European Financial Services Round Table

July 2019

SUSTAINABLE INFRASTRUCTURE INVESTMENT IN EUROPE

Overview

The EU has made significant progress in improving the investment climate during the 2014-2019 mandate. The outlook for the next mandate and budget cycle is promising with the establishment of InvestEU, which will build on EFSI and incorporate learnings into a revised structure and programme.

Despite this, it remains the case that institutional investors continue to observe that investment opportunities (i.e. investible projects) remain difficult to identify. This represents both a missed opportunity and a threat to the EU successfully meeting its 2030 climate targets. It is a missed opportunity because there is currently more finance available than there are investments *that investors are aware* of. It is a risk to the EU meeting its climate targets because to do so, a broad range of investment will need to be channelled from a variety of sources, into projects that are extremely diverse in nature, scale and location.

The recently published reflection paper on Towards a Sustainable Europe by 2030 says that to move towards a Sustainable Europe, "Action is needed at all levels. EU institutions, Member States and regions will have to be on board. Cities, municipalities and rural areas should all become drivers of change… If we are to succeed, we must pull in the same direction at all levels."[1]

This statement is particularly true in the context of investment. The investment that will be needed to meet the 2030 targets will be extremely diverse and much of it will differ from what is traditionally understood as 'infrastructure' investment. For example, while large scale projects, such as building a new windfarm, will be important, a greater proportion of the EU's needs will be delivered through 'smaller' projects, such as enhancing the sustainability of the current building stock. Yet it is these smaller projects that tend to be more detached from sources of finance and require different funding models.

In order to deliver a Sustainable Europe, the gap between the investment beneficiaries that will deliver the transition to a low carbon economy and the investors that will finance it needs to be reduced. This requires action and partnerships at a variety of levels and the sharing of expertise between sectors.

How can this be done?

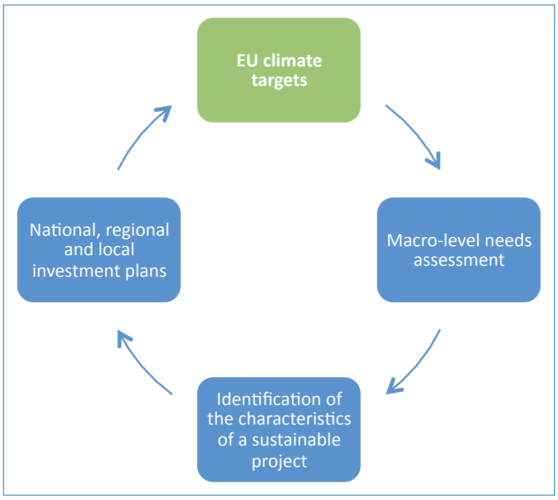
1. Identify Europe's investment needs in order to meet its 2030 commitments

A first phase should be to conduct detailed analysis of the investments that are required by the EU to meet its 2030 climate targets. These investments will be extremely varied in nature, scale and location and many will not be 'visible' to investors at an EU, national or even a local level without support. They will range from a local community investment, such as a waste to energy project through to the building of an offshore windfarm. This mapping exercise will be both granular, identifying specific large-scale investments (e.g. a windfarm) and at a programme level, for example identifying the sustainable energy needs of an island community.

[1] European Commission, Reflection Paper, Towards a Sustainable Europe by 2030, https://ec.europa.eu/commission/sites/beta-political/files/rp_sustainable_europe_30-01_en_web.pdf

The mapping exercise will seek to identify the characteristics of the different investments that are required and the definition of good spending. This assessment will require cooperation between local, regional, national and European authorities. We anticipate that the European Commission would need to mandate a body to lead this analysis, to drive thinking and work closely with public authorities. This analysis would include both original research as well as incorporating existing national, regional and local investment needs analysis assessments.

