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**COMMISSION STAFF WORKING DOCUMENT**

**on**

**the Ad-hoc Audit of the Pilot Phase of the Europe 2020  
Project Bond Initiative**

**Executive Summary**

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## Executive Summary

This Staff Working Document communicates the methodology, analysis, findings, conclusions and recommendations of the evaluation of the Pilot Phase of Europe 2020 Project Bond Initiative. This evaluation, which was prescribed by the Regulation (EU) N° 670/2012<sup>1</sup>, was carried out by external contractors, in line with the evaluation requirements of the Better Regulation Package. The evaluation covers the period November 2012 - July 2015.

The SWD accompanies the evaluation final report of the "*Ad-hoc Audit of the pilot phase of the Europe 2020 Project Bond Initiative*" issued by Ernst & Young Réviseurs d'Entreprises on 3 December 2015 (hereafter 'evaluation').

## Background to the Project Bond Initiative

The Europe 2020 Project Bond Initiative is a financial instrument which was launched by the European Commission and the European Investment Bank ('EIB') in Pilot Phase in November 2012 as an innovative response to the needs for investment in large EU infrastructure projects at that time. The aim of the initiative is to:

- help finance priority projects of EU added value, and
- facilitate greater private sector involvement in the long term capital market financing of economically viable projects in the areas of Trans-European Transport networks (TEN-T), Trans-European Energy Networks (TEN-E), ICT and broadband.

Under the pilot phase, the EIB, supported by the EU budget contribution, provides a financing product ("Project Bond Credit Enhancement") to project companies, which issue project bonds. The credit enhancement was a new product at the time of its launch, the purpose of which is to credit enhance the risk profile of senior debt (i.e. increase the credit rating of the senior project bonds issued by the project company and hence attract capital market investors). The maximum size of credit enhancement on a single transaction is limited to 20% of the project bonds from the outset.

The pilot phase of the initiative was started with EU budget contribution amounting to EUR 230 million<sup>2</sup> to test the market uptake of the instrument and its ability to achieve the initial objectives. Operations were to be approved by the EIB Board of Directors before the end of 2014 and to reach financial close by the end of 2016.

The full implementation of the initiative is foreseen within the Connecting Europe Facility (CEF) established through EU Regulation N°1316/2013<sup>3</sup>, forming part of the 2014-2020 Multiannual Financial Framework.

## State of Play of the Project Bond Initiative at 31 July 2015

As of 31 July 2015, 7 transactions have been supported with a total Project Bond Credit Enhancement amount of EUR 612 million, which enabled the issuance of over EUR 3.7 billion in bonds<sup>4</sup>. The EUR 230 million allocated from the EU budget has been deployed in full. Out of the closed Project Bond Credit Enhancement transactions, 5 transactions received EU budget contribution.

Two additional transactions, i.e. the N25 New Ross Bypass and the Passante di Mestre, are expected to be signed with EU budget contribution in 2016 for a total additional credit enhancement amount of EUR 200 million and supporting project costs of up to EUR 1,300 million.

## Evaluation Results

- *Effectiveness*: The Pilot Phase was useful in facilitating the development of the project bond market. It raised the interest of institutional investors in the financing of EU infrastructure projects and encouraged them to reassess their business models. By 31 July 2015, 7 projects

<sup>1</sup> Regulation 670/2012 OJ L 204/1 of 31/07/2012, art 1(1)

<sup>2</sup> EUR 200 million to TEN-T, EUR 20 million to ICT projects and EUR 10 million to TEN-E networks

<sup>3</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1315&from=EN>

<sup>4</sup> One further transaction, i.e. the sale of the West of Duddon Sands OFTO project, also reached financial close in August 2015. This was a transaction without EU budget support. The size of the credit enhancement provided was of GBP 38 million which supported bond issuance of GBP 254.8 million; however this project was not included in the scope of this evaluation.

were able to close with credit enhancement support under the initiative. In connection to the objective to help finance priority projects<sup>5</sup>, the evaluation notes that, while no priority projects were defined for the ICT sector at the Pilot launch, following the revision of the TEN policies (including new guidelines), the TEN transport 'priority projects' were integrated into a unified core and comprehensive network, which the evaluation retained as an assessment criteria. In the energy field, projects of common interest were redefined with a focus on European added value, cross border impact and priority corridors. All projects closed met the eligibility criteria set in the Cooperation Agreement between the Commission and the EIB, among which the obligation to be an ICT / broadband project, or a TEN-E project, or a TEN-T project. To this extent, the pilot phase reached its objective by supporting two priority projects: one project (i.e. Greater Gabbard) considered as a TEN-E priority project under the former regime, and one project (i.e. Port of Calais) considered as a TEN-T core network project under the new TEN-T Guidelines

- *Efficiency*: The EU budget contribution was commensurate to the number of projects supported. The number of projects closed was 7 as of 31 July 2015, and is thus fully in line with the target range of 5 to 10 projects set for the Pilot Phase. One further transaction (outside the scope of the evaluation) reached financial close in August 2015. Two additional projects are foreseen to be signed in Q1 2016. Furthermore, the leverage achieved on the 5 EU budget supported projects closed as of 31 July 2015 was 12.9, while the expected leverage on the total number of 7 projects supported by the EU budget (including the two additional projects expected to close in Q1 2016) is 18.6 and therefore fully in line with expectations (i.e. 15 to 20). Therefore, the total expected leverage on all 10 transactions to be supported by project bond credit enhancement (i.e. 7 transactions with EU budget support and 3 transactions without EU budget support) is 30.3.
- *Relevance*: The initiative responded to the market needs at the time of its inception as it provided a product that i) mitigated the key risks associated with infrastructure projects, among which construction risk which was seen as a major investment barrier by institutional investors, and ii) served the needs of bond investors for investment in greenfield projects. In this sense, the initiative was relevant in terms of achievement of objectives of developing capital market financing for infrastructure projects and helping financing certain priority projects of EU added value.
- *EU-added value and additionality*: The risk-sharing arrangements between the Commission and the EIB, as well as the EU contribution provided, were crucial to develop the initiative. It allowed the EIB to target riskier and larger transactions and to widen the investor base (i.e. by attracting smaller investors that lack resources and rely on EIB's involvement and due diligence). Furthermore, the Pilot Phase demonstrated EU value-added and proved to be additional to alternative sources of financing which was particularly relevant on certain projects. It offered distinctive advantages, i.e. the capacity to mitigate construction risks inherent in EU greenfield projects in the TEN-E, TEN-T and ICT sectors and to credit enhance senior debt in a transparent manner for bond investors.

## Conclusions and recommendations

The evaluation concluded that the Project Bond Credit Enhancement solution should continue to be deployed by the Commission and the EIB in the future, because it has demonstrated to be able to provide long term competitive solutions to finance crucial infrastructure projects in Europe generating leverage effects that demonstrate good value for money. The evaluation points out that an end to the product offering might lead to a loss of the knowledge built up so far and to a potential market development halt. Further on, the evaluation stresses that looking forward, the potential of the Project Bond Credit Enhancement product to add to the existing market alternatives may be further increased, given the complementarities with other EU initiatives (i.e. the European Fund for Strategic Investments) and financial instruments (i.e. Connecting Europe Facility). This is also relevant in the context of the transition towards a low carbon energy system. Detailed suggestions on how the

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<sup>5</sup> As defined by Regulation (EC) 680/2007 OJ L162/1 of 22/06/2007

product effectiveness, efficiency, relevance, EU added value and additionality could be further increased are also included in the Staff Working Document.