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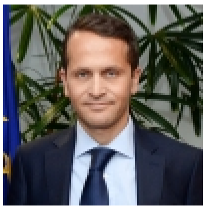
Juncker Plan: what lessons can be drawn from the first 6 months?

Speakers



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Objectives of the session

The EU Investment Plan was announced in December 2014. It has been launched to remove obstacles to investment notably in infrastructure and SMEs, to provide visibility and technical assistance to investment projects and make smarter use of financial resources. This Investment Plan was intended to mobilise investments of at least €315 billion in three years. In July 2015 the related legislation entered into force, in the Autumn 2015 the European Fund was created, and finally the European Investment Project Portal was launched at the end of 2015.

In this context, the session tried to contribute to a first assessment of the steps already taken by this EU initiative, provided that by mid 2016 the EU commission was expected to start taking stock of those recent initiatives.

Executive Summary

A three-pillar approach to unlock investment in the EU

Weak investment was a major concern for Europe. The investment level in the EU had fallen to 18% of GDP, against a historic average of 21-22%. There had also been a number of regulatory barriers needing to be tackled, and constraints such as low rates and little margin in the EU budget.

Therefore, it was necessary to take some action, and this had been one of the first decisions announced by the new Commission in December 2014: to launch an investment plan for Europe, consisting of three pillars. The first was the EFSI, a €21 billion guarantee from the EU allowing the EIB to lend €63 billion, leading to a total additional investment of €315 billion on riskier projects. The second was an attempt to help promoters to put forward well-defined projects, via the Investment Project Portal, and advice and technical assistance for project structuring, via the Investment Advisory Hub. The third was improving the investment environment via removing barriers and reinforcing the internal market.

The Juncker Plan: main innovative constituents

The EFSI had been designed to maximise efficiency of public spending, with the guarantee allowing the EIB to act differently. The Commission wanted the EIB to focus on investments which truly needed EFSI presence in order to take place or be more ambitious. Thus the Commission was helping the EIB to take more risk, and ensure that the investments it made were truly additional.

The second pillar was helping investment to be unlocked. Advisory support had been beefed up, via the European Investment Hub as a single access point for technical assistance. Going further, the Commission wanted to make sure that the Hub could permanently be accessed even when EU funds were not used in the project. The idea behind the European Investment Project Portal was that a project promoter would be able to put a standard description of their project on the website, and investors from all over the world would access the portal and look for investment opportunities. It was expected to go live in June 2016.

Regulation – the third pillar - was the most important element in the medium-to-long term. The Commission had already taken a number of initiatives in this respect, aiming notably to facilitate market access for SMEs with, for instance, a revision of the Prospectus Directive. They were working on credit registers and improving securitisation, and had lowered capital charges in the insurance sector for investment. Other initiatives were also in the pipeline.

Juncker Plan in Action

The EIB used the same teams to appraise Juncker and non-Juncker projects due to the nature of the risks being taken, which require a great deal of expertise. The regulation was very clear that the EIB, who could be tempted to avoid risk, or be exposed to too much politicisation in the choice of projects, did not have to be a party to the decision for the EU guarantee eligibility. The decision on eligibility, was made by an independent investment committee, comprised of experts who assess the specific level of risk. Consequently prior to the Juncker Plan, the EIB had €4-5 billion of risky activities, out of a total of €80 billion a year and it is going to go up to €20 billion yearly. The speakers were very much on the same page talking about a first-loss piece or a real guarantee to kick the project off. However, there were blanket loans with no subordination. Indeed, private investors were looking forward to seeing more of equity pieces, as well as structured finance situations, which large insurance companies and asset managers could see as attractive, because they were actively seeking investments with 20 to 30 years' maturity.

It was suggested that the policymakers had gotten the sequencing wrong. Ideally the Portal and the Hub should have been implemented first and the structural reforms would have to begin soon. In practice, the EFSI was moving faster than the other aspects of the Plan. The Portal and Hub was not seeing results as quickly as had been expected. However, the EFSI had made a good job advancing the objectives in unfavourable circumstances.

The SME window had worked well, in part because of the area's maturity. The EIF had first-mover advantage, but as the economy improved member states would put their own schemes in place. Many were putting in structural funds, but the EIF needed to keep its leading role given its expertise.

The infrastructure window also mainly had projects in sectors with more mature policy and pipeline. Energy and transport both had stable policy environments, whereas the digital union was still taking shape. An aggressive link to capital market financing should be looked into, but the infrastructure window was challenging as it was a big area with many interlocutors.

The National Promotional Banks were supposed to be aggregators for smaller projects, with local expertise. However, there was more fragmentation in public than private banking. The desire was for the national promotional banks to learn from each other.

Assessing Success

Presently, there was an investment and infrastructure window implemented by the EIB, and an SME window by the EFI. For both institutions, 220 transactions had been approved in 25 member states, with a total investment of €82 billion. The infrastructure sectors that had been very attractive were energy – particularly energy efficiency and renewable energy – and transport. The Juncker plan was at 26% implementation.