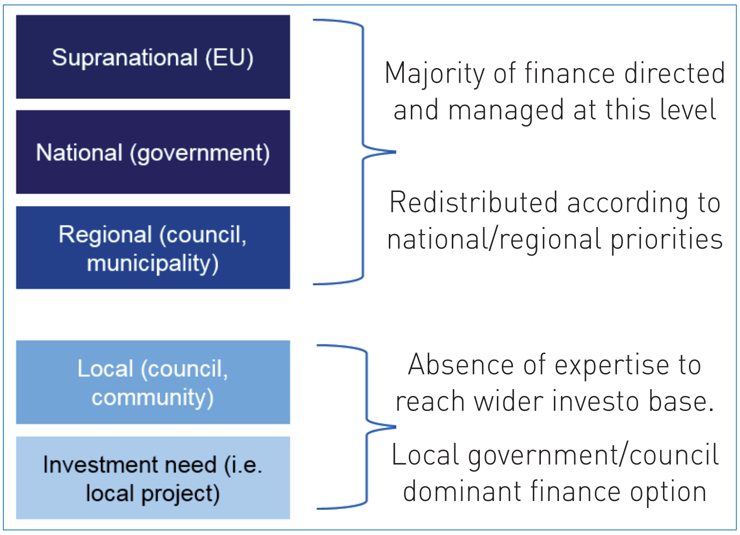
Following this, the investment needs of each category (e.g. small scale/large scale, local/regional/national) should be mapped. Investment recommendations would then be developed for each category, for example, can an investment be funded solely by the private sector (if so, what type of investment vehicle) or is public sector support necessary? Where an investment is potentially profit-making, the private sector should be considered the lead partner. The role of the public sector should be to intervene where a project appears loss-making and therefore, unable to attract finance without further support.



This exercise should be carried out in advance of InvestEU coming into force. It could be conducted by the European institutions, including the EIB, and involve private sector contributions. This will inform a strategy that sets out clearly Europe's needs against investment capability.

2. Develop a toolkit to connect investments to investors

A second task is to embed the characteristics identified in the first phase and develop a toolkit that connects investors to investments. Presently, investment beneficiaries (e.g. project owners) may not be aware of the potential finance available or the different funding models, and investors have difficulty finding them independently.



There may be a long chain between an investor and a potential investment, for example if a project is local but an investor's entry point is at a regional or even national level. These actions should be undertaken as part of the preparation of the InvestEU programme. They could be led by the European institutions but would be most effective if they incorporate private sector expertise. **A forum or committee could therefore be established** to carry out these functions.

Top-down actions directed at the investor

- **Inform the market:** one of the objectives of the first phase of activity would be to build a clearer understanding in the market of the investment opportunities, including by articulating the characteristics of sustainable investment. This would aim to give clarity and certainty for private sector investors. Practical information should be provided that would encourage private sector participation in investment programmes, for example, communicating to the market how they can tender for projects and developing blue prints outlining different funding models that can be used for different types of project.

- **Develop a project pipeline:** the analysis conducted in phase 1 should be incorporated in the development of a project pipeline. In practice, establishing the pipeline will happen in parallel to the broader education programme that is directed at potential beneficiaries since it will be easier to populate as awareness grows.

