traditional infrastructure but increasingly also management systems using Intelligent Transport System, the provision of alternative modes of transport and the deployment of electric and low emission vehicles. The recently established EU Platform for Sustainable Urban Mobility Plans and EU cohesion policy can support the development and implementation of such plans in all Member States and regions of the Union. The Commission also plans to extend the approach in the ELENA technical assistance facility (now focused on energy efficiency projects by municipalities) to urban mobility projects.

4. How can the Investment Plan for Europe benefit the transport sector?

Removing the barriers to investment in a coordinated manner will be a key element for an efficient response to the investment challenges in the transport sector.

The Investment Plan (see detailed description in Annex 2) sets actions along three mutually reinforcing strands which are expected to be instrumental for the delivery of the various transport assets needed: (i) mobilising at least EUR 315 billion in additional investment through the new **European Fund for Strategic Investments** (EFSI) over the next three years, thus complementing the investment expected to be leveraged by existing EU financial instruments, and an overall doubling in the use of financial instruments from ESI Funds, (ii) initiatives to develop investment proposals that meet the needs of the real economy, through a **European Investment Advisory Hub** (EIAH) and **European Investment Project Portal** (EIPP), and (iii) measures to provide greater regulatory predictability and to remove barriers to investment.

It will be important to channel the public resources and to direct the support actions to projects that are sufficiently prepared to absorb them.

4.1 A wider toolbox of financing sources that fit the needs of the transport sector should be deployed

The presence of EFSI provides financing opportunities for enhancing investments in projects that could bridge the missing links in the European transport networks and boosting sustainable mobility for businesses and individuals throughout the Union.

The financing offered by EIB under EFSI covers a wide spectrum of risk and will be predominantly low and sub-investment grade debt and equity-type financing. Such risk absorption capacity, is expected to be attractive to private investors. With no specific target allocated by sector, EFSI can support operations consistent with Union policies that pursue any of the following general objectives: development of transport infrastructures, and equipment and innovative technologies for transport: (i) projects and horizontal priorities eligible under TEN-T and CEF Regulation; (ii) smart and sustainable urban mobility projects; (iii) projects connecting nodes to TEN-T infrastructures, and (iv) research and development and innovation (including in the transport sector).

It is also important to address the high transaction costs and/or high technological and financial risks that projects in certain transport sub-sectors face. Financing solutions to address market failures for projects with sound business cases can be provided under the EFSI and be developed to fit the specific needs of these sectors:

- Ports, locks, airports, motorways, dedicated rail lines connecting urban centres, logistic platforms and also the deployment of traffic management systems on-board trains or planes (SESAR, ERTMS);
- Investments in the rehabilitation and upgrade of the road and rail networks, which is a key challenge for the European ageing transport system as well as in urban areas for addressing demand for sustainable mobility;
- Investments in the greening of infrastructure, fleets and vehicles (including LNG for ships or barges, alternative fuels, including electric mobility for cars). These projects bring societal benefits that are in line with the objective of shifting towards an improved air quality, low-carbon and less energy intensive economy;
- Investments involving entities located or established in Member States and extending to countries falling within the scope of Pre-Accession and Neighbourhood policies⁷. This is an opportunity to support the extension of the TEN-T corridors for instance to the Balkans;
- Transport projects such as the deployment of ERTMS on trains, greening of maritime and inland waterways transport, alternative fuels infrastructure along major roads, deployment of SESAR and the European Single Sky and in certain cases sustainable urban transport, might be of a relatively small size. Given the relatively high minimum threshold of financing that can be made available by the EIB through individual direct loans, such small transport projects are currently dealt with by the EIB through Framework Loans. They could also benefit from pooling investors' resources together into national, sub-national, multi-country or regional Investment Platforms, to which National Promotional Banks (NPBs) could also contribute with the support of an EIB guarantee under a counter guarantee provided by EFSI.

⁷ EFSI Regulation, Art 8

By aggregating small projects, investment platforms provide greater diversification, greater deal flow and reduced risk, and could thus represent an efficient way for investors to align interests and achieve larger scale of investments. Alternative potential modes of the joint intervention of the NPBs such as co-financing on a single project basis are also envisaged⁸.