The Commission preferred the EIB to be generating additional investment rather than investment which would have taken place anyway. The second main ambition was a very high level of leverage between public guarantees and private investments. Thanks to the support of the guarantee €20 billion of risky activities would be reached each year for the next three years within the EIB. This was a clear change in the DNA of the institution. They were moving to smaller projects with much higher risks. The more additionality looked for, the riskier the projects, the more that public guarantees would be utilised.

The EIB had plenty of infrastructure on its books. On the other hand, there were many small- and medium-sized insurance companies that did not have the ability to assess infrastructure projects. Something that was being looked at was the securitisation of a number of projects that could then be bought by smaller investors. This did not deal however with the issue of existing regulatory constraints, but it could be part of the solution.

In the initial communication of the Investment Plan, the Commission had expected creation of between 1 and 1.3 million jobs, which had yet to materialise. The Investment Plan would have a positive impact, but it could not be immediate.

The EFSI was important for three reasons: first, supporting investment; secondly, showing the EU cared for investment as well as necessary structural reforms and fiscal adjustment; thirdly, to test a new medium- to long-term approach to public spending. If successful, it would generate €315 billion of investment with only €8 billion put on the table.

Investment focus issues

There were some question marks over whether the EFSI was entering areas typically financed by the private sector. Looking at geographic distribution of EFSI and EIF funds, 80% sat within Italy, France, Germany and the UK. This was understandable, but for those markets the private sector had sufficient firepower and experience itself. There was a need to channel surplus savings from northern European countries to southern European countries, rather than them going outside Europe. There was no quota per country, despite pressure from the Parliament, because it would create a permanent suspicion from private funds around the quality of the projects coming up under the EFSI label. However, the EFSI needed to take steps to make sure that projects were distributed among countries, with no country having too many.

At the same time, more effort was needed to engineer projects in the more vulnerable southern rim of Europe. Typically, it was this kind of country where, because of the level of risk, a first-loss piece was needed. The EFSI would along in the mezzanine and other investors in a senior tranche. It was one of the reasons why the Commission had provided guidance on how to associate structural funds with the EFSI. The Investment Plan not only allocated €8 billion to EFSI, but set out the target that 20% of the structural funds should be used in similar initiatives. There were big teams on the ground in countries like Greece to originate such projects, as well as a dedicated EIB taskforce, but it would take patience.

50% of funds were targeted towards the energy sector, but this was an area that was being served by the private sector notably as large insurance companies were targeting green or renewable investments; was the field getting a bit crowded? At the same time, there were a great deal of interesting projects, but almost nothing dealing with social infrastructure, in terms of education, health or social housing. There were more social projects on the way, particularly with EIF, and the Commission was working with to increase the firepower of the EaSI programme by 50%. They would support microfinance, social enterprises and incubators for social enterprises, a great deal of which would be rolled out in Q2 and Q3 2016. The social area was one where investment due to the high risk, but there was a real need to find a way to address it.

Geographic concentration was a negative element, but unfortunately monetary policy seemed to play against the mobility of capital, as it put a brake on the incentives for investors to diversify their portfolios. Governments and the Commission should examine the need for sectoral concentration. Perhaps a quota should be included around social investment in the overall plan.

Legal certainty for investors required strong efforts

There were fundamental concerns around legal certainty in Europe, a substantive issue in relation to longer term projects. There was a danger in changing the rules post-investment, and this should be avoided as it did not help private sector investors to feel comfortable with money committed for 20 to 30 year terms. Furthermore, private investors are facing a lack of a single market regarding tax law and insolvency and company law. If investment and growth in Europe was to reach the next level, then this would need to be tackled.

Moving Forward

In order to make sure this was not simply ‘business as usual’, the EIB needs to develop new instruments and partnerships. The EIB is developing much more subordinated debt than it used to do, and was already taking more risks. It was working on an equity strategy. With the National Promotional Banks, the EIB was developing platforms, as well as strong relationships. there were a great deal of difficult issues to be discussed, such as delegation and how far the EIB could delegate the decision on the project to the platform. This had to be solved, because there was a need to avoid having too many people reviewing, and making it too heavy.

There was also work, country by country, to identify market failures and how the EU guarantee could make a difference. In addition, although it took more time because it was more difficult, they would also like to see cross border projects supported by the Juncker plan.

When the Juncker Plan had been launched, there had been a lot of commitments from the National Promotional Banks to provide co-financing alongside the EIB. They could also bring projects to the table, since they were to the ground, to local projects and SMEs. Bigger projects were easy to finance, but for those under €50 million it was difficult to access the market, whilst it was too small for the EIB to deal with directly. The success of the EFSI relied on the EIB, but also on the implementation of good projects, presented by promoters from both the public and private sectors. The National Promotional Banks could add value here, due to their networks.

The bigger the risk, the more the guarantee would face losses, but this was what the guarantee had been built for. A lost of €8 billion whilst generating €315 billion of investment would be a good deal. Risk-talking was the key element for success, otherwise they would be financing without the risk. There was a common responsibility for all parties to ensure projects were focused on risk. In addition, the Investment Plan was also important to signal reform of the use of EU money.

