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EIB Investment in Digital Infrastructure

CERRE Executive Seminar on State Aid for Broadband
Brussels 21 November 2018

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* Points expressed are personal view and do not commit EIB. Quotes should be checked with author.

Outline

- EIB mission
- Broadband financing gap for Digital Agenda for Europe and European Gigabit Society
- Financial products of EIB
- Broadband financing
- Critical remarks to CERRE report
- Conclusions

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The European Investment Bank, the EU Bank

- Financing partner for the EU Member States and institutions since 1958;
- More than 90% of lending is within the EU;
- Financial support to projects outside the EU amounted to 10% of EIB lending;
- Shareholders: 28 EU Member States;
- The EIB contributes to the realisation of investment projects that further the economic, social and political priorities of the EU;
- More than 60 years of experience in financing projects;
- Around 3 100 staff – not only finance professionals, but also engineers, sector economists and socio-environmental experts.



EIB Group financing 78.2bn in 2017 by policy objectives



ENVIRONMENT

EUR 16.7bn



INFRASTRUCTURE

EUR 18.0bn



INNOVATION

EUR 13.8bn



SME

EUR 29.6bn

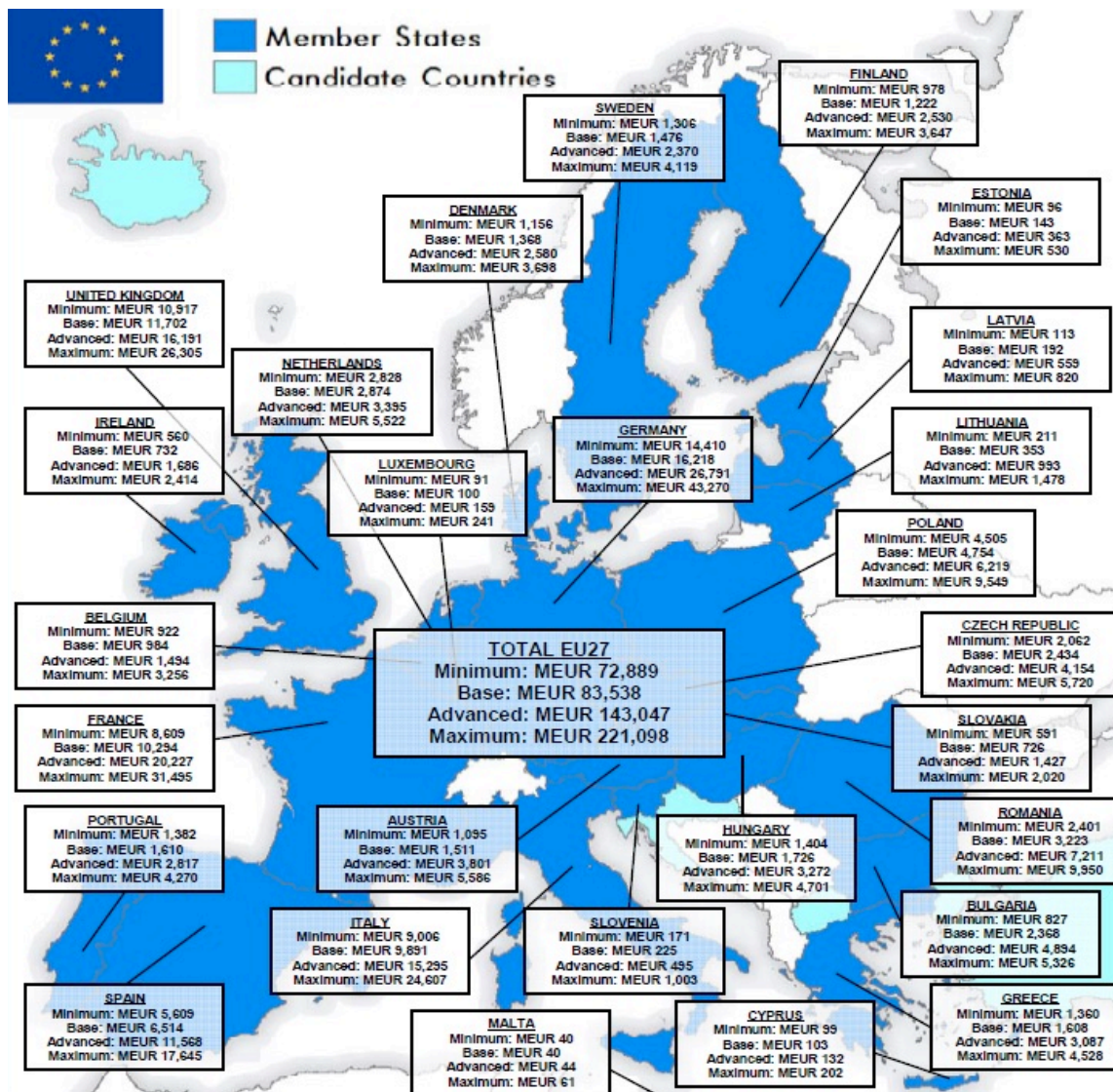
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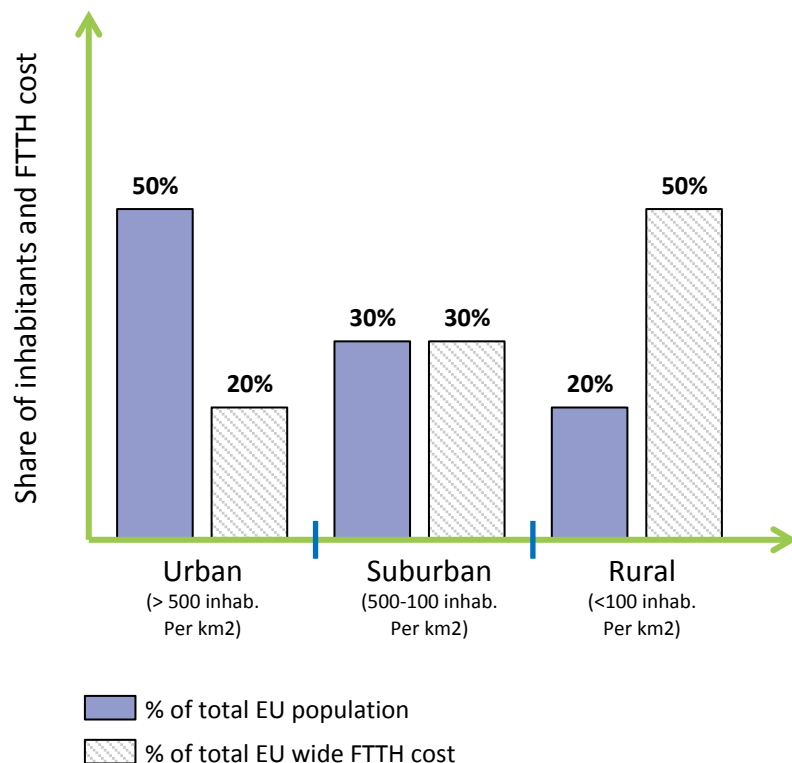
Investment gaps in EU

