



Europe 2020 Project Bonds initiative

Large, long-term infrastructure projects face financing difficulties, particularly in the current crisis. In response, the EU plans to back privately issued Project Bonds with guarantees and loans, to stimulate private investment in transport, energy and information technology networks.

Purpose and main aspects

The [Project Bonds initiative](#) aims to mobilise private funds and improve the range of financial instruments while avoiding direct public financing. Project Bonds are [different](#) from [Eurobonds or stability bonds](#); neither the Commission nor Member States will issue Project Bonds.

The [Commission proposes](#) that, instead of taking out a bank loan, private companies would issue [Project Bonds](#). These would be backed by a loan or guarantee from the European Investment Bank (EIB facility) with a contribution from the EU budget. In contrast to the classic model, the loan would be split into senior and EU/EIB-backed subordinated debt. The senior debt would have to be repaid first if the company goes bankrupt, mitigating the risk for private senior debt holders. EIB and EU backing would be capped at a maximum of 20% of the senior debt.

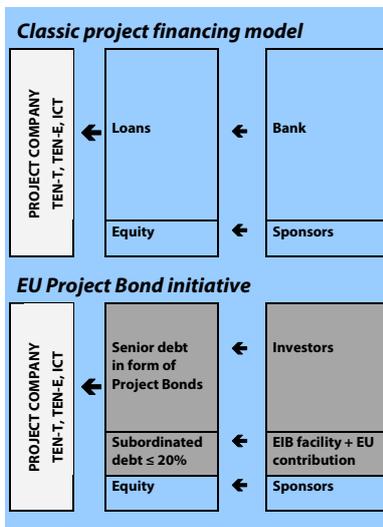
The initiative focuses on Trans-European Networks (TEN) in transport, energy and information and communication technology (ICT). It targets institutional [investors](#) with long-term liabilities and regulated rating requirements for their investments (e.g. pension funds, insurance companies, etc.).

Implementation

The proposal foresees an 18-month [pilot phase](#) to be launched this summer, to familiarise investors and sponsors and to optimise the design of the initiative. The proposed budget of €230 million would cover five to ten projects and be financed by budgetary reallocations.

Given the cap of 20%, this backing is expected to mobilise investments of up to €4.6 billion. The pilot phase would focus on projects at an advanced stage, to ensure rapid take-up.

The main phase (2014-20) would run under the proposed [Connecting Europe Facility](#), a single framework for investing in EU infrastructure priorities with a budget of [€50 billion](#). Project bonds would be one of its financing instruments. On 7 June 2012, the Council reached a partial [agreement](#) on the facility.



Stakeholder views

The [Commission's consultation](#) and [conference](#) showed that stakeholders consider the initiative is [likely to attract private investors](#). The Centrum für Europäische Politik, a think-tank, considers direct participation of private investors will help ensure that infrastructure projects are developed based on [economic rather than political considerations](#). Critics claim the budget is [too small](#) to serve investment needs estimated at €1.5 trillion in 2010-20. However, the Commission expects an expansion in the next financial framework. The rating agencies [Moody's](#), [Standard & Poor's](#) and [Fitch](#) consider that the initiative has potential to lower credit risk and attract investors, but their ratings will depend on the individual projects.

European Parliament

The EP has repeatedly voiced support for the Project Bonds initiative. MEPs [called](#) for transparent criteria for project selection, strong reporting and evaluation provisions and the possibility to make changes based on the results of the pilot phase. The Budget Committee voted on its [first reading report](#) (Göran Färm, S&D, Sweden) in March 2012, and [approved](#) a trilogue agreement on 31 May 2012.