#Invest4Future

MINUTES OF THE CONFERENCE OF JUNE 28, 2016: "THE JUNCKER PLAN: AND SO WHAT?"

On June 28, the Long-term investment and reindustrialisation Intergroup of the European Parliament held a conference on the follow-up of the Juncker Plan in the presence of more than 200 participants, including Members of the European Parliament (MEPs), officials from the European Commission, the European Investment Bank (EIB), as well as representatives of the industrial and the financial sector, regional development banks and representatives of the civil society.

I. List of the speakers

- Dominique RIQUET, Member of the European Parliament, Chair of the Long Term Investment Intergroup
- Jacques DE LAROSIERE, Former Governor of the Banque de France, Managing Director of the International Monetary Fund and Honorary President of Eurofi
- Jyrki KATAINEN, Vice-President of the European Commission for Jobs, Growth, Investment and Competitiveness

- Raphael LANCE, Head of Renewable Funds at Mirova
- Giulia GREGORI, Strategic Planning Manager at Novamont, Italy
- Simona BONAFE, Member of the European Parliament, Vice-Chair of the Long Term Investment Intergroup
- Klaus TRÖMEL, Secretary General, European Investment Bank
- Benjamin ANGEL, Director for Treasury and financial operations, Dg Ecfin, European Commission & Member of the EFSI Steering board
- Michele MASCOLO, Manager for International Affairs, Cassa Depositi e Prestiti
- Lutz-Christian FUNKE, Senior Vice-President, Managing Affairs and Communication, KfW Bankengruppe
- Laurence MONNIER, Head of infrastructure debt, Aviva
- Adina-Ioana VALEAN, Vice-President of the European Parliament, Vice-Chair of the Long Term Investment intergroup,
- Wilhelm MOLTERER, Managing Director of the European Fund for Strategic Investments
- Laurent ZYLBERBERG, Director for Public and International Affairs, Caisse des Dépôts et Consignations
- Joanne SEGARS, Chief Executive of the Pensions and Lifetime Savings Association, former Chair of PensionsEurope
- Markku MARKKULA, President of the European Committee of the Regions

II. Opening remarks and keynote speeches

MEP Dominique Riquet, Chairman of the Intergroup, opened the conference in exposing his main expectations from the Juncker Plan: additionnality, a trigger effect and an European added value. He criticized policies in Member States which are not oriented towards boosting investment (e.g. lack of structural reforms) and for which the budgetary weakness of the EU forbids it to compensate. He said that we need better coordination between Member States on one side and Member States and the European Commission on the other side while involving the European Parliament. Also the blending of financial instruments (loans, loan guarantees, equity and grants) is a step to enhance additionnality. A good example would be better coordination between the Connecting Europe Facility (CEF) and regional policies and funds. D. Riquet then inquired how the Brexit would impact the current support from the European Fund for Strategic Investments (EFSI) to British projects. Another pending question was the future of the contribution of the United-Kingdom to the capital of the EIB and whether its withdrawal would alter the “AAA” rating the EIB has enjoyed ever since its creation.

He then left the floor to keynote speakers Jacques de Larosière, former Governor of the Banque de France and Managing Director of the International Monetary Fund and Jyrki Katainen, Vice-President of the European Commission for Jobs, Growth, Investment and Competitiveness.

Jacques de Larosière compared the productivity gains in the past ten years between the European Union (EU) and the United-States of America (USA), where they have further increased because of a weaker regulatory pressure (on setting up new businesses and throughout their growth) and because of the financing environment, less intermediated than in the EU, and therefore less exposed to the strengthening of prudential regulation.

He recommended adopting a prudential regime more favorable to long-term investments, stimulating securitization to mitigate the impact of more stringent capital requirements and creating an EU-wide market for long-term assets. Indeed, he declared that national savings are the only resource available to finance long term investment and that they have increased in the last 15 years. However "*these assets are mostly invested in banking accounts (with tax exemptions), in life insurance products and in collectively managed investment. The direct holdings of equity shares and bonds are very limited. So the challenge is to channel more of these savings into long term investment products*".

A solution would be the creation of a favorable prudential regime for long term investments in infrastructure and the creation an Infrastructure asset class. He praised the amendment to Solvency II and the creation of the *qualifying infrastructure investment* asset category with a lower risk calibration. He called for having investments in European Long-Term Investment Funds (ELTIFs) benefit from lower capital charges under Solvency II. He criticized the fact that insurers are considered traders, the consequence being that the risks of infrastructure assets are assessed through the market risk module of Solvency II. Instead, he claimed these assets should be addressed through the counterparty risk module as insurers are not exposed to force selling but to credit default and level of recoveries.