The steering board of the EFSI had refrained from being too prescriptive in terms of sectoral focus. Projects should be learned from and the market would adjust. It would have been abnormal to have a large quantity of social projects, when the EIB expertise lay primarily in energy and transport, so there was a need to use the good people and expertise and move on from there.

Finally, the third pillar of the investment phalanx, structural reform, was acknowledged as being the core of investment and growth policy for Europe, of which EFSI was one instrument.

Detailed Summary

A three-pillar approach to unlock investment in the EU

Weak investment was a major concern for Europe. Seven years since the end of the crisis, the level of investment in the euro area was still well below pre-crisis level. Recent estimates indicated that the investment gap was at least €200 billion per year. Therefore, it was necessary to take some action, and this had been one of the first decisions announced by the new Commission in December 2014: to launch an investment plan for Europe, consisting of three pillars.

The first of these pillars was well known: the creation of an EFSI. The scheme consisted of, firstly, a guarantee given by the EU, with €16 billion from the EU budget and €5 billion from the EIB, amounting to a total of €21 billion. This would enable the EIB to lend €63 billion, with a ratio of 1:3. The idea was then private funds would be used to reach a total of €315 billion additional investment.

Improving the investment environment - the third pillar - was likely the most important

The idea was that the EIB would use the guarantee to lend for riskier projects. This would be complemented by other sources of financing such as the National Promotional Banks. For some projects, one of these sources of finance could be the EIB itself, with the EIB lending under EFSI, alongside another loan from the EIB without the EU guarantee.

The second pillar was an attempt to help promoters to put forward well-defined projects. The Investment Project Portal was an effort to increase the visibility of the pipeline and to inform about projects that could be financed. Importantly, the Investment Advisory Hub would provide advice and technical assistance for project structuring.

The third pillar was likely the most important. It was an attempt to improve the investment environment by, on the one hand, removing barriers to investment that still existed in several countries, and on the other reinforcing the internal market, especially in sectors such as energy or the digital economy.

The investment plan had been the first priority of the Commission when Mr Juncker had still been President-Elect. The first reason behind this had been the low investment level. It had fallen to 18% of GDP against a historic average of closer to 21-22%. The second element behind it was that there were a number of regulatory barriers that needed to be tackled. Thirdly, it had been accepted that some measures were required to support investment, but there were a considerable number of constraints: the high level of liquidity in the market, with very low rates; public authority pockets were empty; and there was very little margin available in the EU budget.

The Juncker Plan: main innovative constituents

An additional investment role for the EIB

Constraints had to be taken into account when devising a comprehensive strategy around the three pillars outlined above. The first was EFSI, which had been designed to maximise the efficiency of public spending. It provided a guarantee to the EIB, allowing it to act differently. This was a very important element, as if they had simply made a capital increase to the EIB, it would have run the risk of more investments from the EIB not being truly additional, because the EIB would have been in competition with ordinary banks. The Commission was not interested in investment being financed by the EIB slightly more cheaply than by BNP Paribas, Deutsche Bank or Unicredit. The Commission wanted the EIB to provide added value by focusing on investments which truly needed its presence in order to take place.

Projects that could not have been financed without the EU guarantee

The Commission, thus, was helping the EIB to take more risk, and to ensure that the investments it made were truly additional. A number of operations were ongoing already, and new instruments were also in the making. Therefore, there would be new actions visible in the EFSI – the equity part –very soon, including funds of funds and social instruments.

The regulation was very precise in terms of what could be financed through the Juncker plan in terms of risks. Those were projects that could not have been financed without the EU guarantee, or at least not to the same extent. These were not only projects that could not have been financed without the EU guarantee. But also projects such as offshore wind farms, that, thanks to the EU guarantee, had been able to take a higher position in and therefore allow the project to be more ambitious than it would have otherwise been. Indeed, many of these projects could not have even been implemented without the guarantee.

The European Investment Advisory Hub: a single point of access

The second pillar was helping investment to be unlocked, and this was articulated around two priorities. The first priority was beefing up advisory support. The European Investment Advisory Hub had been created as a single point of access to technical assistance. There were plenty of technical assistance programmes, which were a bit difficult for investors to read. This provided a single access point within the EIB, where they could be immediately directed to the right technical assistance programme. However, as the Commission had wanted to go one step further. An extra financial envelope had also been added to allow support of projects, even when there was nothing from the EU budget in the financing. Then the hub could be accessed even if they were not using the EU funds normally related to the technical assistance; for instance, if structural funds were not being used, then JASPERS could be used. If the Connecting Europe Facility was not being used, there was also some technical assistance.

The European Investment Project Portal: investors from all over the world would soon access the portal and look for investment opportunities in the EU

The Commission were also building a European Investment Project Portal, which was not yet visible. It was a very simple idea: a project promoter would be able to put a standard description of their project on the website, and investors from all over the world would access the portal and look for investment opportunities. There would be a clickable map of Europe to instantly spot investment opportunities across the EU. This was not yet visible, as they were still in the process of gathering projects. It was expected to go live in June, with over 100 projects at the outset.

