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Financing of European infrastructure investments through the bond market

The aim of this article is to evaluate the Project Bond Initiative, which is one of the main elements of the Connecting Europe Facility for financing priority infrastructure projects in transport, energy and ICT. In 2012–2016, the pilot phase of the initiative was conducted, qualifying eight projects to receive support. The essence of this initiative is to divide the debt bonds issued in connection with the financing of the project into a senior tranche and a subordinated tranche, and then for the European Investment Bank to grant financial support or a guarantee to the subordinated tranche. This guarantee is to improve the credit quality of the senior debt to the level expected by institutional investors, thereby facilitating the raising of funds for infrastructure investments through the bond market. The results of the pilot phase confirm that the Project Bond Initiative may be an effective tool to stimulate investment in infrastructure and commitment of long-term investors to such projects, however, it has weaknesses to be considered before its full implementation. The article is based on literature studies, examination of the EU legislation and case studies of projects supported under the pilot phase of the initiative.

Keywords: project bonds, infrastructure gap, subordinated debt, financial market

JEL classification: F34, G23, G24, R42

Finansowanie europejskich inwestycji infrastrukturalnych na rynku obligacji

Celem artykułu jest ocena inicjatywy obligacji projektowych (Project Bond Initiative), będącej jednym z głównych elementów instrumentu „Łącząc Europę", w ramach którego finansowane są priorytetowe przedsięwzięcia infrastrukturalne w dziedzinie transportu, energii i technologii informacyjno-komunikacyjnych. W latach 2012–2016 przeprowadzono fazę pilotażową inicjatywy, kwalifikując do wsparcia osiem projektów. Istota tej inicjatywy polega na podzieleniu długu z tytułu emisji obligacji w związku z finansowaniem projektu na tzw. transzę uprzywilejowaną oraz transzę podporządkowaną, a następnie udzieleniu przez Europejski Bank Inwestycyjny wsparcia finansowego lub gwarancyjnego dla transzy podporządkowanej. Gwarancja ta przyczynia się do podniesienia jakości kredytowej długu uprzywilejowanego do poziomu oczekiwanego przez inwestorów instytucjonalnych, ułatwiając w ten sposób pozyskiwanie na rynku obligacji funduszy niezbędnych do realizacji inwestycji infrastrukturalnych. Wyniki fazy pilotażowej potwierdzają, że inicjatywa obligacji projektowych może być skutecznym narzędziem stymulowania inwestycji w infrastrukturę i zaangażowania w takie projekty inwestorów długoterminowych, ma też jednak słabe strony, które powinny być rozważone przed jej pełnym wdrożeniem. Praca

powstała w oparciu o studia literaturowe, analizę unijnego ustawodawstwa oraz studia przypadków projektów objętych wsparciem w fazie pilotażowej inicjatywy.

Słowa kluczowe: obligacje projektowe, luka infrastrukturalna, dług podporządkowany, rynek finansowy

Klasyfikacja JEL: F34, G23, G24, R42

Introduction

Infrastructure plays a key role in the smooth functioning of the single European market created within the European Union, the essence of which is to ensure the four freedoms, i.e., movement of goods, provision of services, movement of citizens, and movement of capital. A developed and well-functioning infrastructure not only contributes to the development of individual EU regions and compensates for developmental disparities between the richest and the poorest members of the EU, thus strengthening integration processes within the framework of the European Union, but also, in the case of energy infrastructure, improves security of supply and increases independence from suppliers outside the single market. Thus, since the mid-1980s, the Trans-European Networks (TEN) policy has been run by the EU with the aim to improve the development of infrastructure for the smooth functioning of the internal market to ensure economic, social and territorial cohesion. This led to the inclusion of a specific legal basis for Trans-European Networks in the Maastricht Treaty in 1992. Additionally, to facilitate project implementation, the EU set up several financial instruments, i.e., the Cohesion Fund, the European Regional Development Fund, and, more recently, the Connecting Europe Facility (CEF). Apart from these sources, the European Investment Bank (EIB) has also contributed to the infrastructure development by providing loans to TEN projects in compliance with the requirements imposed by the EU [Rosales, Vassallo, 2012].