Securitization is another solution in the context of heavy burdens on bank's capital requirement but "*should not only concern real estate and consumer credits but also more critically, SMEs*", he highlighted. The EU initiative for Simple, Transparent and Standardised (STS) criteria goes in the right direction but is too complex and restrictive to be attractive. Also, the capital requirements are still too high to hold those assets.

Finally, he called for a "*new European long-term capital market*" as currently only short-term trading platform for securities exist. An investment Fund in the EU would mobilize short-term savings and transform them, through a guarantee mechanism, into long-term investment projects. According to him, this has the potential of bridging the gap between the long-term needs from the South of Europe and the supply of liquid savings from the North.

Vice-President Katainen then took stock of the first year of the implementation of the Investment Plan for EU and its new financial tool the European Fund for Strategic Investment. He emphasized its "main" dimension as being the so called third pillar of the Plan, with the advancement of the Single Market, namely: the Capital Market Union, the Energy Union and the Digital Single Market, including structural reforms in the Member States as well as removing regulatory barriers to investment. VP Katainen described the current lack of investment in the EU as the result of poor demand, a dire situation for public finance and a lack of external competitiveness. Growth would have relied on debt lately and not on competitiveness.

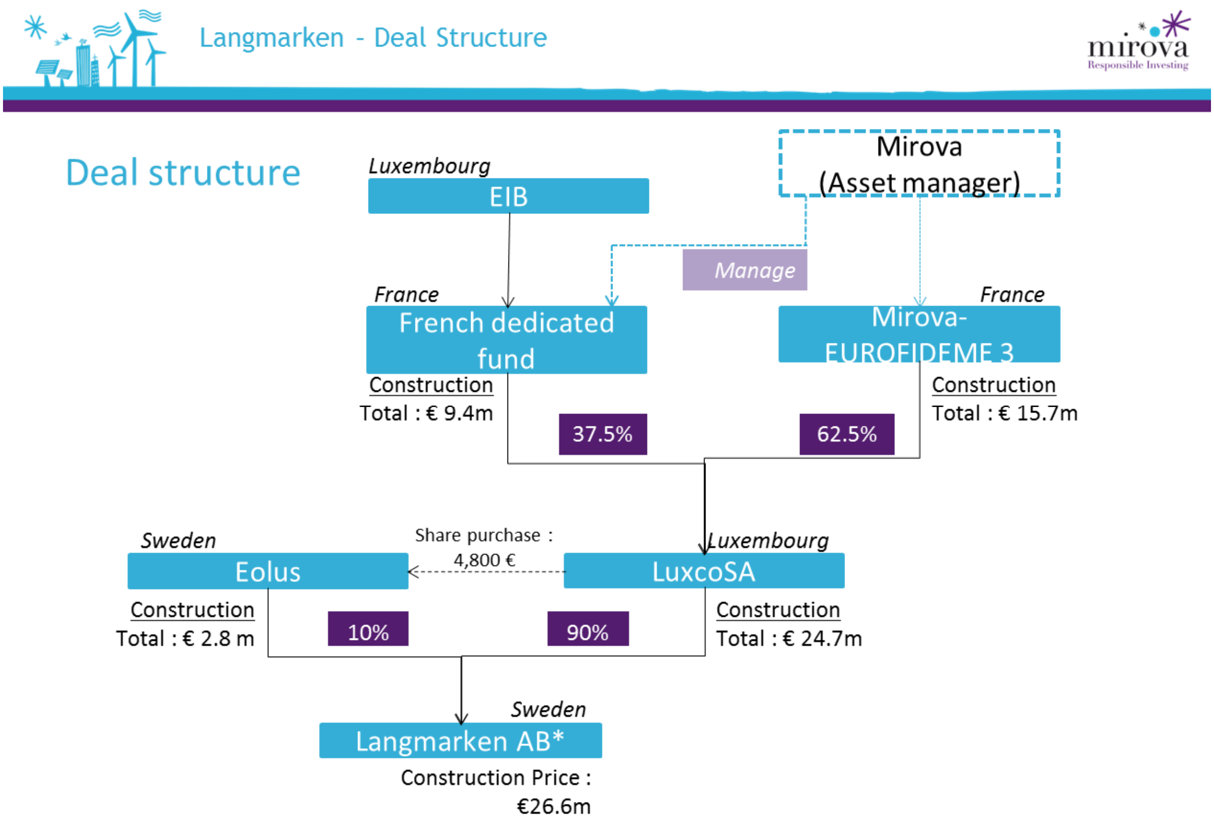
He stressed the need for structural reforms for competitiveness in the EU Countries as they are the only solid drivers of foreign investment. He then addressed the European Investment Project Portal (EIPP), an « online dating platform » for investors and project promoters. So far, a hundred projects have been posted on the Portal and fifty investors have made contact. The long-term objective is several thousand projects online.