Regulation: the most important element in the medium-to-long term for which the Commission had already taken a number

In terms of improving the regulatory environment, it was absolutely correct that regulation was the most important element in the medium-to-long term. The Commission had already taken a number of initiatives in this respect, aiming notably to facilitate market access for SMEs with, for instance, a revision of the Prospectus Directive, which lowered issuance requirements for SMEs. They were working on credit registers and improving securitisation, and had lowered capital charges in the insurance sector for investment. Other initiatives were also in the pipeline.

Juncker Plan in Action

Operation of the EFSI: an independent investment committee decided whether or not a project would get the EU guarantee; yet more equity pieces, as well as structured finance situations were expected to attract large insurance companies and asset managers

The key element for the EIB was whether they should have specific teams to deal with EFSI projects, or whether they should be the same teams. These kinds of projects were difficult, because of the nature of the risks being taken, which require a great deal of expertise. Consequently, the latter option had been chosen, so the same teams were appraising projects that were both Juncker and non-Juncker, the difference being the level of risk taken.

For each project that the EIB undertook, they had what they called ‘loan grading’. There had to be a specific level of risk in order to be considered eligible for the EU guarantee of €21 billion. These were projects that could not have been taken on by the EIB, or at least not to the same extent.

The EIB was not the institution that decided whether or not a project would get the EU guarantee. The regulation was very clear that the EIB who could be tempted to avoid risk or be exposed to too much politicisation in the choice of projects, did not have to be a party in the decision. The decision was taken by an independent investment committee, comprised of eight experts in the various sectors of relevance for projects that could be financed with the EU guarantee. The Committee had only one decision to make: whether or not any given project met the requirement to get the guarantee. Before every EIB board meeting the project was gone through whereby, for those EFSI projects, the decision was taken by the investment committee. Theoretically, the investment committee could decide not to support giving the guarantee to a given project.

The EIB did not start from a position of taking no risk at all

The question then for EIB management was whether to give up or to come back to the board and argue that the project was of such quality that they preferred putting it onto the EIB’s balance sheet without the EU guarantee. They had not yet been faced with such an issue, but this was something that made the assessment of where the EIB stood more complicated. However, they did not start from a position of taking no risk at all, but were an institution that was used to being considered risk-adverse and preferring big projects with low risk. That was consistent with the business model that had been approved by the EIB board. The EIB was a bank with around €80 billion a year, out of which, pre-Juncker, they had €4-5 billion of risky activities.

The question at the core was how financing was really structured. The speakers were very much on the same page talking about the first-loss piece or a real guarantee to kick the project off. However, if there were blanket loans with no subordination, then a question was triggered as to whether it could not be done in the private sector. Currently from the publically available information that was not visible. It was only visible that direct loans were given. Private investors were looking forward to seeing more of the aforementioned equity pieces, as well as structured finance situations, which large insurance companies and asset managers could see more senior tranches as attractive, because they were actively seeking investments with 20 to 30 years’ maturity.

Implementation: the EIB was modernising and had taken a lot of actions to make it work

The Investment Plan and EFSI were about to go into their second year. It was difficult to see, though, whether it was about to lead to an explosion of investment and growth across Europe. The overall objective of the Juncker plan was to accelerate investment and growth in Europe, on which they were still working.

As usual with reforms, policymakers often got the sequencing wrong. There were three pillars, with the first being to create the EFSI, which would boost investment. The second was the Portal and the Hub, which would introduce more projects into the pipeline. Finally, the structural reforms would take more time to work. Ideally the sequence would have been the portal and the advice, creation of projects, acceleration of the pipeline, the EFSI providing money, and the structural reforms then getting to work.

In practice, the EFSI was moving more quickly than the other aspects. Despite the fact that the project was around one third complete, the EIB was doing the Hub and the Portal, for good reason, but it was not feeding the people as quickly as had been expected. Of course, the reforms would have to come sooner. However, whilst the background had not been favourable to EFSI, it had been doing a good job in advancing the objectives of the Plan.

What would a few years ago have been a risky project was now mainstream

The success of the implementation of EFSI, by regulation and design, depended crucially on the way that the EIB functioned. The EIB had a big responsibility, and the EIB was modernising and had taken a lot of actions to make it work, but was there for success and failure. The EIB was hiring staff and looking at smaller, riskier projects, but again the question was one of pace.

The world was also changing quickly. In terms of risk, only two years previously they had been looking for the EIB to take more risk. They had been in the middle of the crisis. The average quality of corporate ratings had improved dramatically, and what would a few years ago have been a risky project was now mainstream. The EIB was not only trying to change, but to act quickly and keep up with the pace of this riskier portfolio.