- Digital sector is suffering from large underinvestment in Europe (market failures):
 - R&D: accounts for R&D/GDP gap with US
 - **Infrastructure: Economic growth constraints due to lack of NGN broadband infrastructure**
→ investment gap of EUR 250 bn
 - Manufacturing and services: KET argument
 - Education and skills: lack of ICT experts
 - Data security: EU is lagging

Capex for DA 2020 scenarios



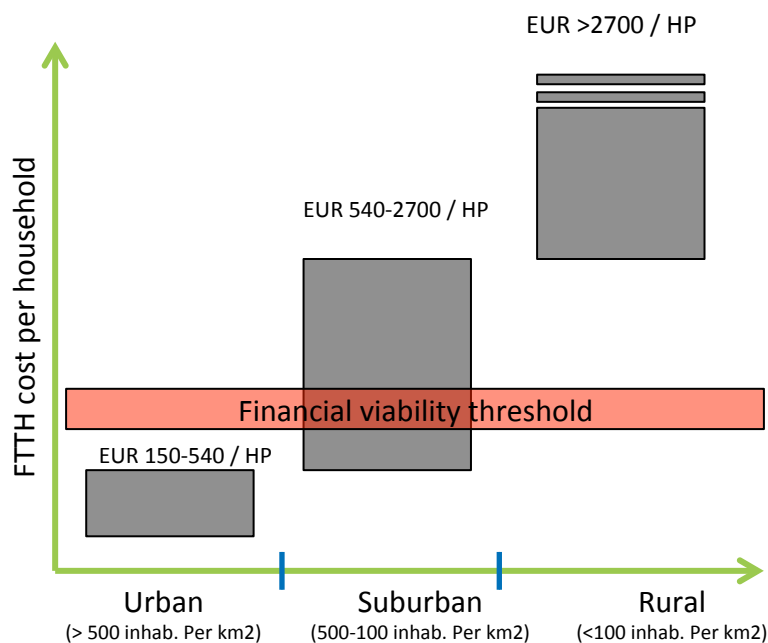
European population density and total cost of DAE targets