On the EFSI, he cautioned immoderate expectations and said that, at its best, EFSI would only cover a third of the annual need for long-term investments in the EU. So far, 78 industrial and infrastructure projects received funding from the EFSI and 148 000 SMEs have benefited from 188 contracts between the European Investment Fund (EIF) and intermediate institutions.He quoted the “Copenhagen Infrastructure II” Fund for which the EFSI provides equity and covers junior losses. EFSI and the EIB have also provided with long-term loans “ENERGIE POSITIF’”, a French investment-platform dedicated to the financing of the retrofitting of private homes, which is a good example of the kind of platform the European Commission wants to duplicate in the EU.

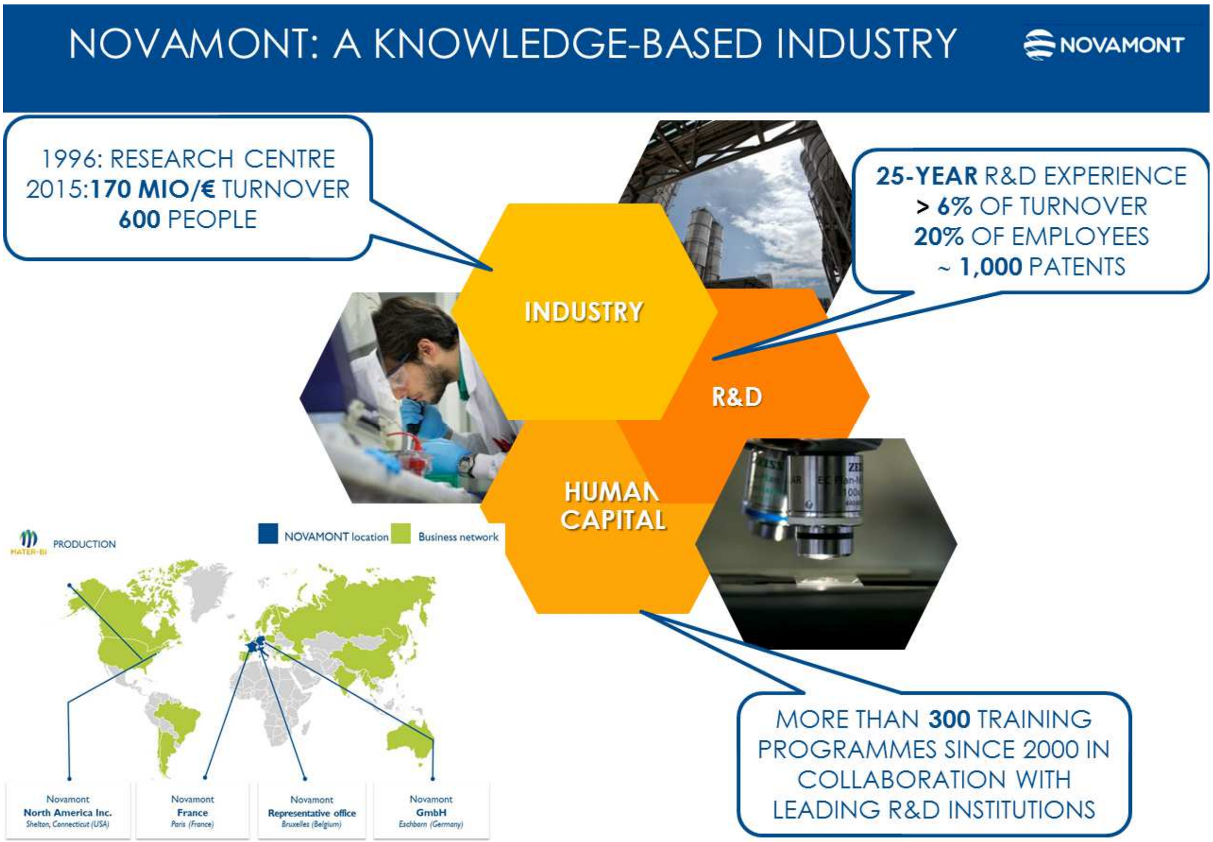
III. Case studies

The conference then moved to two case studies in order to better grasp of the actual benefits of the Juncker Plan for the economy.