SMEs: the the EIF had a first-mover advantage and was already in the market

The SME window had worked well. The steering board was now monitoring the situation, and would have to conduct a mid-term review later in the year. The area's maturity was one of the reasons for the SME window's success. The the EIF had a first-mover advantage. They were already in the market and did not have to put new projects into the market, but were given additional money. However, they still had to see whether the EIF would continue the pace when the economy got better and with member states putting their own guarantee and venture capital schemes in place for small companies. These national initiatives were picking up, partly financed by structural funds such as SME support funds, which were starting now. However, the EIF had a lot of expertise and was shaping the market.

Infrastructure projects were mainly in the sectors where policy and pipeline were more mature (energy, transport) and a great deal of the effort still went from under the form of lending.

In the infrastructure window, given the aforementioned restrains, projects were mainly in the sectors where policy and pipeline were more mature. There had been an energy union policy very early on, and transport was another area with a fairly stable policy environment. The digital union was still taking shape. It was logical that more projects would be seen in the more mature policy areas.
It was regrettable that a great deal of the effort still went from the lending side, with no clear link, in practice, with the capital markets union. This EFSI could be used more aggressively in this area, through forms such as the Project Bond Initiative. The risk-sharing possibilities mentioned earlier were indeed there. They had to take time, and be combined not only with EFSI but with structural funds. The infrastructure window was challenging, as it was a big area, with many interlocutors.

The National Promotional Banks, very committed since the implementation of the Juncker Plan, were expected to help raising the standards of project structuring and be the aggregators for smaller projects.

National Promotional Banks through investment platforms are supposed to be the aggregators for smaller projects and local expertise even if there is no single market in the area of promotional banking in Europe. The desire was for the National Promotional Banks to work nationally whilst learning from each other. The desire was that they had value added, and to raise the standards of project structuring. The EIB should work to benefit from the diversity of NBPIs because they have a strong territorial base and a real technical expertise that enables them to find and structure projects with local actors.

Assessing Success

The objective was to generate truly additional investments rather than reaching the targeted amount by simply being involved in investments which would have taken place anyway

The first figures had shown that the Investment Plan was ongoing and progress was being made. The plan was on track, which had not been a given as it was always complicated to find the right framework and go through the regulation, etc. As a process, it was quite heavy, and all of the involved partners knew how difficult it was to come to this sort of a result. National Promotional Banks very much welcomed the Juncker plan, and thought that so far it had worked.

The start of the Juncker plan had been a big success, but it had two main ambitions. The first was was a real level of additionality, whilst the second a very high level of leverage between public guarantees and private investments. The more additionality that was looked for, the riskier the projects, and the more that public guarantees would be utilised.

The EIB was focusing its activities on operations that provided bigger additionalities

Assessment of the Plan's success would not simply be by volume. For the Commission, from a policy perspective, they would prefer the EIB to be generating €280 billion of additional investment rather than €315 billion, a large proportion of which would simply replace investment which would have taken place anyway. The Commission was not worried; the EIB was de facto focusing its activities on operations that provided bigger additionalities than before, but this was an important benchmark against which they wanted it to be assessed. The Investment Plan would not suddenly bring miraculous levels of investment to Europe, but it was a helpful step in the right direction.

At present, a number of projects had been approved by both the EIB and EIF. There was an investment and infrastructure window implemented by the EIB, and an SME window implemented by the EFI, the subsidiary of the EIB and the European Commission that was working on SMEs. For both institutions, 220 transactions had so far been approved in 25 EU member states. The total investment in these transactions approved by the two boards was €82 billion, compared with the total expected volume of €315 billion. They were presently at 26% of the implementation of the Juncker plan, which was a satisfactory development, though there remained much more to do in terms of next steps.

The EIB was moving to smaller projects with much higher risks

Two sectors that were very attractive were energy – particularly energy efficiency and renewable energy – and SMEs. In terms of energy efficiency interesting things had been seen. The problem of energy efficiency in private buildings was something that was spread across Europe. A project around this had been considered by the board, and if this project worked, then there was hope that it could provide an example to be used elsewhere. The banks were not there, and there was no question of crowding. Such projects were too small and very difficult, because of the need to go from the assessment to the monitoring of the loan. The profitability was over a very long-term period. The law had created regional institutions that could do exactly that; they had agreement from the banking supervisory authority and made only small loans to private owners for the retrofit of private buildings. This was something that the EIB wanted to support. They had put €400 million under EFSI and had already implemented it in two regions: Ile de France and Picardie, both near Paris. This was something that was very promising, but also very risky. Extremely well-known institutions would say that it would not work, but the EIB thought it was worth it, and this was why they were trying to develop such projects. The Juncker Plan was also there to deal with that sort of market failure.

More generally, thanks to the support from the EU guarantee, the EIB were going to reach €20 billion of risky activities each year for the next three years. This was a clear change in the DNA of the institution. They were moving to smaller projects with much higher risks, and this was exactly where they were expected to deliver.

It was true that politically, the implementation of the Juncker plan was the number one priority. At the same time, however, even if it was a high priority, it was going to be €20 billion of projects per year for the EIB, which would still have to deliver on its remaining €50-60 billion of classical projects each year. It was clear that everyone, not just the EIB, would be judged on their ability to deliver on each of the different pillars of EFSI.

