

# ***The Europe 2020 Project Bond Initiative***



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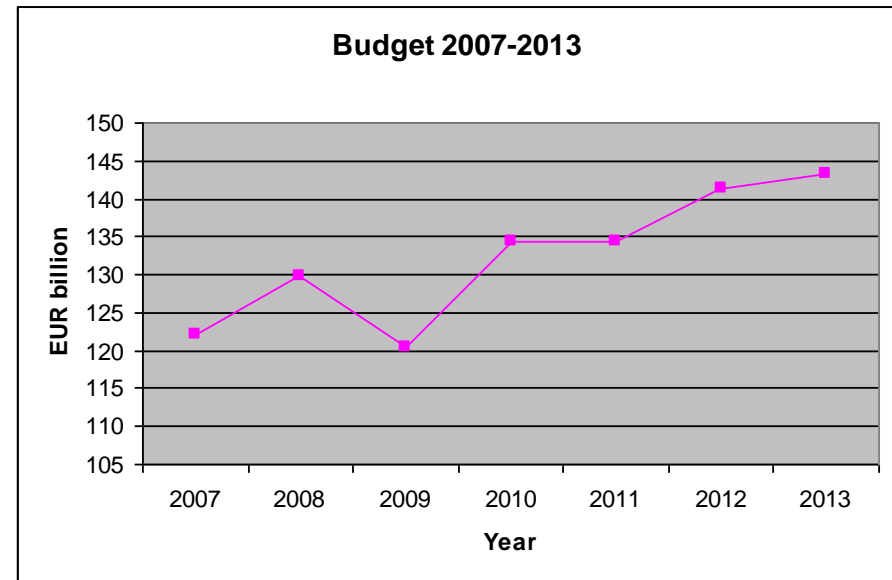
Brussels 11 April 2011



# ***Multiannual Financial Framework post 2014***

## **EU Budget 2007-2013**

- total € 976 bn  
approx. 130bn p.a.
- In total €2.85 bn deployed through financial instruments at EU level and €10.8 bn at structural funds level
- Financial instruments to support SMEs and Innovation developed for over 10 years [CIP/RSFF]
- TEN-T, TEN-E and broadband infrastructure support: € 8.5 bn mainly through grants  
*except: €500 mil through LGTT & €80 mil through Marguerite*



# ***Multiannual Financial Framework post 2014***

- Focus on Europe's 2020 Strategy: towards a smart, sustainable and inclusive Union
- Commission's Budget Review: "Financial instruments to be extended to become the norm in areas of long-term commercial potential"
- Financial Regulation Review: recognise spending on financial instruments as different from grants and services.
  - Leverage private finance via financial instruments and PPPs
  - Build on EU-EIB cooperation
- Commission's proposal 28 June 2011

***Final decision: European Parliament and European Council***



# ***Europe 2020: A new vision for infrastructure***

- Avoid segmentation and deal with all EU priority infrastructures through One Instrument for Infrastructure
- Focus on core networks at EU level; support comprehensive networks at national level through via structural funds co-financing .
- Support ICT as an enabling technology

## ***... and a huge challenge***

- Total investment needs across all sectors for 2011-2020 in the order of € 1.5-2 trillion (€150-200 bn p.a.)
- Currently Market provides € 60-80 bn p.a. mainly in the form of equity and bank loans
- Since 2000 approximately € 100 bn of infrastructure has been bond-financed



# ***Single European Transport: White paper (2011)***

- New funding framework for transport infrastructure
  - Improve conditions for PPPs
  - Enhance private sector engagement
  - Shift balance from grants to innovative financial instruments
  - Integrate the use of direct revenue sources
- Completion of core TEN-T network: EUR 550 bn by 2020
- Reinforce links with wider comprehensive network through structural funds



# ***Energy Infrastructure Priorities – Blueprint (2010)***

- The Energy 2020 goals
  - Complete Internal Market and interconnections
  - Priority sectors and projects: Electricity and gas transmission
  
- Financing
  - Financing needs of € 1 trillion (€ 200 bn for transmission)
  - Financing gaps of ~ € 100 bn for transmission



# ***Digital Agenda (2010)***

- Broadband network infrastructure targets
  - Broadband for all EU citizens by 2013
  - Access for all Europeans to internet of above 30Mbps by 2020
  - Access for more than half of European households above 100Mbps
- Investment volume EUR 40 bn to EUR 270 bn depending on the above scenarios
- Pan-European digital service infrastructure



# ***Sources of financing***

## **Public budgets:**

- Traditionally the largest share of infrastructure financing; but severely constrained post financial crisis

## **Banking sector:**

- Traditionally 2<sup>nd</sup> most important source of financing; but volume of loans dropped during crisis and banks facing structural challenges in lending policies due to crisis and new regulatory framework

## **Capital markets:**

- Monoline-wrapped bond market; but has practically ceased to exist
- But certain institutional investors such as pension funds, insurers looking for long-dated bonds with link to real assets to match liabilities.



# *Matching supply and demand ?*

- High infrastructure investment needed in sustainable transport, energy and ICT
- Bond financing could complement traditional financing sources: grants, equity, loans

*Europe 2020 Project Bond Initiative estimated targets:*

- Initially enhance € 1-5 bn p.a.
- Rising to € 10-20 bn p.a. by 2020
- Plus catalytic effect from pooling together private sector operators and capital market investors around new structures