Considering the timeframe of EFSI, special attention should be given to the implementation schedule for transport projects. Focus would be on mature projects and projects that can be started swiftly such as rehabilitation of networks or greening vehicle fleets.

4.2 Maximise the available resources for the financing of the transport sector: combining CEF, ESI Funds and EFSI resources

Transport infrastructure projects often require public support, in particular through subsidies, in order to reach financial close⁹. As recommended in the CBS Report, the combination of CEF and/or ESI Funds grants with related financial instruments and financial products available under EFSI ("blending mechanisms") should be facilitated as a way to leverage additional funding and therefore maximise the impact of EU grants on a wider range of projects.

Complementarity between CEF and EFSI can be ensured through:

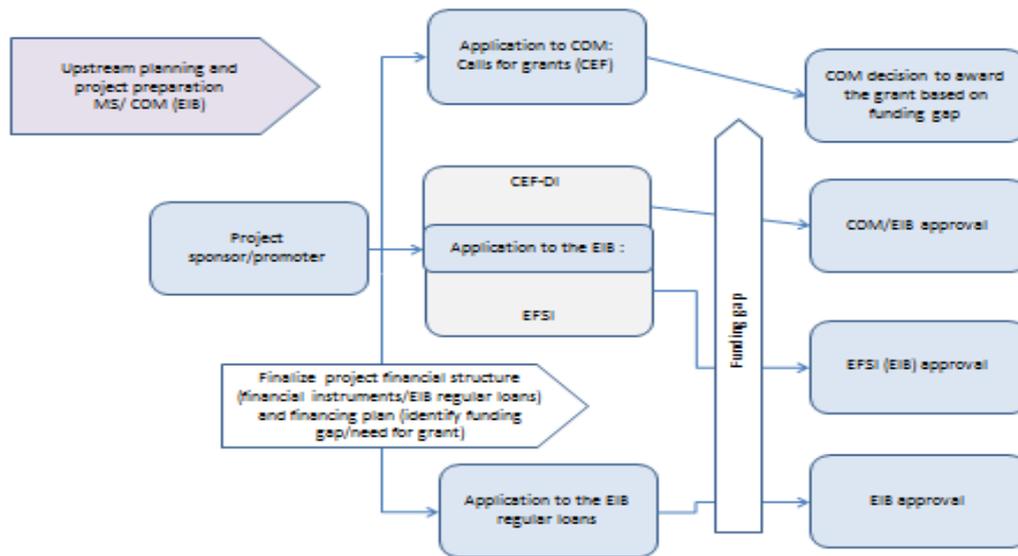
- **Exploiting the opportunities opened by their respective project eligibility criteria.** CEF grants support projects that implement the TEN-T priorities identified in the TEN-T and CEF Regulations. CEF financial instruments are open to the whole TEN-T network for all modes. EFSI creates additional opportunities, including for projects and modes not identified as priorities for CEF and most importantly also outside and beyond TEN-T. In this context, EFSI can be used to upscale financing products deployed under the CEF, including the existing project bond credit enhancement mechanism and the loan guarantee for TEN-T transport.
- **Combination of financial instruments and grants ("blending").** Some transport projects could make only a limited use of financial instruments. For example, financing of some projects addressing missing links and bottlenecks on the TEN-T through financial instruments alone may not be sufficient, as only part of the investment costs can be covered by the revenues generated from the projects, even over the long term. To optimise the use of the budget, EU grants could cover the share of the investment that cannot be repaid (funding gap), while the rest may be covered by financial instruments. A blended use of grants and EFSI resources will increase the number of transport projects supported, in particular in more challenging modes, such as rail and inland navigation. To this effect, a better coordination between CEF future calls for grants and financial instruments under EFSI and CEF should be ensured, as described in the scheme below, in particular with an enhanced effort among the Member States, the Commission and the EIB to identify projects suitable for financial instruments upstream during the project cycle and ahead of any request for grants support.

⁸ To date, Member States from Bulgaria, France, Germany, Italy, Luxembourg, Poland, Slovakia, Spain and United Kingdom have committed to provide co-financing to EFSI supported projects and investment platforms, up to a total financing volume of EUR 42.5 billion (COM (2015) 361 Final)

⁹ Financial close occurs when all the project and financing agreements have been signed and all the required conditions contained in them have been met. It enables funds (e.g. loans, equity, grants) to start flowing so that project implementation can actually start.