Despite the EU long-term policy and existing long-term plans for the allocation of grants for the development of trans-European networks in transport, energy and telecommunications, the European Commission (EC) considered insufficient investment one of the main reasons for delays in the implementation of key infrastructure projects. The Monti Report, *A New Strategy for the Single Market. At the Service of Europe's Economy and Society*, presented to the European Commission in 2010, indicated that filling the infrastructure gap is a technical and coordinative, but also a financial challenge. The issue of financing infrastructure projects is of particular importance in the context of financial crises affecting the ability of both the public and the private sector to engage in such investments. 'Europe needs to have a fresh look at the economics of cross-border investment and at innovative ways to ensure its financing' [Monti, 2010]. According to the

author, obtaining adequate resources for infrastructure investment would be made possible by the creation of a European liquid bond market for long maturities to facilitate the financing of cross-border investments at the EU level, but also to ensure the supply of investment instruments meeting the needs of long-term investors, such as pension funds [Monti, 2010].

The idea of project bonds proposed by Monti has become one of the main elements of the Connecting Europe Facility, the framework to finance, as defined previously, priority infrastructure projects in transport, energy and ICT. In order to test the accuracy of the assumptions of the new initiative and to facilitate the introduction of new financial instruments – project bonds – to the market, the European Commission decided to conduct the pilot phase of the Project Bond Initiative (PBI), allocating EUR 230 million to this phase. The pilot phase is to be completed in 2016 with the financial closure of projects eligible for support under the PBI. Despite the duration of the pilot phase, a preliminary assessment of this initiative is possible, which is the aim of this article. The article is based on literature studies, examination of the EU legislation and case studies of projects supported under the pilot phase of the Project Bond Initiative.

1. Infrastructure investment expenditures and needs in Europe

One of the effects of the recent financial and economic crisis is the decline in investment in infrastructure in Europe, mainly due to a decrease in the involvement of the public and private sector in this area. In the public sector, the situation results from the budgetary constraints forcing changes in priorities for future spending plans and infrastructure development. The private sector was expected to support public sector investment, however, economic and financial uncertainty forced the project promoters to suspend their implementation in areas such as power grids and telecommunication/broadband, where investment needs associated with the modernization of the network are significant and where financing by the private sector usually dominates [EC, 2013].

According to the data presented in Table 1, the financing of infrastructure in the European Union by the private sector, in the formula of public-private partnership (PPP) as a proxy, still has not reached the rate observed before the financial crisis, even then insufficient to cover the EU needs in this regard. After partial recovery in the PPP market in 2010 and 2011, the value of transactions relating to PPP projects whose financial closure occurred in 2012 amounted to EUR 11.7 billion, a decrease of 35% compared to 2011 (EUR 17.9 billion), and was at the lowest value since 1999. In turn, in 2014, the financing of 82 projects worth EUR 18.7 billion had been completed, accounting for a nearly 37% decline compared to the

record period of 2007. This decrease in the number of PPP projects and the funds directed to projects mainly reflects the limited number of approved and prepared projects, and the lack of long-term financing in certain sectors and countries affected by the financial crisis [EC, 2013].

Table 1. European Public-Private Partnership (PPP) market (EUR billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Aggregate value	13.3	17.4	17.4	16.9	26.8	27.1	29.6	24.2	15.7	18.3	17.9	11.7	16.3	18.7
Number of transactions	79	82	90	125	130	144	136	115	118	112	84	66	80	82

Source: [Kappeler, Nemoz, 2010; AFME, 2015].