Public/Private Co-operation

The second main ambition was a very high level of leverage between public guarantees and private investments. There were question marks regarding how EFSI was structured at present, and whether there would be happy co-existence or whether some parts of the public sector would enter areas typically financed by the private sector. It was not clear either whether the target was around changing EIB, with the focus moving to smaller and riskier projects, and the private sector focusing more on larger transaction and perhaps different sector. Finally, was the discussion around a further combination of those different investors in a wider move to support growth in Europe.

The Capital Markets Union was described as an important contribution to the Investment Plan

In terms of the Capital Markets Union, the links with the Juncker Plan were very interesting.

The fact of the matter was that the EIB had plenty of infrastructure on its books. On the other hand, there were many small- and medium-sized insurance companies that did not have the ability to assess infrastructure projects, and they wanted to help the development of this infrastructure asset class.

Something that was being looked at was the securitisation of a number of projects, that could then be bought by smaller investors. This did not deal however with the issue of regulations and constraints, but it could be part of the solution.

Another example was Capenergie 3, a fund investing in small renewable energy projects. The EIB was not part of number II, but between II and III the promoter of this fund, which had been completely in line with one of the big banks in France, had moved away and become independent. The bank had taken a very small share of number III, whilst being key in the participation of number II. The risk had changed, and the EIB had put €50 million of equity participation into this fund. The president of the promoter, Omnes Capital, had publically said that this small participation had been instrumental in getting the €1 billion that the fund had eventually gotten. In this respect among the various initiatives that had been presented to Commissioner Hill, there was also the notion of the ELTIFs.

The current impact on job creation was not possible to perceive but the first impact expected was the acceleration of the projects signed

It was true that the Commission had done some number crunching at the time of the initial communication of the Investment Plan, where it had been said that they expected creation of between 1 and 1.3 million jobs. An electron microscope was needed to see the impact on growth, however this was entirely normal. There was a good reason behind it: the time needed to get the project up to disbursement. What they had now was a lot of approval. Signatures were coming up progressively and it was only after the signatures that the cash went into the circuit. From an economic point of view, this was what mattered when they talked about infrastructure projects and projects taking a long timespan, with disbursement coming over a number of years. The Investment Plan would have a positive impact, but it could not be immediate.

The three expected benefits from the EFSI: a useful support for investment, a focus on investment as a complement to structural reforms and an innovative approach for public spending.

EFSI was important for three reasons. Firstly, it was useful to support investment, which went without saying. Secondly, it showed the EU cared not only for the necessary structural reforms and fiscal adjustment, but also for investment. The third reason was that in the more medium- to long-term was a gigantic test of a new approach to public spending. If it worked, then it would have helped to generate €315 billion of investment by putting €8 billion on the table – 2.5% of the envelope. If it worked, lessons could be drawn. There were areas where grants would be needed no matter what, but there was no market. However, there was a much bigger area where people could use grants or financial instruments and where, too often out of intellectual laziness, the national and European authorities used grants because they were a no brainer. The cheque was signed, everyone was happy and moved on.

Investment focus issues

Given that 80% if financing was supposed to come from the private sector, the EFSI label had to demonstrate the intrinsic quality of projects and not be influenced by geographic or sectoral quotas

If the geographic distribution of EFSI and EIF funds was looked at, around 80% sat within Italy, France, Germany and the UK. This was considered as understandable and natural, given the size of those respective markets. However, these markets would have enough private sector firepower and experience to finance a substantial part of those projects.

What was made clear, in addition, that in order to attract a significant complement of private investment, there was a need to channel the surplus savings of northern European countries towards southern European countries. What happened at present was that these surpluses went outside Europe. It was clear that the Juncker plan was one element in a more general context, and the success of the ambitious level of leverage depended largely on the possibilities for correctly channelling the surplus savings of northern Europe within Europe, which supposed success in the efforts being made on the securitisation side, as well as in fostering the mobility of capital.

Monetary policy seemed to play against the mobility of capital

Monetary policy seemed, unfortunately, to play against the mobility of capital because it ensured a convergence of interest rates and put a brake on the incentives for institutional investors to diversify their portfolios. There was a danger here, for which there was no obvious solution, but the best way to learn was through doing, and the beginning of the plan had been a success.

On geographic concentration, there were rules in the regulations to limit the concentration, and the steering board had worked on these. This had been seen over the period of the Juncker Plan's implementation. There was no quota per country, but at the same time there was a need to make sure that the initiative allowed projects to be implemented in all EU countries, because this was important for confidence and for the perception of the initiative's success. Whereas it was normal that big countries got bigger projects, the EIB would make sure that projects were distributed across all countries, and that no country had too many.

On geographic concentration, there had been tremendous pressure from the Parliament to come up with dedicated quotas for some parts of Europe. The Commission had explained that in the Investment Plan an average of 80% if financing was supposed to come from the private sector. If quotas were attached to Greek projects, it would create a permanent suspicion around the projects coming up under the EFSI label, whether it was there because of the quota or because of the intrinsic quality of the project. There was, then, no geographic quota, and Greek projects had been through exactly the same checks and quality controls, offering the same guarantees to co-investors that they were solid, bankable projects.