Example of a possible blending process:

Following the upstream planning phase where Member States can engage with the Commission and the EIB on project pipeline identification, the project sponsor/promoter would need to engage with the EIB to define the project financing structure, and in particular to apply for the support of the CEF-Debt instrument (CEF-DI) and/or EFSI, and the financing plan so to identify any funding gap, that would require subsidy in the form of grant support. Provided that a funding gap is identified a request for grants is submitted through the regular process of CEF calls for proposals.



Complementarity between ESI Funds and EFSI

The ESI Funds are the most important source for EU co-financing for transport projects, with an estimated envelope of EUR 70 billion for the 2014-2020 period. The **EFSI** legal basis allows Member States to use **ESI Funds** resources (including financial instruments) to contribute to the financing of projects eligible for EFSI. They can feed into Investment Platforms or directly support projects (in line with the ESI Funds programme rules and applicable eligibility criteria). Reciprocally, EFSI could participate in ESI Funds supported financial instruments in view of upscaling them. So far, the proposed allocations to financial instruments in the transport sector are very limited; ways should be explored to increase their share in the ESI Fund programmes.

ESI Funds can join EFSI supported projects in cases where this is a more effective use of both funding sources. Such combination of funding for the same investment shall not lead to duplication or overlap but will have to bring clear, demonstrable added value in the use of resources (such as EFSI and ESI Funds supporting different parts of the capital structure of a project or covering different risk tranches of portfolios of projects). This may be the case in certain countries or sectors, where the associated risks would make it unlikely that EFSI support would be given without the presence of ESI Funds programme contributions. Where appropriate, opportunities should be sought to combine ESI Funds resources and EIB financing under EFSI for Major Projects notably under PPP structures – but without giving rise to additional delays in starting projects on the ground. Furthermore EFSI support may be provided for parts of projects which are not eligible under an ESI Funds programmes but which are part of a bigger investment.

4.3 Enhanced and better coordinated/ streamlined advisory services to support project preparation and implementation

The transport sector faces significant challenges in terms of pipeline building, planning and structuring. Technical Assistance (TA) is essential to make the right choices about the use of financial instruments and blending opportunities and to strengthen the administrative capacity of public

authorities to structure projects with a view to ensuring that funding is adequately secured, and to attract private investment.

The European Investment Advisory Hub (EIAH)¹⁰ can play a key role in coordinating and streamlining advisory services available at EU level. It can also provide additional TA for project structuring, development and implementation, complementing EU level advisory programmes such as JASPERS, ELENA, EPEC and the Support Actions under the CEF Debt Instrument. These initiatives can provide direct assistance both in the form of project management capability and specialist advice (financial and technical) to accompany public-sector authorities in the structuring and implementation of projects (notably those involving private finance (PPPs)). Attention should be paid to the contractual arrangement and appropriate risk-sharing between public and private partners in PPPs. The Hub will coordinate these efforts in order to achieve better results and have an increased added value in the market. The Hub may also provide advisory support for creating investment platforms or other aggregation vehicles in the context of EFSI.

Special attention can be given to major projects (defined for the transport sector as projects with eligible cost above EUR 75 million) funded under the ESI Funds (“major projects”). About 300 transport major projects are foreseen in the period 2014-2020. Member States, with the support of JASPERS and other forms of TA, should carry out value for money assessments¹¹ in relation to these projects to select and prepare sound projects and, to the extent possible, examine the potential for moving from grants to increased leverage of investment. Moreover, Member States could mobilise additional TA funds under ESI Funds for project structuring and development, in order to complement funds made available at EU level.

Higher visibility of transport projects could be ensured via the European Investment Project Platform (EIPP)¹², a portal that will enable EU based project promoters of all types (public authorities, private, PPP) to connect and share in a standardised format their investment projects and ideas with potential investors. It is important to distinguish between the project portal/directory and the EFSI pipeline. The portal is an information instrument available to all investors, private, public or international. Projects on the portal could be financed by any investors (including the EIB) following their own due diligence.