Raphael Lance, Head of Renewable Funds at *Mirova*, the second-largest European manager of open-ended Socially responsible investing (SRI) funds and social business funds, delivered a presentation on the Langmarken onshore wind farm in Sweden, a greenfield project whose total cost amounts to 27 million euros. The specificities of the Swedish green electric market (merchant + green certificate as opposed to feed-in tariffs) and the current level of electricity prices make it challenging to raise project finance and the high equity amount to engage is too high for Mirova alone. The rapid coinvestment from the EIB and EFSI was then critical for any further involvement. Mirova invested for 62.5 % of the total cost (15.7 M €) and the EIB/EFSI covered the 37.5 % (9.4 M€) in an ad hoc Fund, which is managed by Mirova. It is the first project in which the EIB invested in equity. The EIB/EFSI participation was crucial in attracting investors.



Giulia Gregori, Strategic Planning Manager at biotechnology company Novamont, delivered a presentation on the 130 M € development project of an integrated supply chain in the field of biochemicals and bioplastics in Italy for which the EIB under EFSI has made a contribution up to 15 M €. The project concerns the deployment of innovative process technologies for the production of bioplastics and bio-chemicals that are expected to be used for industrial (biolubricants, bioherbicides) and consumer goods (cosmetic) applications. Aside from financial support for investing, Mrs Gregori called for adapting the current regulation to the very innovative nature of companies of Novamont, and for the recognition of the value of innovation.



IV. Roundtable 1: Risk is good!

The conference then moved to a roundtable moderated by MEP Simona Bonafé, Vice-Chair of the Intergroup, and composed of high officials from the EIB, the European Commission and the National Promotional Banks and Institutions (NPBIs).

Simona Bonafé expressed the need to reflect on the political context after the British referendum. The EU is not perceived as a driver for growth and jobs, whereas there is a crucial need to boost investments, in order to find ourselves back on the path to growth. The Juncker Plan is a good step to move beyond austerity policies but obviously, due to its size, it won’t be able to solve our investment gap. Furthermore, an investment friendly EU requires a strong push to the current legislative packages (energy union, circular economy, digital single market) and to cut red-tape. Reflecting on room for improvement for a Juncker Plan 2.0, she acknowledged the high amount of investments mobilised so far (one hundred billion euros) but said that we need to make sure that the additionality criterion is correctly implemented and that the investment platforms must now become a reality.

Klaus Trömel, Secretary General of the EIB, explained that we have moved from a liquidity problem in the EU, to a risk taking problem and more recently to a lack of well-structured projects. On additionality, he explained that this could be seen from different angles: for some it may be a matter of geographical coverage, for others of the social or economic value of a project or the risk aspect. He noted the EIB Group has placed high emphasis on additionality when implementing EFSI, focusing on crowding-in private investors. It would be important however that the crowding-in effect be measured in a consolidated way, for the entire portfolio of EFSI-supported projects. To address the geographical coverage imbalance, better coordination within Member States would be important. In that spirit he praised the set-up in some Member States of a central body dedicated both to the promotion EFSI nationally and to the liaison with the EIB, CDC and BPI. Regarding new products, EIB is currently implementing risk sharing instruments with banks, with the objective of banks lending more to SMEs and the real economy. The EIB is also providing direct loans to very innovative mid-cap companies as part of EFSI as well as InnovFin EU finance for innovators under Horizon 2020, loans that could be as low as 10-20 million euros.