Concerning public infrastructure investments it should be noted that they have been on a falling trend in the European Union since the 1970s, from about 5% to about 2.5% of GDP in the 2000s [Kappeler, Nemoz, 2010]. In 1992–2011, annual infrastructure investments amounted to 2.6% of the European GDP (based on the GDP of 2010), whereas, according to different scenarios (see: Table 2), estimated needs for the projected growth in 2013–2030 require annual amount of European infrastructure investments between EUR 470 billion (2.6% of GDP in 2010) and EUR 810 billion (4.5% of GDP in 2010) [EIB, 2014]. In 2006–2009, the total (public and private) investment in infrastructure amounted to 3.7% of GDP in the old 15 EU member countries and 5.3% in the 10 new EU member states. The private sector contribution was almost twice as high in the old EU-15 (2.55% vs. 1.35% of GDP on average in 2006–2009), while concerning the new members it was twice as low. In terms of the capital structure of the project finance, it was dominated by loan financing (80%), while 14% of projects were financed by equity and only 6% through bond issuance [Kappeler, Nemoz, 2010].

Table 2. Scenarios for EU infrastructure investment needs from 2013 to 2030 (EUR billion)

	Economic infrastructure	Plus 1% social infrastructure	Future scenarios	
Scenario: as % GDP	a. 2.6%	b. 3.6%	c. 4.0%	d. 4.5%
Total over 18 years	8,400	111,600	12,900	14,600
Annual average	470	650	720	810

Source: [EIB, 2014].

The European Commission estimates that to achieve the objectives set out in the document 'Europe 2020: Strategy for smart, sustainable and inclusive growth' the infrastructure will require financial expenditure in the amount of EUR 1.5–2 tril-

lion, which translates into an annual demand of more than EUR 200 billion. The Commission's total of EUR 1.5–2 billion consists mainly of expenditure on [EC, 2014]:

- transport: about EUR 500 billion needed mainly for the construction of the trans-European transport network (TEN-T),
- energy: about EUR 600 billion necessary to finance the distribution and transmission network, and about EUR 500 billion for the construction and modernization of capacity generating facilities,
- information and communication technologies (ICT): about EUR 268 billion to provide residents of the European Union with access to high-speed broadband internet.

The analysis carried out by the EC services during the preparation of the Connecting Europe Facility Regulation showed that even if the capital markets, the banking sector, and the national budgets of member countries are expected to play a crucial role in delivering the required infrastructures through appropriate investment and pricing mechanisms, some investments in infrastructure will not take place or will be delayed far beyond 2020 if the EU does not take action [EC, 2014]. Consequently, in June 2011, the European Commission adopted proposals for the next Multi-Annual Financial Framework 2014–2020, containing a decision to integrate spending on infrastructure understood as transport, energy and ICT. The Connecting Europe Facility was established for this purpose to finance predetermined priority infrastructure projects in transport, energy, and ICT (both in terms of physical infrastructure and information technology). The CEF will use not only non-repayable subsidies but also equities and risk-sharing instruments including project bonds.

2. Overview of the project bond markets

European bond markets, offering possibilities of obtaining long-term capital, are not in fact used to finance infrastructure projects, although these projects are characterized by several features of increasing their attractiveness to investors creating alternative sources of capital investment. Infrastructure projects typically require high capital investment, while generating low operating costs, and at the same time stable and predictable cash flows; therefore, the use of bonds as a source of funding seems to be a particularly attractive option. From an investor's perspective, it is important that the debt incurred for infrastructure development is usually characterized by low default rates and higher recovery rate in case of default than comparable debt resulting from corporate debt securities. In addition, it features a low degree of correlation with other assets, which is a key issue for portfolio diversification and reducing investment risk [EC, 2011; EIB, 2012; 2014].