5. Examples of existing projects having benefited of blended mechanisms and financial instruments

The CBS Report reviewed investment opportunities in the field of transport and outlined an illustrative list of projects that should be further investigated to assess their suitability for support through financial instruments. The rest of the section provides some existing examples of projects having benefited of blended mechanisms and financial instruments.

CALAIS PORT 2015

In July this year a transaction under the pilot phase of the Project Bond Initiative (PBI) was signed for the development of the Port of Calais, for which the combined support of a CEF grant and the PBI has been successfully proposed to finalise the financing plan.

The port extension, which requires investments in excess of EUR 700 million, was structured as a PPP (Design, Build, Finance, Maintain and Operate). The private sector consortium issued project bonds for a total amount of EUR 503.6 million, which were in turn supported by the PBI for an amount of EUR 50.4 million. In addition, a EUR 98.5 million CEF grant has been allocated to the Nord Pas de Calais Region to support the public subsidy to be provided by them.

¹⁰ <http://www.eib.org/eiah/>

¹¹ The definition of the key terms used in Value for Money assessments can vary among different policies and methodologies. It essentially seeks to capture the relationship between the cost and the value of a project, and can be defined as the structured comparison between a conventional procurement and a PPP option that is carried out by a procuring authority according to a defined methodology (see EPEC, "Value for Money Assessment – Review of approaches and key concepts", November 2014)

¹² http://ec.europa.eu/priorities/jobs-growth-investment/plan/eipp/index_en.htm

In addition to supporting the financial structuring of the project, through the involvement of its normal technical due diligence the EIB was able to challenge the allocation of technical risks, and by insisting on the application of best practice in public procurement, supported the public sector in minimising the public contribution to the project to provide the optimum blending mix.

Under the ESI Funds the existing experience of cooperation between the EIB, the Commission and NPBs could be enhanced to develop National Investment Platforms. Investment platforms are in essence co-investment arrangements structured with a view to catalysing investments in a set of projects (as opposed to individual projects), whose scope may include, inter alia, sub-national platforms that regroup several investment projects on the territory of a given Member State or thematic platforms that gather investment projects in a given sector. An example of the beneficial role that these platforms could play in the transport sector is the case of the investment in traditional urban infrastructure (tramways, metro lines, etc.), an intermediate vehicle, such as a fund, could support the aggregation of smaller projects and companies operating in cities, and hence make these projects more attractive to investors.

The cooperation between NPBs from many Member States within Marguerite is a good example of how platforms could work.

MARGUERITE 2020 FUND

Marguerite is an infrastructure equity Fund sponsored by the Commission, the EIB, CDP, CdC, PKO Bank, ICO and KfW alongside other investors. It aims at making capital-intensive investments (equity and mezzanine capital) targeted at long-term and stable risk adjusted returns. Eligible sectors are transport and energy (TEN-T, TEN-E, and Renewable Energy).

Marguerite is in its sixth year of the investment period which will end in 2016. As of to date, Marguerite has made investments in ten projects for a total net commitment of EUR 295 million . The total capital cost of the ten projects is EUR 4.9 billion. Of the Fund's ten investments, seven were made in the renewable energy sector, and three were made in the TEN-T transport sector, namely for the Autovía Arlanzon (A1) in Spain, the Zagreb airport in Croatia and the N17/N18 Motorway in Ireland.

In addition to large scale TEN-T infrastructure projects, such as ports or railways, the Commission and the EIB are working on the development of new financial instruments to support specific TEN-T policies, such as ERTMS, SESAR, greener transport solutions in the shipping and urban transport sectors and the deployment of alternative fuels.

GREENING OF SHIPPING

As a result of recent emission control legislation coming into force¹³, it will be necessary for new vessels operating in European waters, the Baltic, the North Sea and the English Channel to reduce sulphur emissions from fuel consumption either by burning cleaner fuels or installing filtering systems. For the existing fleet, one option will involve the retrofitting of equipment to existing vessels. The Commission and the EIB are exploring, on a pilot basis, the establishment of a new financial product adapted and targeting the shipping industry's funding needs with the support of financial instruments. The scheme will cater for larger numbers of relatively small investments by ship owners who would otherwise not be able to access suitable finance for these investments. Several countries have expressed an interest in becoming a pilot, and discussions are now well advanced.

