PRIME

Platform of Rail Infrastructure Managers in Europe

PRIME subgroup on financing

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Institutional investors like infrastructure debt…

Low Yield environment	Improved Risk-Return Relationship	Diversification	Duration Matching	Regulatory Environment
Traditional long-dated fixed income products, which comprise the majority of insurance and pension fund portfolios, are providing limited yield pick-up	Lower default rates over longer term relative to equivalently rated corporates; Recovery rates high (app 80%) relative to corporate bonds	Uncorrelated risks versus the market and other asset classes	Insurance companies and pension funds allocate a portion of their portfolio towards liability-matching assets to close out Duration Mismatch	Solvency II improved appetite for infrastructure debt; Some European insurers required to offer their policy holders guaranteed returns

…but investing in rail infrastructure may be challenging

- ✓ Higher risk of delays and/or cost overruns than on a typical infrastructure project
- ✓ Higher risk of default of construction contractors or operators, compared to other transportation projects
- ✓ Ability to replace a defaulted contractor is more limited
- ✓ End-user demand risk (except for PPPs)
- ✓ Risk of a sharp decrease in revenues if train operator decides to reduce the number of trains on the line, or if it goes bankrupt
- ✓ Strong reliance on public support

➔ Availability based PPP-like structures (not concession) or PPP-like structures are more appropriate to secure rail financing

IMs face an increasing demand for projects…

- IMs have a large pipeline of projects (enhancements and renewals)
- Most of these projects provide a positive socio-economic return
- Some even provide a positive financial return

…but shrinking governmental funding pushes for innovative means of financing

- At least some IMs review alternative financing models
- Some investors showed a real interest in the majority of the projects presented by IMs
- They could be potential candidates for blending of CEF grants and private financing
- Investors signalled they could facilitate IMs to find the most appropriate financing structure

Changing context

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PRIME subgroup took stock of investment needs

- Overall decreased levels of public and private investment in transport infrastructure
- Around €430 billion is needed by 2030 to address in particular key railway missing links and bottlenecks
- Rising need of investments in rail renewals and enhancements as opposed to new lines

Making the best out of scarce EU resources

- CEF grants will be fully used in year 2017, after the 3rd CEF Call of €1.9 billion
- Scarce grant funding in the future, focused mainly on EU's major cross-border projects
- A new way forward is blending EU grants with innovative financing via CEF Blending Call 2016
- Preparations for the new financing framework post-2020 will take into account:

Changing EU budgetary priorities

- Grant funding will be limited
- More systemic use of innovative financing as means to leverage EU resource
- Overall shift towards blending EU grants with private financing

Next steps

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- Take stock of changing EU budgetary priorities in the run up to and beyond post-2020 period and embrace a shift to more systemic use of financing instruments and blending them with EU grants

- Extend dialogue with investors beyond the EIB, and associate them with the subgroup on a more permanent basis in order to better understand each other's investment needs and take action in financing some concrete projects

- Aim at identifying concrete railway projects potentially suitable for innovative financing and blending with EU grants, and assist with project development including in the context of the CEF Blending Call 2016

- Next subgroups are preliminary planned for spring 2017

  - ✓ Facilitating a setup of innovating financing solutions on concrete railway projects

  - ✓ Enriching and refining the 2016 European benchmark on the financing of maintenance, renewals and modernisation:
    - extension of the geographical scope
    - quantification of the analysis in close cooperation with the KPI subgroup

  - ✓ Comparing risk-sharing, credit enhancement and guarantee schemes