Associating structural funds with the EFSI to engineer projects in the southern rim of Europe

At the same time, it was true that more effort was needed to engineer projects in the southern rim of Europe in particular, as it was more vulnerable. This was one reason why the Advisory Hub had been created, to provide more support to projects. It was one of the reasons why the Commission had provided guidance on how to associate structural funds with the EFSI, because it was typically this kind of country where, because of the level of risk, a first-loss piece was needed. The structural funds could be used to provide this first-loss piece, with EFSI coming along in the mezzanine and other investors in a senior tranche, which allowed the unlocking of projects that would not have otherwise been possible.

So far there were a limited number of projects in countries like Greece, but there were big teams on the ground to originate these projects. The EIB had even created a dedicated taskforce to this effect, on which the Commission was actively working. It would take a bit of patience.

Green and social investments would have required a dedicated EU effort

Secondly, 50% of funds were targeted towards the energy sector. Looking at the wider political considerations about climate change, which posed an issue going forward on the investment side, large insurance companies have just announced a few weeks previously that they aimed to make no new investments in CO2-producing companies. They were targeting green or renewable investments, particularly on the insurance side. Was the playing field getting a bit crowded?

There was a great deal of interesting projects, but almost nothing dealing with social infrastructure, in terms of education, health or social housing. There were only two projects relating to hospitals. Regarding the social sector, there were more projects in the oven, particularly in the EIF part, and the Commission was working with to increase the firepower of the EaSI programme by 50%. They would support microfinance, social enterprises and incubators for social enterprises. A lot of actions were almost ready and would be rolled out in quarters two and three of 2016.

Social investment and social infrastructure were one of the key areas

Social investment and social infrastructure were one of the key areas which needed further work. So far the projects had mainly been SMEs, which were very well covered building on the EIF expertise in infrastructure and climate change, etc. The social area was one where investment was very difficult, due to the high risk, but there were real needs and a way needed to be found to address it.

Governments and the Commission should look at whether there was any need for sectoral concentration, especially in terms of social projects, as this was an area which was very good news when it was difficult. It was a riskier part of the wish. This supposed that the Commission and the EU had a certain vision of where those social investments should go, so perhaps a quota could be included around social investment in the overall plan.

Legal certainty for investors required strong efforts

Widening the perspective, the focus should not be limited to EFSI and the ins and outs of it, but more fundamental considerations in terms of legal certainty within Europe. This was a substantial issue for institutional investors in the very long-term, such as 20- to 30-year projects.

On legal certainty, there was a danger associated with changing the rules after an investment, and this should not happen, especially in Europe. The Bank of Portugal bail in of selected investors in the Banco Espirito Santo bailout yet went in this direction. There had been clear clauses in the bonds, and then some public authority had taken the decision that certain investors were bailed in but not others. That did not help private sectors to feel comfortable when money was committed for 20 to 30 years. Furthermore, private investors are facing a lack of a single market regarding tax law and insolvency and company law. If investment and growth in Europe was to reach the next level, then this would need to be tackled.

Insurers are facing a lack of single market, not simply with regard to national promotional banks but also regarding tax law and insolvency and company law. If investment and growth in Europe was to reach the next level, then this would need to be tackled.

Moving Forward

Making sure that for the EIB the Juncker Plan was not 'business as usual'

What did it mean for the institution to make sure this was not 'business as usual'? The EIB needed to develop new instruments and partnerships, which it had already begun to do. In terms of new instruments, they were going to play a significant part in risk-sharing, and defining what could and could not be done in terms of delegation to partners. The EIB was developing much more subordinated debt than it used to do, and was already to take more risks. They were currently working on an equity strategy. Together with other partners, the EIB was developing platforms, as well as strong relationships with National Promotional Banks.

The EIB was working on some things which would be more difficult. Firstly, they were working country by country on where market failures were and on how they could make a difference in investing, thanks to the EU guarantee, in projects they would not otherwise be able to invest in. Secondly, although it took more time because it was more difficult, they would also like to see cross border projects supported by the Juncker plan.

The success of EFSI would not happen if there were not good projects

The success of EFSI technically relied on the EIB, who was fully dedicated to it. It would not, however, happen if there was not discussion, negotiation and implementation of good projects presented by promoters, be they public or private. Part of the success of the Juncker Plan also lay in the ability of all parties to deliver on the best possible projects.

There were also quite significant challenges on which the EIB was working, which were important to the success of the EU in the long term, such as what was done to help migrants and refugees.

National Promotional Banks the networks of which are close to the ground enable smaller projects to access the EIB and the market

The National Promotional Banks had been very much involved in finding ways to work with the EIB to the benefit of investment. There had been several reasons for this. The first was that when the Juncker plan had launched, there had been a lot of financial commitments from the National Promotional Bank to provide co-financing alongside the EIB on investment projects. Secondly, they could bring projects. One of the key added values of the National Promotional Banks was to be very close to the ground, both to local projects and SMEs. One of the difficulties in dealing with this sort of framework at the EU level was how to touch the smaller projects. The bigger projects could go through the market and have relatively easy access to financing. The difficulty was in trying to provide appropriate financing for smaller projects, such as those under €50 million. They had difficulty in accessing the market and were too small for the EIB to deal with directly, as it was very costly and the risk was higher.