EIB frequently acts to provide counterpart funds for the various operational programmes, either as standalone investment operations or through framework loans. Indeed, this is by far the most common manner in which EIB loans and EU grants are blended. A good example of successful blending is the

¹³ <http://ec.europa.eu/environment/air/transport/ships.htm>

Polish highway program as further described below. This particularly shows how fund timing/liquidity constraints may be eased by the complementarity of the two sources.

BLENDING OF FUNDS

At the time of Poland's accession to the EU in 2004, the country had only 780 km of dual carriageway roads, implying a very low core network density by European standards. Since then, several multi-annual national road construction programs have been undertaken such that Poland now has about 1550 km of motorways and about 1490 km of expressways in operation, with a further about 600 km under construction. Over the same period, EIB has signed loans worth EUR13.2 billion to support investment in national motorways, expressways and highways, primarily for implementation through traditional procurement methods. This significant progress has been achieved through the implementation of a number of national road construction programs. The 2011-2015 National Road Construction Program (NRCP) had a budget of PLN 83 billion (EUR 21 billion) and was funded through a mixture of State resources, borrowing (in particular from EIB) as well as European grants, particularly Cohesion Funds under the Operational Program Infrastructure and Environment (OPIE) 2007-2013 from which PLN56 billion (EUR13.3 billion) of grants was made available to cover the funding gap. The current 2014-2023 NRCP has a budget of PLN 107 billion. In order to finance these new works until such time as the EU grants became available, the Polish Authorities used their own resources together with subsequent EIB loans (EUR3.2 billion signed in 2014-15) to provide the liquidity to continue with the implementation of NRCP schemes. This has two positive effects, namely it (i) may allow for a more rapid absorption of Cohesion Funds to be made available in the 2014-20 financing perspective as well as (ii) may help sustain the previous pace of road investment.

5. Conclusions

Investment in the transport sector is crucial to meet the growing transportation demand and goals under the EU policies. While available EU funds are more abundant compared to previous years, they are still limited in comparison to needs and the current interest of investors in the EU market should be exploited. Mobilizing private investment in several sub-sectors, not only traditional ones (motorways, airports, ports, railways) but also areas such as urban development and mobility or green shipping is hence an important objective to fill the investment gap. Moreover, matching the availability of the financing sources with investors' willingness to explore viable projects in transport will be a key action to enable an optimized and efficient deployment of investment. The Investment Plan for Europe, together with other EU programmes, represents an opportunity to scale-up private and leverage public spending, build a pipeline of quality projects and remove the barriers to investment in transportation.

To this end, the Commission, the EIB and the Member States will need to pursue several actions:

- (i) the availability of assistance for understanding market gaps on delivering quality projects and investments to project promoters, investors and public authorities,
- (ii) financing solutions tailored to the specificities of transport projects,
- (iii) coordination between the various financing sources.

(i) Enhanced advisory services to understand market gaps, support better project preparation and implementation, to strengthen capacity building and disseminate best practices in the transport sector

Technical assistance actions are already organised to (a) support and cater for transport projects, including small and cross-border projects, and (b) facilitate replicating successful solutions in different Member States but this could be expanded.

EU initiatives, such as JASPERS, ELENA and the Support Actions under the CEF Debt Instrument, are coordinated under the EIAH umbrella. The latter can also provide complementary technical assistance for project structuring, development and implementation as well as promote exchange of best practice. This will reinforce the development of a pipeline of sound projects at EU and national level and reduce the time-to-implementation of projects. The Hub may also provide advisory support for creating investment platforms or other aggregation vehicles in the context of EFSI. Value for

money assessment should be promoted at EU and national level with a view to optimise the use of financial instruments and grant resources.

