

Financing of infrastructure projects: Competitiveness and Innovation Framework Programme (2007-2013) and trans-European transport and energy networks

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In accordance with the requirements of Regulation (EU) N° 670/2012, the Commission presents its interim report evaluating the progress of the pilot phase of the Europe 2020 Project Bond Initiative (PBI). To recall, the PBI pilot was set up with EU budget of EUR 230 million to allow stakeholders to familiarise themselves with the new instrument on the basis of concrete transactions during an initial pilot phase.

In the pilot phase, which started on 7 November 2012, projects may be approved by the EIB until 31 December 2014 and must reach financial close by 31 December 2016.

The full roll-out is envisaged within the Connecting Europe Facility (CEF) forming part of the 2014-2020 Multi-annual Financial Framework (MFF).

This report prepared in cooperation with the EIB, covers the first 12-month period from November 2012 to November 2013 and shows the progress made on project approval and financing. The report analyses lessons learnt during the pilot phase and highlights possible synergies and economies of scale that could be achieved within the framework of the CEF. The **CEF role could be maximized** by creating synergies through the combination of grants and financial instruments, such as the PBI, Loan Guarantee for TEN-Transport (LGTT) and programme support actions.

In a context where private sector financing of infrastructure in the EU has not yet recovered to pre-crisis levels of EUR 25-30 billion, which was still insufficient for EU infrastructure needs, the report considers the initiative a success.

Summary of achievements: in the first year of operation, eight projects have been approved by the EIB Board as potential beneficiaries of Project Bond Credit Enhancement (PBCE) and further projects are being advanced. **Two projects have been credit enhanced by EIB** and an additional project is expected to be signed by early 2014. One of these three projects was closed without support from the EU budget.

The active promotion by the EC and the EIB of Project Bonds for infrastructure financing has been recognised and appreciated by the market and has supported the development of other market solutions through the catalytic effect envisaged. In particular, the PBI has provided a wider range of investors with access to infrastructure assets as evidenced by the transactions completed already. Even where PBI has not ultimately been selected as the preferred funding option, it has provided competitive pressure reducing overall financing costs for a number of projects.

However, the market has so far focused on smaller sized local infrastructure projects in the UK with limited activity in support of larger projects at national level. In particular, the conditions for TEN greenfield projects remain difficult. **Member States should speed up the identification and preparation of infrastructure projects** in order to bring them to the market.

Assessment: Market interest in and feedback on the initiative have been **positive** and this has been instrumental in terms of focusing investors on bond solutions. In terms of developing project bonds:

- **more work is needed to develop an active bond market**, including the issuance of further bonds so that a sufficient stock is outstanding and benchmarks for future issuance can more easily be defined. This will make it easier for investors and procuring authorities to assess likely funding levels and make the pricing of bond solutions more predictable, perhaps enabling procuring authorities to move away from requiring fully committed funding;
- a liquid project bond market requires better prepared and more mature projects. **Governments should commit to long term planning** so as to ensure a more stable and transparent pipeline of infrastructure projects. In this respect, CEF provides for technical assistance at institutional and project level to help prepare future pipelines of project of common interest in order to support Member States and the private sector. There is also scope to expand the PBI to other policy areas where the financing of smaller local infrastructure projects could be pooled at national or regional level;
- **the CEF role could potentially be maximized** if a merger of the three sector portfolios (i.e. transport, energy and broadband), as referred to in the upcoming Regulation establishing the CEF, were carried out. With a view to increasing the efficiency and leverage effect of EU budget spending, this opportunity could be used to create a shared first loss provisioning system to benefit from the inherent diversification of the three sectors wherein the pre-existing instruments could be used as a seed portfolio.