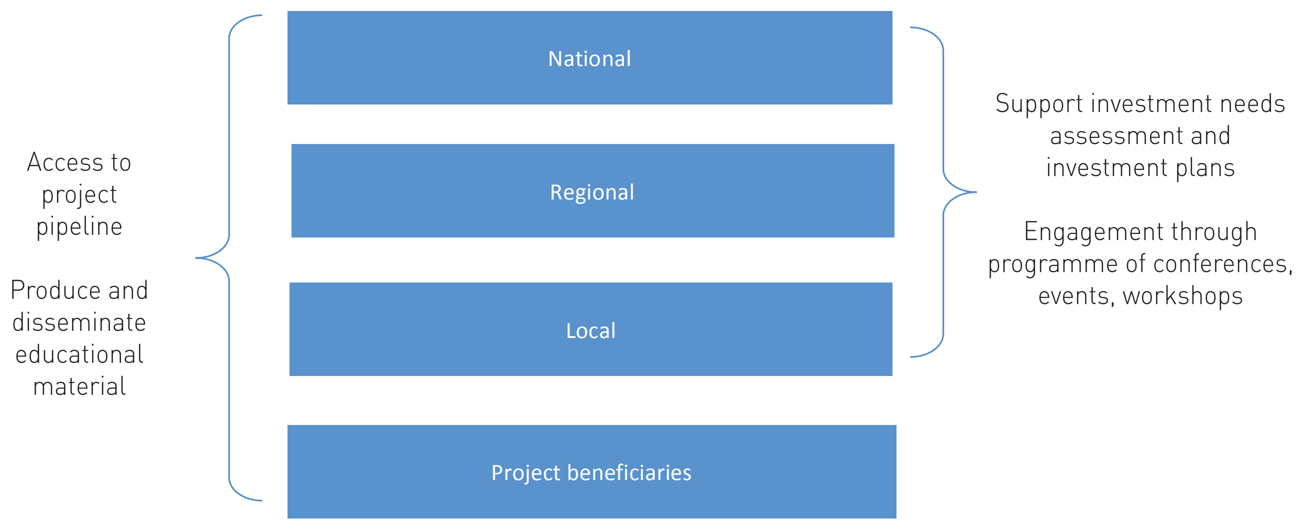
- **Create a central resource on funding models:** funding models are often designed specifically for individual investments and are not readily transferrable across projects. This can present a barrier to investing in a smaller project because of the cost of developing a model for a small project or the size of the initial investment is not of sufficient scale to attract institutional investment. These challenges are often addressed by standardising funding models, which allows an investment to be repeatable or aggregated. The nature of this repetition/aggregation varies but it can involve public sector support, for example by establishing a government programme that facilitates small scale investment on a repeatable scale (e.g. a government-led scheme to facilitate the purchase of solar panels for domestic property). A forum should be created that facilitates sharing best practice and promotes dialogue between investors and public authorities. The objective would be to act as a central centre of expertise that transfers technical knowledge from the private to public sector.

Bottom-up actions directed at the potential investments

Investment beneficiaries (e.g. project owners, local or regional government staff) should understand the type of finance that is available, including the different models available and how they can receive assistance. Presently, many investments are unfunded because there is a disconnect between investment need and financial actors. For example, a small-scale solar panel project will be multiple levels removed from the sophisticated financial investor who may have the expertise to package projects into a syndicated product that becomes a profitable investment. This should be addressed by increasing awareness and expertise among potential beneficiaries and giving them more channels through which to access investors:

- **Build awareness of financing options and funding models:** Launch an awareness raising programme that targets beneficiaries to make them aware of the financing and funding options available. This could involve a series of events, conferences, roundtables that are run at national level and directed at regional and local government.
- **Increase technical expertise:** An accompanying programme would offer technical support to national, regional and local authorities. This would include carrying out an investment needs assessment and developing accompanying investment plans.
- **Utilise different financing and funding options:** Lead a discussion on how to develop different models that marry the availability of funds in the private sector with the various support mechanisms provided by delivery partners (e.g. EIB and NPBs). This would provide particular value for smaller projects that typically face a narrower range of financing options. This would involve promoting dialogue, cooperation and technical expertise sharing between private and public-sector partners.
- **Develop a Toolkit:** Create a repository of educational material on the investment landscape. This would be distributed to potential investment beneficiaries to make them aware of their financing options. Material would include reports, briefings and infographics.

Summary of activities



Where this activity sits in the institutional architecture

This programme would complement the EU's institutional architecture by channelling investment opportunities towards structures that are already envisaged by EU policymakers. To this end, the primary purpose is to complement the existing institutional architecture and ensure that the political and financial resource that is being dedicated to supporting sustainable infrastructure investment has the greatest impact on the European economy.

This is illustrated in the diagram that can be found on p 39 of InvestEU impact assessment.[2]

[2] InvestEU Impact Assessment, June 2018, https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-investeu-impact-assessment_en.pdf

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe. EFR Members believe that a fully integrated EU financial market, a Single Market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy.

EFR – European Financial Services Round Table (asbl)

Rond Point Schuman 11 | B-1040 Brussels | Belgium | Tel: +32 2 256 75 23 | Fax: +32 2 256 75 70 | www.efr.be

Siège social: rue Royale 97 | B-1000 Bruxelles | Belgium | RPM BXL 0861.973.276