

NEWS & ANALYSIS

Credit implications of current events

Infrastructure

Europe's Project Bond Initiative Is Credit Positive for EU Infrastructure Projects

Last Wednesday, the European Commission (EC) signed a cooperation agreement with the [European Investment Bank](#) (EIB, Aaa stable) that enables the EIB to deploy up to €230 million in risk capital under the pilot phase of the EC's Europe 2020 Project Bond Initiative. The pilot phase seeks to entice institutional investors to finance infrastructure projects in the European Union (EU) valued at more than €4 billion.

The agreement is credit positive for project company issuers undertaking large scale infrastructure projects in the qualifying sectors of trans-European transport and energy networks and broadband telecommunications. Projects under consideration for support in the pilot phase include the A11 motorway project in Belgium, the A7 motorway project in Germany, the A1/A6 motorway project in the Netherlands, and so-called Offshore Transmission Owner (OFTO) projects in the UK that provide offshore electricity transmission links. The EIB aims to support five to 10 projects during the pilot phase.

The principal objective of the Project Bond Initiative is to stimulate institutional investor funding of individual infrastructure projects. The EIB would provide a subordinated credit facility either in the form of a loan or a contingent credit facility to facilitate the issuance of investment grade senior bonds by a project company. The size of the subordinated credit facility will be limited to 20% of total senior debt that a project company issues. This amount of credit enhancement 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 without the benefit of the EIB facility.

The agreement is also credit positive for project developer and sponsor companies such as [Vinci S.A.](#) (Baa1 stable) and [Bouygues S.A.](#) (A3 negative) since the Project Bond Initiative will provide additional liquidity for long tenor project debt and lower all-in financing costs, which will improve sponsors' economics.

The EC estimates that €1.5-€2.0 trillion will be required across the EU over the next decade to fund investments in transport, energy and information and communication networks. Given the challenges currently faced by many EU member states, attracting private capital to infrastructure investment is crucial to developing Europe's economy.

The execution of the agreement between the EC and the EIB marks the formal commencement of the Project Bond Initiative's pilot phase, and falls within the EC's multi-year spending plan for 2007-13. Assuming that the pilot phase is successful, the scheme would be fully integrated in the EC's next multi-year spending plan for 2014-20.

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