Benjamin Angel, Director for Treasury and financial operations, DG ECFIN, and member of the EFSI steering board, claimed that the EIB is really changing its working habit and is involved on riskier operations. As such, he pointed out that projects supported by the EFSI were non-investment grade under the EIB internal model. He acknowledged the imbalance in the geographical coverage, EFSI being demand-driven. He mentioned the efforts undertaken by the EIB to seek eligible projects and quoted the task-force set-up in Greece. He confirmed the leverage x15 and reminded that the plan had been financed mainly by cutting grants, which have a much lower leverage (usually x1 to x3). On the nature of projects, the sectorial diversification has been reached except for transportation (too many motorways) but things are moving. He then addressed the role of the European Commission as a facilitator for the combination of the European Structural and Investment (ESI) funds, H 2020, and the Connecting Europe Facility (CEF) with EFSI to cover junior losses in the most risky projects. For the future, he declared that a legislative proposal to pursue EFSI until 2020 should be formalized by the autumn. New financial instruments under EFSI will be rolled out soon, such as a one-billion-euros equity platform for early stage, another one for growth stage and a pan-EU VC fund of fund.

Lutz-Christian Funke, Senior Vice-President for Managing Affairs and Communication at *KfW Bankengruppe*, discussed the definition of additionnality. Should it relate to any investment which is dependent on the EIB? For which the EIB takes any more risk? But how does that articulate itself with the mandate for the EIB not to lose money? Also, how can we reach the target of 315 billion euros with such restraints? He declared that geographical imbalance has to be addressed by improving the projects in the first place. For SMEs, EFSI worked well through the European Investment Fund (EIF) also notably in the smaller member states. A problem with project financing under EFSI is the lack of transparency, which makes it hard to assess when a project really needs to be covered by EFSI. Regarding the project of an External Investment Plan (EIP), he stressed that the context was very different within and outside of the EU, with many different actors in need of coordination in a complex environment and for which expertise is required for the success of this Plan. He addressed the investment-platforms topic and cautioned against the difficulty of setting up cross-border ones. He argued that cooperation between promotional banks was good but that each entity had its own priorities. Nevertheless, the Marguerite Fund has proven its worth, and the "*Broadband fund*" currently under construction, looks very promising too.

Michele Mascolo, manager for International Affairs at Cassa Depositi e Prestiti (CDP), presented its institution. CDP has been appointed by the Italian Government as the National Promotional Institution for the Juncker Plan implementation in Italy. CDP from the beginning has worked closely with the European Commission, the EIB Group and the other NPBIs. The first initiative was launched last December within the SMEs windows. Regarding the financing of the infrastructures, the main issue is not to find resources on capital markets but more relevantly to identify a pipeline of bankable projects. In this scenario NPBIs can have a key role. CDP is currently involved in several initiatives (VC platform, securitization platform, infrastructure, EE, Advisory Hub, etc). Lastly CDP looks with great interest to the External Investment Plan, considering that Cassa acts also as an Italian Financial Institution for International Cooperation. In this respect there is a strong cooperation among National Development Financial Institutions (Aecid, AfD, CDP, KfW) and with the EIB. From the experience of the "internal" Juncker Plan, it will be possible to create a new framework to sustain investment and development in third countries facing political instability and low economic growth.

Laurence Monnier, Head of Infrastructure Debt at the European insurance company *Aviva*, described the experience of *Aviva* in investing in infrastructure projects, such as broadband projects in the Netherlands. Infrastructure is a favored class of assets for insurances companies because they are illiquid assets as are the savings of its customers. She praised the adjustements with Solvency II and asked for adjustment for "Infrastructure corporate" Solvency II exception. To her the main benefit of EFSI is to mark a project "investment grade" and therefore crowd-in private investors. She warned against the risk of crowding-out and asked for strict additionality requirements for support from EFSI but showed openness to other criteria such as ESG and sustainable development. Also, she proposed a proportionate support from EFSI with only the required degree of support (through guarantee, loans, equity…) to attract private investors, on a case by case basis.

V. Roundtable 2: Investment platforms – small is beautiful…

A second roundtable moderated by Vice-President Adina-Ioana Valean took place and revolved around the opportunity of setting up investment platforms which could aggregate smaller projects.
MEP Valean declared that Long-Term Investment) have stalled for too long in the EU. There is an actual risk that the infrastructure investment gap remains in the coming years. As national public resources for investment are scarce, EU investments are required. So, how can the EIB and NPBIs accelerate the development of investment platforms? How to bridge the East/West divide in the EU?

