



EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

Brussels,
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Opinion

Title **DG ECFIN - Impact Assessment on a proposal for a regulation on the Europe 2020 Project Bond Initiative**

(draft version of 15 September 2011)

(A) Context

Mobilizing funds for the infrastructure investments identified in the Europe 2020 strategy will be particularly challenging given high public sector indebtedness and persistently difficult conditions in the international capital markets. The Commission is accordingly considering how to best leverage EU funds to facilitate the mobilization of private financing for infrastructure projects of European interest. In particular, the over-arching proposal for the next multiannual financial frameworks (MFF) for EU spending it adopted on 29 June 2011 stated the Commission's intention to promote the use of project bonds. Project bonds would complement traditional grants and other instruments supporting equity and/or risk sharing mechanisms for loans. Their use would initially be limited to the transport, energy and ICT sectors with a first pilot phase financed under the current MFF.

The IAB has focussed on the policy choices not yet fixed by the June MFF Communication.

(B) Overall assessment

The report should provide a stronger justification for the initiative identifying the specific problem drivers more precisely and demonstrating the value added of the proposed financing mechanism more clearly. Reflecting the concrete nature of the proposal, the report should clarify the content of the options and describe more extensively the preferred one. It should analyze expected impacts in greater detail and further substantiate the comparison of the options. Monitoring and evaluation arrangements need to be spelled out more extensively and the link between the envisaged pilot and second phases clarified. Finally, the main text should also provide a more extensive presentation of stakeholders' views.

(C) Main recommendations for improvements

(1) Strengthen the justification for the initiative. The report should present a more precise and evidence-based analysis of the specific problems affecting the market for bond financing of infrastructure in the EU. In so doing, it should explain why such a market is small (and expected to remain so) in the EU while it is well-developed in other advanced economies. The report should also more clearly demonstrate what value the proposed project-bond financing arrangement would add compared to existing or planned market solutions, national schemes and other EU financing instruments, both in terms of mobilising investment and increasing the leverage of public spending. In order to do so, the report should draw upon all the lessons emerging from past attempts (at the EU and national level) and clearly identify for what types of projects, under which conditions, and in what ways, project bonds would improve financing for infrastructure investment relative to the currently predominant financing arrangements.

(2) Clarify the content of the options. The report should bring forward and extend the description of the proposed project bond mechanism, clarifying for the non-expert reader how the scheme would work in practice. In order to do so, an example could be annexed showing how a hypothetical investment would be financed under the various options. When describing the preferred option, the report should better explain how pricing would be decided, whether a subsidy element would be granted and what the risk of distorting competition would be. The report should also explain why the initiative would be structured in two phases and how funding under two separate MFFs would be decided. The implications and risks for the EU budget and EIB reserves should also be explained more clearly.

(3) Improve the analysis of impacts and the comparison of options. The report currently assesses impacts at a rather general level. The analysis should instead reflect the concrete nature of the proposal providing a detailed assessment of its direct and indirect impacts on different stakeholders. The report should, in particular, estimate the amount of funds expected to be mobilised by given amounts of EU budgetary commitments and explain the assumptions underlying such a multiplier. Drawing upon the experience of similar efforts to support the recovery and public-private partnerships in general, the analysis of impacts should also discuss at greater length the risks attached to the preferred option (incentives calibration, limited project bond marketability, "negative carry" etc.). Finally, building upon this strengthened impact analysis, the report should develop a more nuanced and better substantiated comparison of the options.

(4) Spell out more extensively the monitoring and evaluation arrangements. Drawing upon the more detailed analysis of impacts suggested above, the report should discuss the envisaged monitoring and evaluation arrangements at greater length. It should provide and justify a list of monitoring indicators and explain how the evaluation of the first pilot phase would feed into the design of the initiative's second phase. In so doing, the report should explain how any future decision to extend the initiative to other financing partners, beside the European Investment Bank, and other sectors would be taken, clarifying whether this could include investment in social infrastructure.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.

(D) Procedure and presentation.

The report should cover the proposal for the first pilot phase of the project and, to the extent possible, the relevant provisions of any related proposals under the 2013-2020 MFF (Connecting Europe Facility). For the latter, coherence and appropriate cross-referencing with any other relevant impact assessment should be ensured.

While the report is concise and mostly written in a fairly clear language, a further effort should be made to avoid jargon (see for instance p.20). Finally, the main text of the report should mention more explicitly the views of stakeholders on major issues especially when these are different from the proposed line.

(E) IAB scrutiny process

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| External expertise used | No |
| Date of Board Meeting | 31 August 2011 |