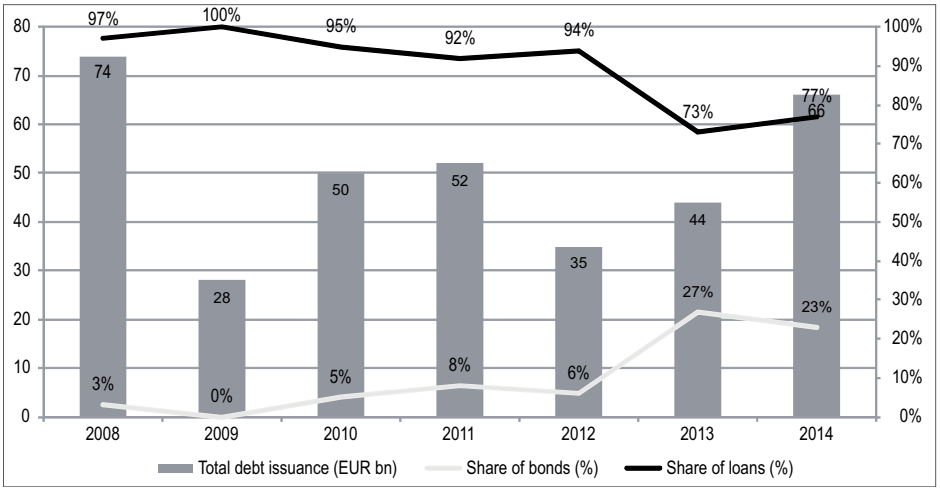

Figure 1. Bonds and loans issuance for project financing in Europe in 2008–2014
Source: [AFME, 2015].

The data presented in Figure 1 confirm that bank loans are the main source of funding for infrastructure projects in Europe, although as of 2013, a greater use of bond financing of infrastructure is visible and this trend is expected to be maintained in the near future. This results from requests by institutional investors, mainly pension funds and insurance companies, looking for long-term investments to ensure stable cash flows and an alternative to government bonds, currently less attractive due to the low interest rates. Bond financing in Europe comprised 23% of the European project finance debt issuance value in 2014 (EUR 15.2 billion) and 27% in 2013 (EUR 11.9 billion), while in 2008 it was only 3% [AFME, 2015]. The presented data also confirm the impact of the financial crisis on infrastructure investments, as after 2008 there was a sharp decline in the value of debt instruments (loans and bonds) issued in connection with such projects. The level of debt financing of 2008 still has not been reached.

Table 3 presents data on the value of bank loans and bond issues in connection with investments in infrastructure in particular regions of the world. It shows that the dominance of loans in the structure of debt financing is not characteristic of infrastructure financing in Europe; moreover, in some regions, the use of the share of bonds in debt financing of infrastructure investments in 2013–2014 remained at the level of Europe in 2008. On a global basis, the European project bonds accounted for approximately 36% of total project bond issuance in 2014 and 33% in 2013.

Table 3. Issuance of project bonds and loans by world regions

Region	Loans (EUR million)		Bonds (EUR million)		% bonds in total debt	
	2014	2013	2014	2013	201	42013
North America	62,720	29,143	15,565	15,402	20	35
Europe	51,064	32,238	15,100	11,842	23	27
Latin America	13,763	8,162	4,931	3,870	26	32
Asia Pacific	60,306	51,843	4,091	2,166	6	4
Middle East, Africa	27,166	26,637	1,899	2,454	7	8
Total	215,019	148,021	41,584	35,735	16	19

Source: [AFME, 2015].

3. General rules and aims of the Project Bond Initiative

As mentioned above, the concept of project bonds as a source of financing infrastructure investments appeared in a report prepared in 2010 for the European Commission by Mario Monti, a former Commissioner for Internal Market. Officially, plans to implement the PBI were presented by Jose Barroso, the European Commission President in the annual State of the Union speech on September 7, 2010, stating that 'an EU initiative to support project bonds, together with the EIB, would help address the needs for investment in large EU infrastructure projects' [EIB, 2012]. On October 19, 2011, the EC launched a legislative proposal for a pilot phase of this initiative. The 'Europe 2020 Project Bond Initiative' started when the European Parliament and the Council approved the legislative proposal amending the Trans-European Networks Regulation and the Competitiveness and Innovation Framework Programme (CIP) on May 22, 2012. On July 5, 2012, the European Parliament adopted the proposal for the pilot phase. Four months later, on November 7, the European Commission and the EIB signed a cooperation agreement setting out the detailed rules on risk-sharing [EC, 2016] – this date is regarded as the official launch of the pilot phase of the PBI.