(ii) Deploying a wider toolbox of financing sources that fit the needs of the transport sector

The Commission will continue working with the EIB to expand the range of available financial products that reflect the specific needs of the transport sector. A wider financial products tool box should be made available under the EFSI, ESI Funds and the CEF with the aim to facilitate access to debt financing by corporates for ports operators, rail/ERTMS, green shipping and infrastructures for alternative fuels. In this regard, coordinated actions could be pursued by the Member States, the EIB and the Commission in order to:

- develop and implement financing structures for smaller transport projects, for which access to financing requires aggregation. In this respect, Member States, the EIB and National Promotional Banks could join their efforts to set up investment platforms under EFSI in thematic areas (green shipping, urban mobility e.g. green busses, etc.) for smaller projects
- develop financing solutions tailored to the specificities of certain transport modes.

(iii) Enhance the coordination between financing sources (EFSI, ESI Funds and CEF)

In order to increase the efficiency of public spending, financial instruments and grants should be made available in a coordinated manner and public support should be calibrated to cover funding gaps. The Commission and the Member States could reinforce their overview of the requests for grant support for revenue-generating projects, with grants being limited to covering the funding gap. It should be noted that reliable funding plans from project promoters will be a key component in the decision making process.

Moreover, pooled investment structures, involving private capital alongside EU financing resources, could be more widely utilised to address the financing gaps in the transport sector. In this context, the Commission in cooperation with the EIB will provide more detailed information about possibilities for combining EFSI support, ESI Funds and existing EU financial instruments.

Furthermore, in the case of projects proposed for EFSI support with Member States co-financing, the Commission will ensure as a matter of priority a fast-track treatment of national co-financing in line with EU State Aid rules.

For the Investment Plan to be a success, it is also of key importance that the Commission together with the Member States ensure full implementation of existing EU legislation, such as the TEN-T policy and lay down the ground for an institutional, legal and regulatory framework conducive to enhanced private sector involvement in the delivery of infrastructure investment. This is of outmost importance for having in place a competitive and efficient transport market. To this extent, the time-to-market of cross-border projects could be significantly reduced if the Member States involved could accelerate their permitting procedures and exchange information on the relevant documentation in a timely manner.

In his letter of intent, the President Juncker has committed to identify key obstacles to investment at national level through the European Semester process, starting in 2016.

Questions for discussion

1. Upstream planning to identify sound projects suitable for financial instruments is particularly beneficial. Would Ministers agree to pursue such efforts further in closer cooperation with the Commission and the EIB? Would Ministers wish to make any concrete proposals or put forward any particular requirements?
2. Combination of grants and financial instruments "blending" and adequate advisory support may be necessary in particular for capital intense transport projects. In this respect, would Ministers agree to enhance the coordination with the Commission and the EIB and the use of the EU funds (CEF and ESI Funds) in combination with the EIB and EFSI instruments on projects of strategic

relevance? Are the Ministers in the process of delegating the coordination process and implementation tasks to National Promotional Banks (NPBs) or other entities?

3. In what transport modes do Member States see the most added value of involving the EFSI? How do Ministers intend to interact with their NPBs to promote transport within the EFSI National Investment Platforms?
4. Given the very limited ESI Funds allocations to financial instruments in the transport sector, in which areas do Ministers see opportunities to support investment with ESI Funds financial instruments? Such instruments may be complemented with the support from EFSI.
5. The Ministers' feedback on the recommendations in the CBS report for removing specific barriers to investment has been well noted. How do Ministers suggest communicating this to the relevant services within their respective Governments, and what additional actions do Ministers contemplate to ensure a proper follow up?

Annex 1 Available resources to mobilise investment in the transport sector¹⁴

(1) European Structural and Investment Funds

Around EUR 70 billion from **ESI Funds** programmes (ERDF and/or Cohesion Fund) is expected to be committed to the transport sector in the period 2014-2020¹⁵. Under ESI Funds the use of financial instruments should at least double in the current financial period, from EUR 12 billion to EUR 30 billion, with an indicative target of 10% for sustainable transport. This extra EUR 18 billion could leverage additional investments between EUR 40- 70 billion (of which at least EUR 20 billion in the first three years).

About one third of the ERDF and/or Cohesion Fund will be channelled through the so called "Major Projects". Such large-scale infrastructure projects are subject to an assessment and a specific decision by the European Commission and can be structured as PPP.

