



**European
Investment
Bank**

The EIB bank

The Need for Long-Term Investments in the Water Sector

How to ensure high quality water services to future generations

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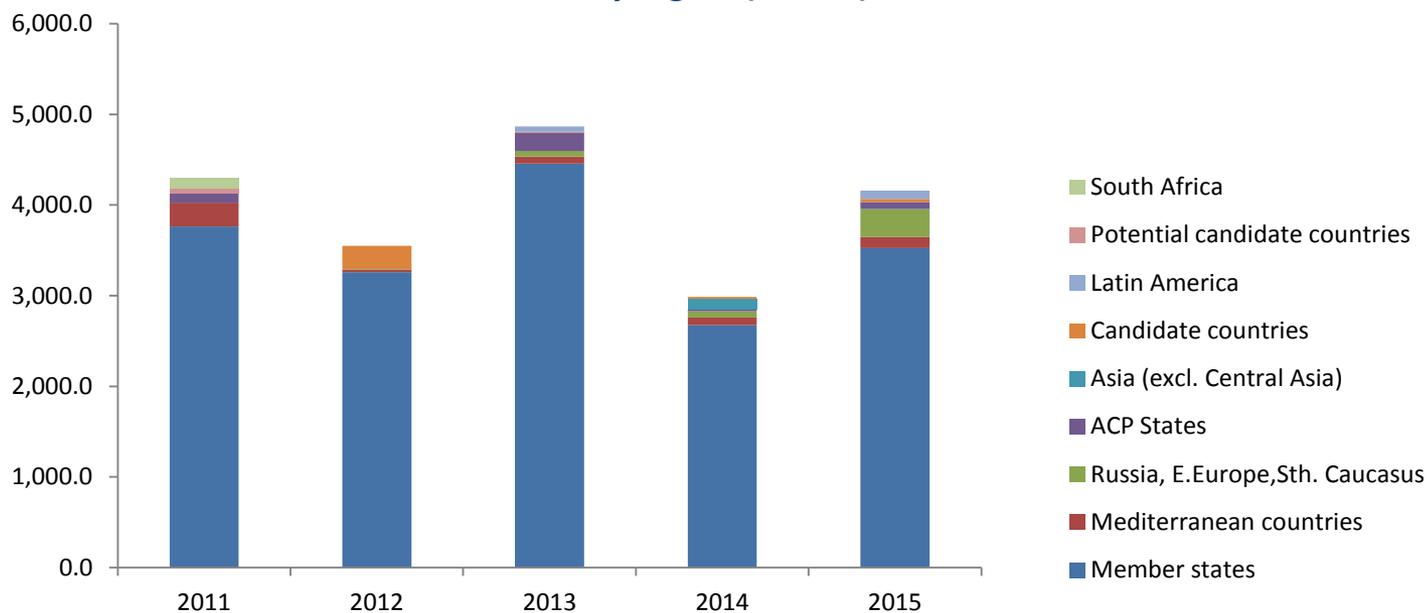
EIB - The EU bank



- Natural financing partner for the EU institutions since 1958
 - Shareholders: 28 EU Member States
 - Around 90% of lending is within the EU
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- Investing in Europe's growth

The EIB lending to the Water sector in 2011-2015

EIB lending to the Water Sector in 2011-2015
by region (EUR m)



TOTAL lending in the past 5 years: **EUR 19.85 bn**

Why Long Term Investments in Water

- Physical life of water assets is long
 - Civil works 30-40 years
 - Electromechanical works 10-15 years
 - Pipes 50-120 years
- “Long Term Investments” implies patient money, used for the financing of investments that can be repaid over the duration of the useful economic life – or as close as possible thereto;
- However economic life can be shorter than expected physical life in case of e.g.
 - **Regulatory** or market shifts
 - Technical obsolescence
 - Poor maintenance standards
- Matching of asset life and investment repayment period (loan maturity) ensures intergenerational equity

Why and how to secure Long Term Investments in Water

- From an infrastructure cost perspective, the longer the economic life, the lower the annual share of investment (debt) repayment – i.e. lower tariffs.
- There (public) regulator has a very important role in ensuring that the economic life as close as possible to (expected) physical life, i.e.
 - Strong, predictable regulation
 - Good maintenance
 - Healthy capital markets
- Typical sources of funding:
 - Grants – extremely scarce; can be sued
 - equity – scarce and demands high returns
 - Debt – abundant but not always for the needed tenors

How to attract LT Investments in Water

- Some examples of EIB LT debt funding (AAA credit rating):
 - Tenor not to exceed economic life - but approximate where possible
 - Average tenor 2015 loans: 23 years (5 years grace).
 - Longest tenor in recent years: 45 years.
- Debt supply is clearly constrained by credit considerations of the borrower, (and the lender in terms of its ability to source funds)
 - EFSI Guarantee and other credit enhancing structures (Viveracqua example) should facilitate longer term financing
- Credit is in turn also affected by factors like
 - the market,
 - the regulatory environment,
 - **Tariff methodologies**
- In Conclusion: there is an important role to play for government in ensuring proper regulation of the sector so as to allow LT investments with lower consumer tariffs.