The Project Bond Initiative is to contribute to bridging gaps in infrastructure and economic recovery after Europe's recovery from the crisis. The European Commission has identified two main objectives of this initiative [EC, 2011]:

– stimulating investment in projects of great importance for Europe in the fields of trans-European transport, energy and broadband with a clear European added value, thereby promoting investment growth to pre-crisis levels,
– support for increasing the share of institutional investors in long-term financing with debt capital instrument markets of projects viable from an economic point of view in the aforementioned sectors.

The long-term goal of the PBI is to support the integration of European capital markets and their further development, as well as to create a new asset class including European project bonds by seeking to standardize terms and conditions of their functioning [EC, 2011].

The concept of 'project bonds' in a general sense defines the bonds whose repayment is based on the cash flows of a specific investment project, separate from the whole balance of the sponsoring institution. In infrastructure projects, organized and financed by the private sector, this instrument is primarily used in the formula of 'project finance', where the funds necessary to finance the investment project are acquired by a Special Purpose Vehicle (SPV) established specifically for the implementation of the project. In the context of the PBI, the term 'project bonds' refers to bonds issued by private project companies with financial support or guarantee granted by the EIB [Szymański, 2013; Marchewka-Bartkowiak, Wiśniewski, 2014]. The essence of the PBI amounts to the support of credit quality of debt issued by private parties in connection with the financing of an infrastructure project, the Project Bond Credit Enhancement (PBCE). This involves distinguishing two tranches: senior debt and subordinated debt in the structure of the debt of the project company and a guarantee granted by the EIB to the subordinated tranche. This guarantee helps to improve the credit quality of the senior debt to the level expected by institutional investors. The subordinated tranche is serviced only after full repayment of the senior tranche creditors, while the size of the subordinated tranche is calculated at a level likely to absorb expected credit losses estimated on the basis of projects of a similar profile [Szymański, 2013]. The PBCE aims to provide bonds with investment grade of at least single A, although for smaller, less complex projects, lower credit quality is also considered acceptable (rating of BBB+ or equivalent) [EC, 2011].

The PBCE may take the form of [EIB, 2012]:

- a financed instrument, which is a tranche of subordinated debt in the form of a direct loan for the project, repaid only after the redemption of senior bonds (funded PBCE),
- a non-financed instrument, which is a conditional line of credit, changing into subordinated debt when used (unfunded PBCE).

It should be noted that the credit rating of senior project bonds has sometimes been enhanced through a guarantee issued by a monoline insurance company (a 'monoline wrap'). Thus, the EC and EIB initiative is not of a pioneering nature. However, the mechanism of the PBCE differs from a monoline wrap in several ways. First, the PBCE is not a guarantee that covers the entire amount of the senior debt. It is limited in amount from the outset. The maximum size of PBCE available for a single transaction will be the lower of EUR 200 million or 20% of the nominal credit enhanced senior bonds. In some cases, it will not exceed these limits. Sec-

ondly, as a subordinated instrument, the PBCE is designed to increase the credit rating of the senior bonds, not to extend the EIB's AAA credit rating of the project. Finally, the PBCE is intended for a limited sector coverage [EIB, 2012].

4. Results of the Project Bond Initiative

As of December 2015, eight transactions had been supported with a total Project Bond Credit Enhancement amount of EUR 650 million, which enabled the issuance of bonds worth over EUR 3.7 billion (Table 4). The EUR 230 million allocated to the PBI from the EU budget had been totally deployed. Most of the projects supported represented the energy sector (four projects) and transport in the road (two projects) and port (one project) sectors, followed by one broadband project. Out of the eight enhanced credit projects, five transactions were signed with the EU budgetary support (A11 and A7 motorways, Port of Calais, offshore transmission link Greater Gabbard and France Broadband Infrastructures) [EC, 2016].

