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PROJECT BONDS AND THEIR ROLE IN TRANSPORT INFRASTRUCTURE FINANCE

by

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Project Bonds and their role in transport infrastructure finance

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Introduction

1. What is a Project Bond?
2. Why are they now attracting so much attention?
3. Some common misconceptions
4. What next for Project Bonds?

What is a Project Bond?

- Project Bond is a bond used to finance (or re-finance) one or a portfolio of infrastructure assets
- A bond is a transferable instrument that contains a promise by the Issuer to pay interest and principal at maturity

Bonds are flexible

- Bond may (or may not) be listed on a stock exchange
- May be sold to many (a “public deal”) or only a few (a “private placement”)
- May (or may not) be rated
- Not considering bonds sold to individuals

How do bonds differ from bank loans?

- Institutional Investors (not necessarily banks) give liquidity and a diversified funding base
- Transferability
- Tenor – up to 40 years. Maturity can match life of the concession/offtake contract
- Project bonds are typically fixed rate

What sort of assets are being financed with Project Bonds?

- Ports (ABP)
- Roads (A7, A11, L2 Rocade)
- Rolling Stock (Alpha Trains)
- Rail (HS1)
- Broadband telecom (Axionne)
- Social infrastructure
- Energy (including LNG)
- Airports (BAA)

Why are Project Bonds now being used to finance infrastructure assets?

- Used since the 19th century and common in some jurisdictions (e.g. Latin America, U.S. and Canada)
- Financial Crisis and subsequent regulation – impact on bank balance sheets
- Difficult for banks to invest on a long dated basis
- Steep rise expected in infrastructure spending in the near future
- EIB's Project Bond Initiative

Common misconceptions: Project Bonds and construction risk

- ❑ Bond proceeds do not match timing of construction costs
- ❑ Delayed Draw: bondholders contractually agree to purchase a set amount of bonds on preset dates
- ❑ Escrow: bond proceeds are placed in escrow and only released slowly in line with construction (but negative carry may be an issue)

Common misconceptions: Project Bonds can't deal with complex covenants

- Bondholder voting mechanics are well established
- Monitoring Agent: has limited discretion to take basic steps
- Project Agent: has ability to review procedural matters and will flag concerns to investors
- Recent examples includes Castor (Monitoring Agent) and A7 (Project Agent)

What next for Project Bonds?

- The role of Multilateral Development Banks and Export Credit Agencies in Project Bonds: financing and acting as the catalyst
 - EIB's PBCE
 - European Fund for Strategic Investments (the Juncker Plan)
 - Other examples: ECGD, IDB and OPIC
 - European Investment Advisory Hub
 - European Investment Project Portal
 - G20 Portal

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