Consultation on the Europa 2020 Project Bond Initiative

General Informations about the Questionnaire

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Background Information

What kind of organization do you represent?	Other

Please specify the name of your organization (optional)
Quaker Council for European Affairs (QCEA). Register of Interest Representatives identification number: 3960234639-24

General Questions

Is the chosen mechanism likely to attract private sector institutional investors to the sectors of transport, energy and ICT in particular?

Project bonds are likely to attract interest from private sector institutional investors, because with an enhanced credit rating and the EU/EIB now underwriting a significant component of the project financing risk, the bonds are far more attractive and will meet the investment and risk profile of institutional investors and mutual funds. However, from citizen and taxpayer point of view, QCEA reiterates the concerns of CEE Bankwatch, that this proposal will create an artificial demand in the debt markets for the bonds. This proposal is a blatant attempt to transfer the private sector risk of these projects on to the already overburdened public purse. In return for such transference of risk there is little to be gained in return. Rather than public funds supporting public infrastructure and socially oriented projects, the funds will be channelled into non transparent private sector infrastructure projects with uncertain benefits, where the only guaranteed winner will be the private investors who stand to be paid out from public money if the projects are not financially viable.

If you are an investor, would you be prepared to buy such project bonds?

Are there other sectors with large-scale infrastructure financing needs that should be included?

An appropriate policy response for mobilizing private investments for Europe 2020 strategy would need to be based on detailed assessment of the alternative approaches / plans for reaching the Europe 2020 objectives and investments associated with them. There is a need to support certain kinds of sustainable public infrastructure - notably green, renewable energy sources, resource and energy efficiency, particularly in buildings, and low-carbon transport infrastructure such as high-speed rail networks. It is for this kind of project, rather than those likely to be funded by this proposal (such as gas pipelines, fossil-fuel power stations and motorways), that instruments such as publicly funded guarantees or subordinated debt should be considered. It is inappropriate to allow public taxpayer funds to be used to underwrite sub-investment grade private sector projects of dubious merit, which are to the financial benefit of the bondholders, chiefly private sector pension, and other investment, funds. The fact that crucial investment is needed in small scale renewables as well as for energy efficiency in buildings, investments which are unlikely to require more than EUR 200 million in any one instance, is problematic. The project bond initiative gears investment only towards large scale infrastructure, despite the fact that the biggest energy savings and CO2 reductions can be made via energy efficiency, in the existing built environment.

Specific Questions

Would the credit enhancement facilitate/accelerate the conclusion of financing packages?

Yes, for reasons outlined in the first question. With an increased credit rating, projects will be able to issue bonds on the markets much more readily. The real question is - would a financially sound project fail to obtain funding due to the lack of such credit enhancement? Unlikely, as such projects would attract bank funding. Project bonds should not be used to provide blanket credit enhancement to large private sector infrastructure projects such as those outlined (TEN-T and TEN-E). The proposal instead needs to be targeted to support projects in the areas of the climate and resource efficiency objectives outlined in the Europe 2020 Strategy. Commitment of limited public resources should follow the key principles of EU budget support such as: public money for public goods and ecosystem services, targeted spending, coherence with and across EU policy instruments, maximising the leverage effect and long term cost effectiveness.

What minimum rating of the bonds would be sufficient to attract investors?

To refer to the the position of CEE Bankwatch network, most investors will be able to purchase bonds at BBB level or higher, the level to which the bonds will be elevated through this proposal. Tackling the issue of supporting infrastructure in such a manner, by simply underwriting with public money the increase of its credit rating so it can be sold better to investors is to put a band aid on a festering wound. From a citizen and taxpayer point of view, QCEA, alongside Bankwatch, would like to question the public need and public benefits that will be served by these types of projects and to request an assessment of the opportunity cost of the use of these limited public resources. The proposal does not address the inherent issues associated with many such PPP infrastructure projects and does not consider the fact that public funding and support should not be used to underwrite private sector debts and potential failures.

What degree of credit enhancement would be necessary to achieve this rating?

No comment.

Which impact would the Initiative have on financing costs and on maturities?

The financing costs for projects benefiting from this proposal will almost certainly reduce as a result of the proposed credit enhancement. Again a direct financial benefit provided to the private sector at the expense of the public one. It is likely that longer dated maturities would be sought by the markets for such bonds as they would now have a more attractive investment profile with long term investors such as mutual funds. These are not the target group who need support from such an initiative.

Is it essential that a single entity acts as controlling creditor?

Yes, it is absolutely imperative that if any public funding should be used to support the private sector, in any capacity whatsoever, then the public interest be protected through the EIB/EU acting as sole controlling creditors. A significant financial advantage is being provided by the public to the benefit of private project operators and investors and as such the public needs to have the ability to control the process should the project encounter any adverse financial circumstances.

Additional Comments

Please use the following space for any additional comments

QCEA wishes to acknowledge the CEE Bankwatch Network position paper on the Europe 2020 Project Bond Initiative, of April 2011, and wishes to reiterate their recommendations, relating to both the EC proposal for project bonds and the upcoming Multi-annual Financial Framework, to: - Ensure that EU bonds are not used for projects violating EU environmental legislation and EU climate objectives;̃ - Guarantee that investments in green economy infrastructure are the main focus of any EC proposal;̃ - Ensure that adequate mechanisms for assessment, monitoring and evaluation are designed for EC and EIB involvement in any such initiative. The evaluation of environmental and social impacts are equally as important as the financial ones. However, good financial assessment and monitoring would also be an improvement on the current state of affairs;̃ - Establish a clear time-line of the mechanism's functioning along with transparency, accountability and details outlined in the exact scope and nature of EU/EIB and host state potential risk exposure from the guarantees/subordinated debt;˜ - Establish clear and transparent criteria for project eligibility and selection which compliment EU (long-term) climate policy objectives, notably reduction of CO2 emissions, energy and resource consumption;˜ - Ensure the initiative is focused on green project bonds, with a strict conditionality based on climate and biodiversity impact assessment of the investment;˜ - Have detailed information provided on the proposed other security to be provided for these project bonds i.e. host state/other state guarantees, other private sector participation ;˜ - Insist that the EIB is designated as the lead/controlling creditor for each project. It has been pointed out by the Commission that the Europe 2020 Project Bond Initiative would not stand alone and that it would be complemented by other measures to stimulate equity markets for the financing of projects. The proper assessment of, and agreement with, this proposal is therefore impossible without obtaining further details on the exact nature of these other measures and indeed on the actual financial structuring of the guarantees or loans in this proposal. At face value, what is being proposed here is once again the transference of private sector risk on to the already overburdened public purse.