The first project supported in the framework of the PBCE was Castor, a Spanish project covering the construction and operation of underground gas storage facilities and the related infrastructure in the Mediterranean Sea off the north coast of Spain. In connection with its financing, in July 2013 the first project bonds worth EUR 1.4 billion were issued with maturity of December 2034, with a coupon of 5.756% with a spread of 100 basis points above the Spanish government bonds. Considering the support of the EIB, the Standard & Poor's agency rated the bonds at 'BBB', and Fitch at 'BBB+'. Issues were bought by 30 investors (mainly from Germany, Spain and France), including 60% of the issue acquired by insurance companies and pension funds. Bonds were issued by Watercraft Capital S.A., a special purpose vehicle incorporated in Luxembourg specifically for the issue and then lending the proceeds to the company responsible for the project in order to refinance its outstanding loans with a shorter maturity period used to finance the construction of the gas storage facility. The actual target company conducting the Castor project was Escal UGS S.L. from Madrid [EC, 2013; Szymański, 2013; EIB, 2014].

Choosing the Castor project had undoubted political connotations. This project was a strategic component of the energy infrastructure of Spain, it was also on the list of priority investments in the field of trans-European energy networks in the EU. At the same time, it was considered that the risk profile and the mechanism of financing the Castor project provide a high degree of financial security, which in conjunction with the support of the EIB allowed to offer bonds on the capital market. The circumstance that determined the low risk of the project was the completion of the construction phase, i.e., the implementation phase exposed

to high risks. The purpose of issuing project bonds was only to refinance the already incurred, assessed investment costs that had previously been financed with bank loans [Szymański, 2013].

Table 4. Projects supported by the Project Bond Initiative as of December 2015

Release date	Project and company	Country	Bonds characteristics*	PBCE support	Change of rating and rating agency
July 30, 2013	Castor energy storage project; Watercraft Capital S.A.	Spain	5.756% due December 2034; EUR 1.4 billion	EUR 200 million liquidity line	BBB+ (Fitch) 'rating more attractive'
November 26, 2013	Offshore transmission link; Greater Gabbard OFTO Plc	United Kingdom	4.137% due November 2032; GBP 304 million	GBP 55 million guarantee	Baa1 to A3 (Moody's)
March 24, 2014	A11 motorway; Via A11 N.V.	Belgium	4.49% due September 2045; EUR 578 million	EUR 115 million subordinated credit facility	Baa3 to A3 (Moody's)
July 23, 2014	Broadband; FCT France Broadband Infrastructures	France	2.622% due June 2025; EUR 189 million	20% senior debt enhancement, EUR 38 million	Ba1 to Baa2 (Moody's)
August 27, 2014	A7 motorway; Via Solutions Nord GmbH Co. KG	Germany	2.957% due July 2043; EUR 170 million	EUR 85 million subordinated loan	A3 stable (Moody's)
February 13, 2015	Gwynt y Mor offshore transmission link; Gwynt y Mor OFTO Plc	United Kingdom	2.778% due February 2034; GBP 339 million	GBP 69 million on-demand letter of credit	Baa1 to A3 (Moody's)
July 22, 2015	Port of Calais; Société d'Exploitation des Ports du Détroit	France	EUR 504 million	EUR 50 million guarantee	–
August 25, 2015	West of Duddon Sands Offshore Windfarm; WoDS Transmission Plc	United Kingdom	3.446% due August 2034; GBP 254.8 million	GBP 38 million on-demand letter of credit	Baa1 to A3 (Moody's)

* Coupon, tenor, volume.

Source: [EC, 2016; Gatzert, Kosub, 2016; EIB, 2014].

The issuance of the first project bonds was a success. Unfortunately, the project they financed was a failure. By mid-September 2013, the Spanish government was forced to abandon the project after 220 mini earthquakes in the area were detected in less than a month. Subsequent research found that the gas injection provoked

1,000 earthquakes in the region [Bankwatch Mail, 2014]. In June 2014, Fitch Ratings downgraded the Castor bonds from BBB+ to BB+ (it denotes 'non-investment grade' bonds) and left them on its Ratings Watch Negative list [O'Farrell, 2014]. According to the project contract, the Spanish government was forced to take over the responsibility of the project's developer for the repayment of the EUR 1.4 billion bonds that were used to finance the Castor project. Thus, as the debt from Castor passed into the public sector and as a public debt, its repayment is a priority before any other expenditure (according to the amendment to Article 135 of the Constitution in 2011, the payment of the debt is prioritized before that of any other expense) [Guiteras, 2014].