This was one of the key issues where the National Promotional Banks could bring added value, relying on the fact that they had networks. Starting from this perspective, the National Promotional Banks could have worked with a different scheme. Initially one of their legitimate objective had been to have direct access to the guarantee. This had not been the scheme that had been agreed on, for several reasons, but there were other ways to co-operate, as they were currently doing. Caisse des Dépôts was involved, in one way or another, with 70% of the projects adopted by the EIB under the Juncker plan.

Cooperation between the EIB and National Promotional Banks rely on co financing arrangements and financial platforms, which bundle small projects

The best way that promotional banks could co-operate was to work on platforms, as in their view it was a way in which to deal with smaller projects and provide access to the EFSI guarantee and EIB support for projects previously unable to get access. They were still working on this, and there was a great deal of difficult issues to be discussed, such as delegation and how far the EIB could delegate the decision on the project to the platform. This had to be solved, because there was a need to avoid having too many people reviewing, and making it too heavy. This could be solved, and was one way of co-operating and making progress. Caisse des Dépôts had concrete projects on which they worked, such as broadband, with the EIB, either at a national or EU level, or cross-border.

The other possibility was to provide some co-financing. There were a lot of discussions on whether they were at the same or lower level of risk without the guarantee, with the EIB taking a higher level risk and the National Promotional Banks just behind. These were all areas where solutions were being found, on a case-by-case basis, to co-operate and increase leverage, which was part of the objective.

The key element for success was risk-taking: EU policy makers considered that a loss of €8 billion generating €315 billion of additional investment would bean excellent deal for the taxpayer

The bigger the risk, the more the guarantee would face losses. This was obvious, and not a big issue; it was precisely what the guarantee fund had been built for. The Commission had told the Council and Parliament that they had wanted an €8 billion guarantee because they expected to lose €8 billion; nobody could say they had not been warned. A loss of €8 billion whilst generating €315 billion of investment would be an excellent deal for the taxpayer. The Commission was fully prepared to absorb losses, and had built the guarantee fund dedicated to this loss-absorption.

The key element for success was risk-taking, otherwise they would be financing without the risk. There was liquidity everywhere, and crowding-out was a major risk. The objective of the EFSI guarantee was not to be recovered through the price of the guarantee.

A common responsibility was to ensure that projects were focused on taking risk

There was a common responsibility for all parties, including the private sector, to ensure that projects were focused on taking risk. Financial institutions knew how difficult it was to change the culture of risk and the way that the risk committee approached projects. It was a real day-to-day challenge. Everybody needed to apply pressure and to check that this was being done. The example of private building renovation was a good one, because it was considered too risky. It was a challenge because there would also be some expectation from the authorities and the government to make big figures and assess the project with the overall amount of commitment more than the level of risk. That was something that needed to be changed, in terms of the way in which what was being done was assessed.

Using financial instruments required more effort, but at the end of the day came with a much bigger effect. The multiplier was 15 in the course of EFSI, rather than 1or 2, which was the typical effect for grants. If it worked as everyone hoped, then the logic should be reversed and it should be stated clearly that grants would only be used when it had been established that financial instruments could not. This would give much greater efficiency to public spending, to the direct benefit of the taxpayer. The Investment Plan also had an important role in its signalling effect as a significant reform of the way that EU money was used. The Investment Plan not only allocated €8 billion to EFSI, but set out the target that 20% of the structural funds should be used in similar initiatives. There was a lot of work to be done there too; signalling in terms of instruments was also very important.

Investment Plan: the third pillar was the core one

There was a need to look at the Investment Plan and not only at EFSI, so that the third pillar of the investment phalanx, structural reform, was the core one. It also covered issues of legal certainty and insolvency law, as well as all barriers. This was the core of the investment and growth policy for Europe. EFSI was one instrument that helped this process along.

Refraining from being too prescriptive in terms of quotas on countries, sectors or risks: projects should be learnt from

Finally, the steering board had refrained from being too prescriptive. The risks and difficulties had been identified, and the positives and negatives should be seen, but they should refrain from being too prescriptive in terms of quotas on countries, sectors or risks. It had been accepted that the Commission would have to work using the expertise and credit system of the EIB, and they should give room for good projects to emerge and set the scene. Projects should be learnt from, and not only gave a very prescriptive, ideal policy around investments and projects. By getting projects done, the market would adjust. EIB staff were learning, as were the investment committee staff and the partners. In the mid-term review, they would have to assess, but the pipeline had been coming, with an emphasis on where the EIB was good. It would have been abnormal to have a large quantity of social projects, when the EIB expertise lay primarily in energy and transport, so there was a need to use the good people and expertise and move on from there.