- 50% of the European population live in urban areas and additional 30% in suburbs
- Building a nation-wide NGN network in Europe would cost around EUR 220 bn*
 - 20% of this cost is required to cover 50% of European population in urban areas
 - 50% of this cost is required to cover the 20% of European population in rural areas
- Market operators are investing in urban and partly suburban areas which are already well covered with copper/cable infrastructures

* Based on consultancy assignment commissioned by the EIB

The cost per home passed and financial viability threshold



- In urban areas, the cost per home passed with FTTH is between EUR 150-540
 - In suburban areas, the cost varies between EUR 540-2700
 - In rural areas, the cost is beyond EUR 2700 per home passed
 - The financial viability threshold lies somewhere in the range of EUR 600-700 per home passed
- ↓
- Although this represents 55-60% of the European population, it represents only 20-25% of the total required investment cost

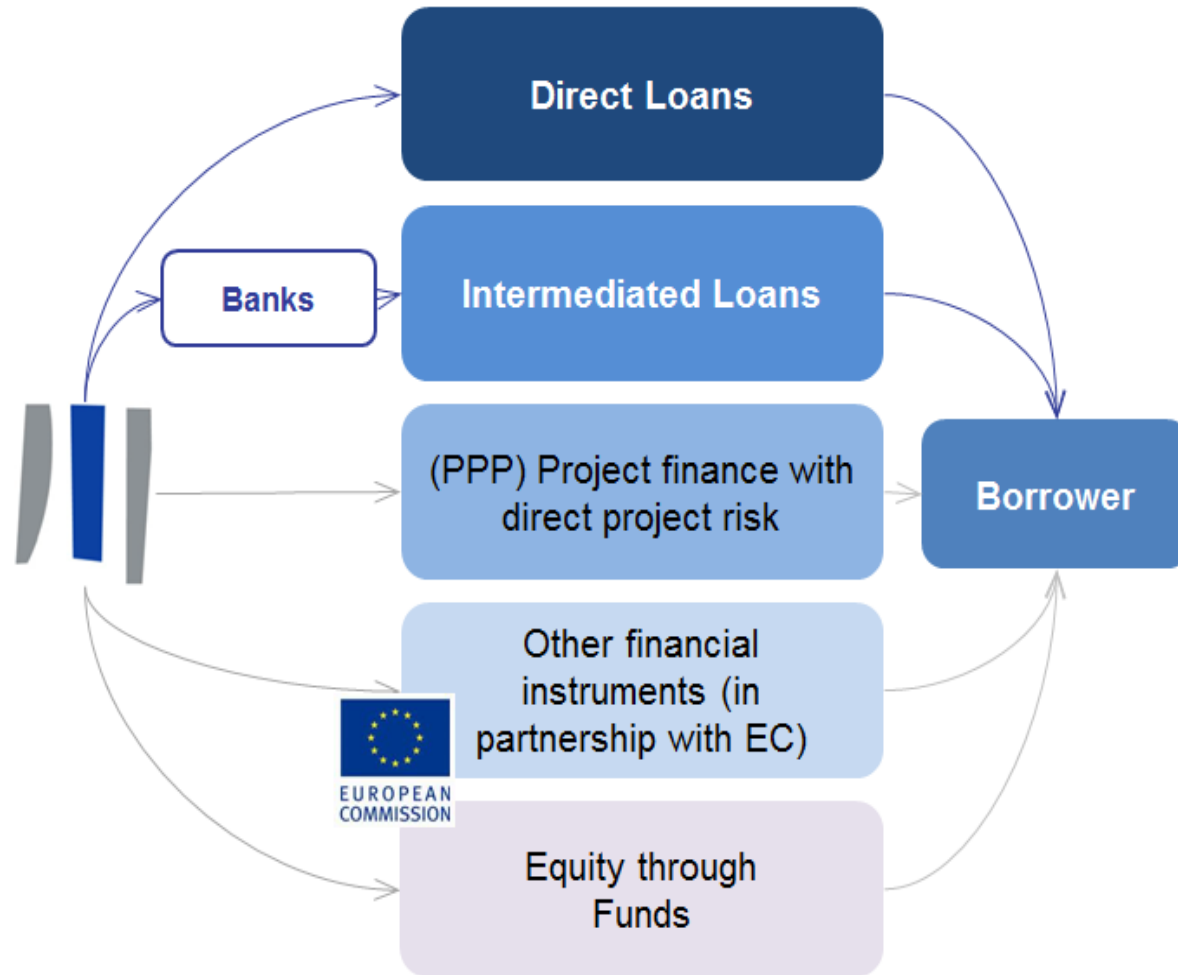
Estimates for Gigabit Society goals for 2025

