Project Bonds Initiative

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Why Project Bonds?

The EU economy is heavily dependent on public infrastructure in areas like energy, transport and Information and Communication Technologies (ICT), research and development and (R&D) small and medium sized enterprises (SMEs)

Some EUR 1 000 billion of infrastructure investments are estimated for the Europe 2020 objectives until 2020

Reduced Union’s budget

Significantly reduced availability of long term funding for infrastructure assets or for R&D

Regulatory requirements have put pressures on banks’ balance sheets

This challenging environment demands more diversified and cost efficient financing sources to fill in the financing gap

Need to find ways to open collaboration EU and financial institutions, facilitate the pooling of resources and development of common standards across EU

Objective: create efficiencies of scale without increasing direct public funding and therefore public indebtedness

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EU 2020 Project Bond Initiative (PBI)

- Aims to revive and expand capital markets to finance large European infrastructure projects
- Supports projects in the TEN-T, TEN-E and broadband communications sectors
- A targeted financial instrument, based on a capped EU budget contribution
- Part of the wider Europe 2020 proposal aimed at revitalising the European economy, as well as the new approach to use “innovative financial instruments”
- Proposed as part of the Connecting Europe Facility (CEF) in the 2014-2020 multi-annual financial framework
- Builds on existing experience with other joint EU-EIB financial instruments

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EIB PBCE – Structures

Funded subordinated option – mezzanine loan

The EIB sub-debt participation can be combined with different types funding sources (bonds and other senior loans)

Benefits

- Reduces amount of bond financing to be raised
- Reduces probability of default and loss given default during operations
EIB PBCE – Structures

Unfunded subordinated option – guarantee

Benefits
- Comes on top of a fully funded structure
- Covers funding shortfalls during construction
- Revolving capacity, available until the end of the project

The EIB unfunded sub-debt participation can be flexibly used and structured in order to ensure target rating.

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Early Lessons

Positive response from rating agencies

- Moody’s: “would significantly improve the credit quality of a project’s senior bonds, potentially to the single-A ratings category, assuming a notional starting point of a low investment grade”
- S&P: the “initiative, if successful, could stimulate the European infrastructure project bond market by providing senior debt instruments at higher ratings than previously seen in the markets”
- Fitch: “could improve a project’s credit metrics to ratings in the ‘A’ category”

Strong interest from procuring authorities, sponsors and institutional investors