Wilhelm Molterer, Managing Director of the European Fund for Strategic Investments (EFSI), stressed that EFSI is only one part of the Juncker Plan, which is a whole package. He claimed this first year was excellent in terms of volume and leverage effect. Also in the momentum around EFSI, the EIB gained in visibility and attracted many new customers. He shared the enthusiasm around flexible investment-platforms with a multisectorial or monosectorial scope that could crowd-in private sector investors and whose products should adapt to the need encountered (loans, equity). However he warned against the regulatory barriers for cross-border platforms in a fragmented European framework and called for national and regional ones. For the future, he called for a better financed European Investment Advisory Hub (EIAH) and a close association with the National Promotional Institutions whose local networks are essential to ensure visibility and reach the project promoters who would benefit the most from the financial and technical guidance provided. Finally, on the Brexit issue, he reminded that EFSI had been first and foremost established to support Member States.

Klaus Trömel noted that investment platforms are aggregators of projects and that this is an important area EIB is working on. He concurred with Mr Molterer's regarding the setting-up of investment-platforms, noting that such structures are currently hampered both by the regulatory fragmentation in the EU and the prudential regulation after the 2008 financial crisis. The Broadband investment platform under preparation by the European Commission, EIB and national promotional banks is very much needed as it would aim to address a critical market gap. Another important point for the success of the investment platforms is the selection of independent managers with a dedicated knowledge of the field they invest in. Regarding the European Investment Advisory Hub (EIAH), he quoted the good experience drawn from the "JASPERS" programme managed by the EIB, designed to assist Member States in preparing projects and to ease access to Structural Funds.

Laurent Zylberberg, Director for Public and International Affairs, Caisse des Dépôts et Consignations, is also Chairman of the Management board of the Marguerite Fund. He strongly emphasized the crucial need of the Juncker Plan for exposure. Smaller projects aggregated within investment platforms are as many concrete examples and show EFSI's efficiency on the ground. He also argued that investment platforms are inherently of European spirit, whether they are cross-border or national. They represent European synergies by being involved in sharing experiences. They are not exclusively small-project oriented as is illustrated by the Marguerite Fund. In addressing the imbalance in geographical coverage, he warned against setting up restrictive criteria and penalizing the most efficient countries. Enhancing EFSI, developing the investment-platforms and assisting marginalised countries via the EIAH should be the answer. Finally, he praised EIB's acknowledgment of the merits of better association with the NPBIs for the implementation of the Juncker Plan and the influence of the Juncker Plan on EIB's investment policy in regards to risk-taking.

Joanne Segars, Chief Executive of the Pensions and Lifetime Savings Association gave a presentation of a particular investment-platform set in the UK in 2011. The *Pensions Infrastructure Platform* (PiP) was designed by pension funds to overcome the barriers of expertise and alignment of interest with the asset manager. With low handling-fee and expertise provided to the independent pension funds, this allows them to invest in infrastructure whose average maturity period and degree of risk make them an interesting type of asset for long-term investors.

VI. Closing remarks by Markku Markkula, President of the European Committee of the Regions (CoR)

President Markkula introduced his closing speech in reaffirming the ever support of the CoR to the Juncker Plan as local and regional decision makers are responsible for two-third of the public investment in the EU. He asked for a doubling of the focus both on long-term infrastructure investments and funding for small businesses. "*At the local level, it is evident how much these two aspects of investment go hand-in-hand*", he said. The combining of the Structural Funds and EFSI is an important question for local decision makers that he conveyed to the conference. With a third of the target investment reached for EFSI and a clear success in the SMEs window he stated his conviction that "*we are going in the right direction*." However two issues remain to be addressed: the matter of geographical coverage and the additionality of EFSI. Indeed, President Markkula openly wondered why so few projects from Member States for which the investment gap is the most critical had been considered, or even presented to EIB. "*No need for quotas to ensure fairness*", he said but "*if awareness or administrative capacity or finding the right intermediaries are where the issues lie, then we need to provide enough support in these fields*", he declared. Regarding the additionality topic, he advocated for more transparency in the selection of the projects, to make sure that every project is one which could not have been financed without EFSI. He recognized the potential of investment-platforms and argued that local and regional authorities are very well suited to identify projects and point out bottlenecks and that they should therefore be considered key interlocutors in the setting up and the running of investment-platforms. In the context of the EU Urban Agenda, he mentioned the prospect of an investment platform in urban areas, as proposed by Commissioner

Katainen. He concluded his speech in addressing the integrated strategy for reindustrialization and envisioned a cluster partnership putting together business and industry with local and regional actors. He recognized the relevance of combining regional policy and industrial policy tools in the context of the region' *Smart Specialization Strategies*.