- ▶ Investment need of 345-360 bn€ for EU-2
- ▶ Expected private investment 33% of total investment
- ▶ Investment gap for public funding 250 bn€.

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Types of EIB financing



Criteria

Projects financed by the Bank must be:

- economically justified
- technically viable
- financially self-supporting and
- environmentally & socially sound
- appropriate procurement procedures are required

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Investments into broadband infrastructures

Investment environment

- Variety of project promoters including public sector, established corporates of different sizes, new establishments/SPVs, PPPs etc.
- Variety of investment environments, including subsidy elements, demand characteristics, legislation etc.
- Variety of investment sizes from small community level roll-outs, to opportunistic approaches and national roll-outs

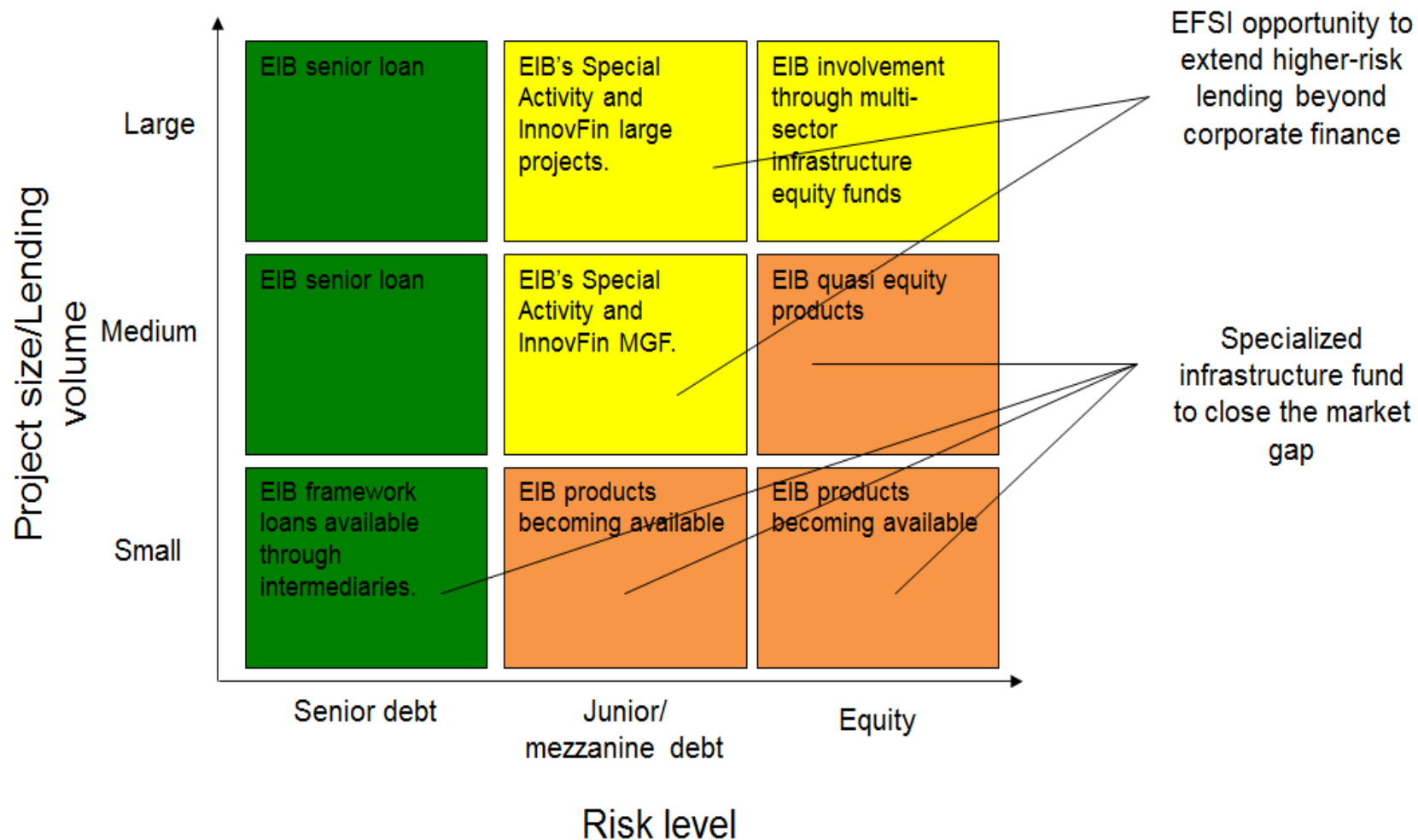
Investment challenges

- Long even 15-20 year payback periods
- Investment fully exposed to market and regulatory risks -> generally the returns do not match the associated risk
- The higher the economic return the lower the financial return

Investment reality

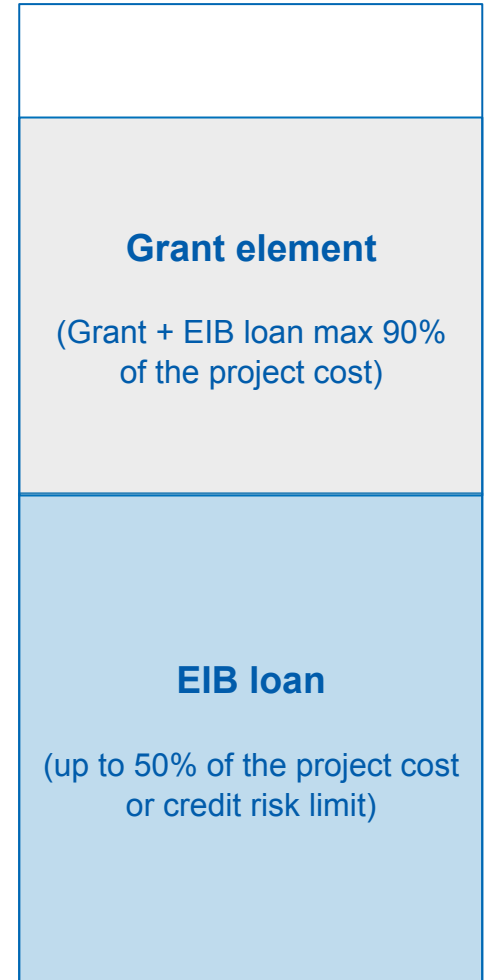
- Lack of equity for smaller broadband projects – for instance there exists no focused infrastructure funds to provide equity
- No high risk debt providers and senior debt typically limited to larger initiatives due to the complexities involved
- Investments rely on support and subsidies