(2) Connecting Europe Facility

A huge potential to unlock additional public and private financing of transport projects is held by the **Connecting Europe Facility (CEF)** programme, which provides a total budget of EUR24.05 billion to co-fund TEN-T projects in the EU Member States for the period 2014-2020 (i.e. over three times the amount allocated to the predecessor TEN-T Programme (2007–2013)). Out of this budget, EUR11.3 billion is reserved for projects in Member States eligible for the Cohesion Fund. In order to help complete the TEN-T multimodal Core Network and its Corridors by 2030, the CEF funds will be provided mainly in the form of grants, but also through financial instruments, the latter being indispensable to the achievement of CEF policy goals.

The 2014 CEF Transport Calls for Proposals, published in September 2014, are the first calls under the CEF. Under this first call in July 2015, EUR 11.93 billion has been allocated to 276 projects in Member States.

The development of financial instruments under the CEF built on the experience matured with the implementation of the financial instruments developed under the 2007-2013 TEN-T programme, notably the Loan Guarantee for TEN-T (LGTT) which provides guarantees for the banking sector to share demand risks, the Pilot Phase of the Project Bonds Initiative (PBI) which provides credit enhancing to projects to attract funds from the capital market investments, and Marguerite (infrastructure equity fund). An important milestone has been achieved with the CEF Debt Instrument (CEF-DI) becoming operational in July 2015 with further financial products under development.

It is expected that through the CEF-DI the total level of investment in transport infrastructures will increase in line with the policy objectives and investment volumes foreseen in the CEF Regulation¹⁶ and the TEN-T guidelines. Subject to the budgetary planning, the CEF-DI has potentially substantial financial backing, with up to EUR 1.5 billion of funding that could be available for transport in the period to 2020 with a potential to leverage up to 15 fold this amount of investment. Support Actions will also be provided under the CEF-DI to help procuring authorities with financial structuring of priority projects such as traffic management systems

(3) Horizon 2020

Additionally under the Research and Development programme **Horizon 2020** the Transport Challenge is allocated a budget of approximately EUR6 billion for the period 2014-2020 to boost the competitiveness of the European transport industry, as well as achieve a European transport system

¹⁴ Other than EFSI (see Annex 2)

¹⁵ Mostly under the Thematic Objectives 7 (Sustainable transport & removing bottlenecks in key network infrastructures) and 4 (Shift towards a low-carbon economy).

¹⁶ Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility

that is resource-efficient, climate and environmentally-friendly. Horizon 2020 provides for grants as well as financial instruments (i.e. "**InnovFin**– EU Finance for Innovators") helping firms engaged in innovation to access finance. "InnovFin" in particular offers a range of tailored financial products – including guarantees for intermediaries that lend to SMEs and direct loans to mid and large corporates including in the transport sector.

(4) European Investment Bank's own resources

Finally the development of strategic infrastructures and sustainable transport are key objectives of the European Investment Bank (**EIB) Transport Lending Policy**¹⁷. In 2014, the Bank's lending volume to strategic transport infrastructures, including TEN-T was EUR 8.2 billion leveraging EUR 33.8 billion of investment and in addition lending to sustainable transport such as urban public transport was EUR 5.1 billion leveraging a total investment of EUR 23.8 billion¹⁸.

EFSI, ESI Funds and CEF are set to play an essential role in the delivery of the transport policy objectives in the near future. While rationale, design, legislative framework and timeframe for implementation are different, there is considerable scope for maximising synergies and complementarities. To maximise the use of the different forms of EU support, blending of EFSI with CEF or ESI Funds should be facilitated and the complementarity be explained.

¹⁷ EIB Transport Lending Policy revised in 2011: <http://www.eib.org/infocentre/publications/all/eib-transport-lending-policy.htm>

¹⁸ <http://www.eib.org/infocentre/publications/all/report-on-3-pillar-assessment-for-inside-the-eu.htm>

Annex 2 **What is the Investment Plan for Europe?**

The Investment Plan for Europe is composed of three mutually reinforcing pillars: (i) mobilising finance for investment via the EFSI and a better use of European Structural and Investment Funds; (ii) coordinating and providing technical assistance via the European Investment Advisory Hub (EIAH) and the European Investment Project Portal (EIPP); and (iii) in the medium-term, improving the investment environment by removing barriers to investment and creating a true Single Market. The remainder of this section will focus on the first two pillars of the Investment Plan, in particular the EFSI and the EIAH which will be fully operational by autumn 2015.