The failure of the PBI's flagship project sparked a discussion on the reasons for the selection of projects supported by the EIB and the EU and the legitimacy of the Project Bond Initiative in the context of the social costs. It was revealed that from the very beginning of the Castor project a lot of irregularities occurred, which exposes the poor management of the project by the Spanish authorities, but also the EIB, involved in the project not only by providing a guarantee for the amount of EUR 200 million for the senior tranche of debt, but also by purchasing bonds worth EUR 300 million (21% of the issue). Moreover, the original risk-assessment did not include the risk of increased seismic activity associated with the injection of gas, even if other available studies warned of the potential dangers. The company in charge of risk assessment stated no risk to be categorized as severe or critical. In addition, the consultation process with the local population proved to be insufficient to allay their concerns and merely consisted of the presentation of documents translated into Spanish for a limited period of 30 days [O'Farrell, 2014]. There were also suggestions that the Castor project was unnecessary due to the drastic decrease in demand for gas since 2008, arising not from the public need, but from the promoting company. Finally, the Castor project proved extremely expensive. According to the reports prepared by the Spanish Ministry of Industry, Energy and Tourism, Escal UGS had spent EUR 1.273 billion on investments for the project, EUR 186 million on the gas cushion and EUR 234 million of financial costs. Thus, the total cost of the project was EUR 1.693 billion whereas at the onset it was estimated at EUR 500 million, less than a third of the actual cost [Guiteras, 2014].

The failure of one of the projects supported under the PBCE does not question the legitimacy and the need for the operation of the initiative or the accuracy of its assumptions. The basic rationale for continuing and developing the credit quality support of infrastructure projects is related to the characteristics of the bonds used for financing. The following positive aspects of the PBI may therefore be indicated:

– lower financing costs and longer maturity debt from issuance of project bonds compared to a bank loan,

– facilitated acquisition of finances from the capital market, an important alternative especially during the period of limited funding opportunities in the banking market due to e.g. the financial crisis,
– creation of a new long-term investment instrument, a response to the demand from long-term investors (insurance companies, pension funds). Importantly, project bonds may be an attractive investment alternative to government bonds in the period of low interest rates, characterized by, due to the EIB guarantees, a lesser level of risk than typical corporate bonds.

As for the weaknesses of the Project Bond Initiative to be considered at the stage of its full implementation, the following may be indicated:

– the necessity of issuing the entire debt at the beginning of the financing process (the implementation of infrastructure projects is of a long-term nature, which means that the demand for funds is spread over time – in the case of a bank loan, funds may be made available gradually as needed, but the bond issue is a one-time acquisition of total funds, not necessarily needed at the beginning of the project),
– the limitation of the initiative only to projects regarding the construction of transport, energy and telecommunications infrastructure of trans-European importance (meanwhile the example of Great Britain shows that the bond issue may be a very attractive source of financing social infrastructure investment – e.g. construction and renovation of schools, hospitals, municipal buildings – where projects are characterized by a lower value and associated with less risk),
– the risk of supporting projects important for the authorities of individual countries or the European Union from a political point of view, not necessarily economically or socially justified (this means, therefore, the probability of the EIB supporting economically weak projects, with a significant risk of failure, thereby exposing investors to a higher than expected risk).

Conclusions

The Project Bond Initiative was mainly intended to bridge the gap between infrastructure investment needs in Europe and insufficient funds available for such projects. This aim is to be achieved by raising the credit quality of project bonds issued by project companies (SPV), thus improving their usually low investment grade ratings to the level accepted by institutional investors. In this way, the European Commission aims, in addition to stimulating major infrastructure projects, to create a European liquid bond market, ensuring the supply of long-term financial instruments that generate stable cash flows, sought by institutional investors. The results of the PBI pilot phase confirmed that the EIB support alone in the form of

a guarantee without the use of fully subordinated debt instruments effectively raises the assessment of the credit quality of project bonds (such as Greater Gabbard offshore transmission link). On the other hand, the initiative also has weaknesses, and the failure of the Castor project, the first project supported by the PBI, raises many doubts as to the reasons for the selection of the supported projects.

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