EIB scope for financing broadband infrastructure

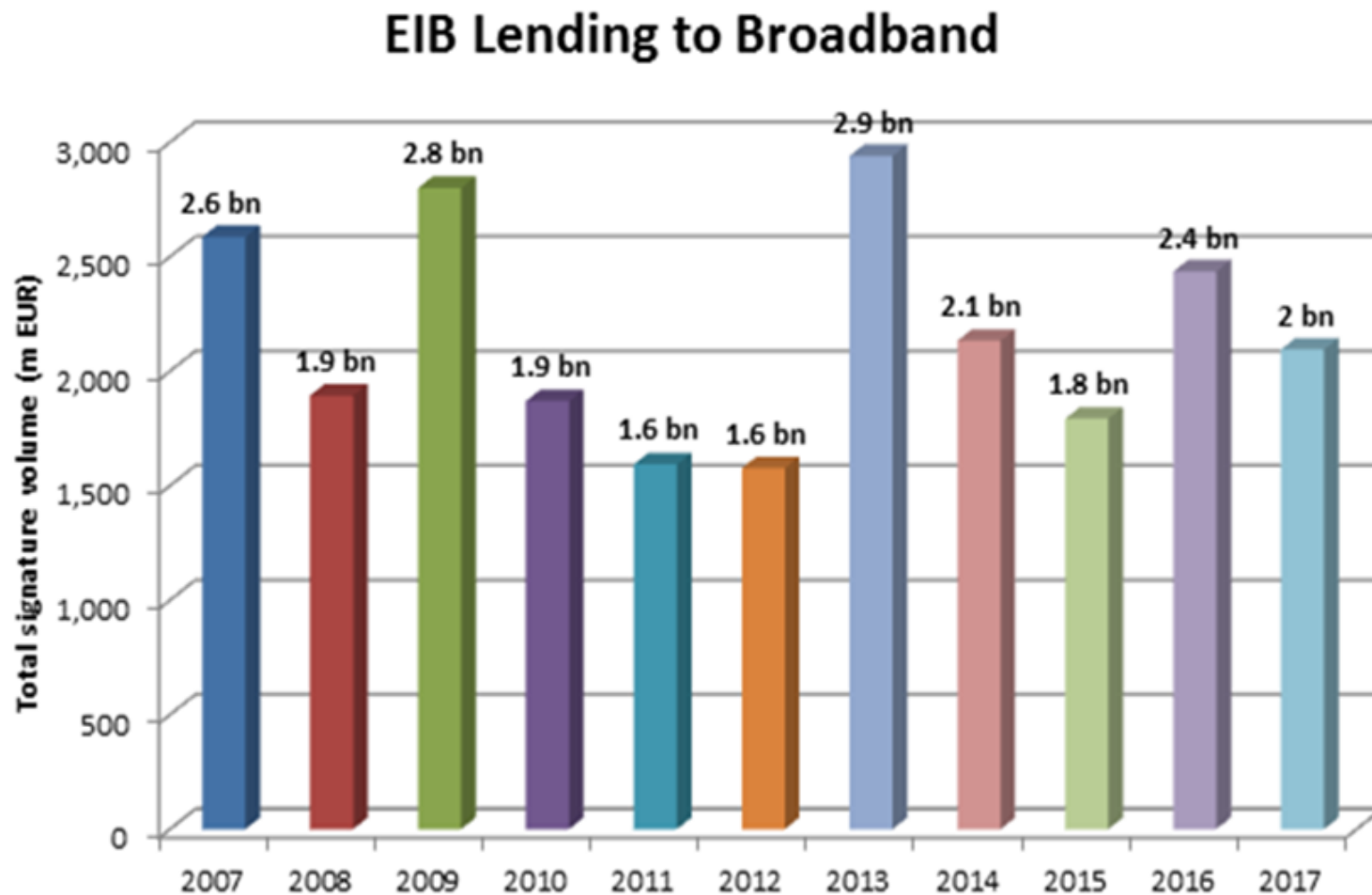


EIB finance instruments for broadband financing

- Corporates
 - Financing to telecommunications operators, utilities companies etc. to deploy broadband infrastructures
- Project finance
 - Financing to ring-fenced projects of a special purpose vehicle (SPV) formed by a private and/or public sector (joint ventures, off-balance sheet etc.)
- Public sector
 - Financing for public sector initiative typically together with EU and/or national grants
- Others
 - Intermediated loan structures and framework loans to financial institutions, local governments and other 3rd parties
 - Investments into infrastructure funds
 - New instruments
 - Risk sharing - InnovFin
 - Project bonds – First loss piece
 - Advisory services



EIB broadband lending



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Critical remarks to CERRE Report

- ▶ Closer investigation to State Aid in broadband is welcome objective
- ▶ Finding that State Aid is underused in the sector. Something wrong?
- ▶ Suggestion including into State Aid procedures also support measures that are not State Aid risks making procedures more burdensome
- ▶ Suggestion of giving more consideration of time horizons of broadband deployment policy objectives

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Conclusions

- ▶ Very large financing gap for broadband to fulfill well justified policy objectives
- ▶ Broadband sector needs substantial public support , including State Aid
- ▶ State aid regulation for broadband should take into account (industrial) policy objective
- ▶ EIB and EFSI are **not** State Aid and there is scope to significantly increase their role, but this should not be at the expense of unnecessary constraints
- ▶ Time is of essence!

Thank you!