The EFSI is at the heart of the Investment Plan and aims at reducing the current investment gap in infrastructure, innovation and SME financing, by making use of liquidity held by financial institutions, corporations and individuals at a time when public resources are scarce. In particular, it aims to unlock additional investments in the economy worth EUR 315 billion over the next three years, targeting projects that would otherwise not have found financing and that promote, among other objectives long-term growth and competitiveness. To do so, the EFSI will provide credit protection via a guarantee from the EU budget¹⁹ to new EIB operations that fulfil the criteria set out in the EFSI Regulation²⁰. With these operations absorbing a relatively high level of risk, they will allow the private sector to participate in project structures, either alongside EIB join in or by contributing to the less by providing a less risky tranche or tranches of to individual projects or structures/platforms. There will be no political interference in the selection of projects, and all projects will have to meet the financing requirements of the EIB. The projects must be economically viable and will be judged on their own merits, without any geographic or sectoral envelope. This way, private investors are assured that they invest in high quality projects.

The EIAH²¹ will be Europe's gateway to investment support. The Advisory Hub is one of the windows of the Investment Plan for Europe. The Advisory Hub will offer a single point of entry for guidance and advice for investments within the Union by means of an interactive, easily accessible web portal²² and a support team. Advisory Hub services shall be available to public²³ and private project promoters, including national promotional banks or institutions and investment platforms or funds and public sector entities

The Hub is a partnership between the EIB and the European Commission, both institutions contribute financially to the initiative and the EIB is responsible for the management of the Hub which is established within the Bank. The Hub aims to strengthen support for project development and preparation across the Union and can build on the expertise of the European Commission, the EIB Group, National Promotional Institutions and Member States' Managing Authorities. The Advisory Hub may also coordinate a network of National Promotional Institutions and will examine the possibility to engage with the Managing Authorities. Project promoters, public authorities and private companies can be directed to technical support to help get their projects off the ground, make them investment-ready, gain advice on suitable funding sources, and access a unique range of technical and financial expertise.

Investment platforms in essence constitute a form of co-investment arrangements structured with a view to catalysing investments in a set of projects (as opposed to individual projects). Investment

¹⁹ To establish EFSI, a guarantee of EUR 16 billion from the EU budget is created. The EIB committed EUR 5 billion, giving EFSI a total risk absorbing capacity of EUR 21 billion. EIB and European Commission experience indicates that EUR 1 of protection by the EFSI will generate EUR 15 of private investment in the real economy that would not have happened otherwise.

²⁰ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AL%3A2015%3A169%3ATOC>

²¹ <http://www.eib.org/eiah/index.htm>

platforms are a means to aggregate investment projects, reduce transaction and information costs and provide for more efficient risk allocation between various investors. The scope of investment platforms may include national or sub-national platforms that regroup several investment projects on the territory of a given Member State, multi-country or regional platforms, that regroup partners from several Member States or third countries interested in projects in a given geographic area, or thematic platforms that gather investment projects in a given sector. Pooling together smaller projects around a thematic EFSI investment platform would allow attracting private sector capital by: (i) overcoming the fragmentation and scale problem; (ii) diversifying risks as a result of the portfolio effect; and (iii) allowing investors to make contributions with a risk-return profile meeting their demands.

The active role of public promoters is needed to crowd-in private investors. National Promotional Banks (NPBs) can play a key role in mobilising private sector capital and boosting the impact of public funds in pursuit of the aims of the EFSI. Building on their valuable knowledge on the ground, investing at platform level allows them to better channel funds where they see the biggest need, as well as to collaborate on the funding of transnational and regional projects. To date, Member States, from Bulgaria, France, Germany, Italy, Luxembourg, Poland, Slovakia, Spain and the United Kingdom, have committed to provide co-financing to EFSI supported projects and investment platforms, for a total financing volume of up to EUR 42.5 billion. A number of multilateral platforms, including the Marguerite infrastructure fund²⁴ and the European Energy Efficiency Fund²⁵ (EEEF) are already in use and could be developed further.

²⁴ <http://www.marguerite.com/>

²⁵ <http://www.eeef.lu/>