CONFRONTATIONS EUROPE

THE EXTENSION OF THE EUROPEAN FUND FOR STRATEGIC INVESTMENT (EFSI)

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Last September, the Commission proposed an extension of the EFSI to €500bn by 2020. The AFME-ICMA Infrastructure Working Group ("WG") welcomed the launch of the initial EFSI in 2015, expected to crowd in private investors. In its evaluation report, the EIB found that 60% of investment potentially mobilised by EFSI comes from the private sector (1). Those new investments could increase the GDP by 1.1% creating 1.4m jobs (2).

The industry WG, comprised of a wide range of arrangers, investors, CRAs and law firms, actively supported the launch of EFSI by publishing the AFME ICMA Guide to Infrastructure Financing (3). The guide is intended to help procurement agencies and sponsors obtain the best value for money by considering issuance process, investors in the sector, examples of various types of EIB and non-EIB transactions in different sectors, credit enhancement, legal and ratings issues. The Guide also provides increased awareness of the aspects of the bank loans, the debt private placement market and the public capital markets. For instance, a loan from banks or a private placement with investors may offer flexibility in terms of drawdown schedules, confidentiality and a simple process for waivers to the financing terms.

However, despite an improvement of the European economy, **private investments are still below 2008 levels: EU28 private investments were down from 22.5% in 2008 to 19.5% of the GDP in 2015** (4).

A direct consequence of reduced private investments is the long-term decline in overall infrastructure spending in Europe. The Commission estimates that Europe requires an additional €1.5-2tn of infrastructure investment to meet its 2020 goals. The EIB considers that Europe needs to invest 3.6% of its GDP (€600bn all things being equals). Meanwhile, infrastructure finance in the form of bond and bank loan in Europe were at €69bn in 2015 (5), a 7-year high.

The EFSI extension is therefore necessary and should be developed alongside further education to European municipalities and procurement authorities about the public policy benefits of PPP transactions, as compared to funding through public funding.

The role of the national promotion banks (NPB) in the success of EFSI is also essential. The EU and national governments, through the EFSI, helped and should continue to increasingly support projects that would otherwise not be financially viable, particularly for projects with unquantifiable usage/demand risk. Some of this risk could be mitigated through partial usage of guarantees provided by NPB, which could turn an unmarketable transaction into one which would be marketable to institutional investors.

The extension of the EFSI should be developed alongside the two other pillars of the Investment Plan for Europe. The second pillar focuses on advisory and information services. **The quality of data in the EIPP and the role of the EIAH are keys** to increase awareness for public procurement authorities. This is true for both larger Member States and the smaller EU11 (6)(7) .

The third pillar helps reducing the barriers to investments. **The Commission recently established an infrastructure project asset class for which insurer would have benefit from reduced capital charges. This was a step forward to attract insurers to the asset class. However, there are four times more infrastructure investments in the corporate form which are out of scope** (8). A reduction in capital charges for such infrastructure investments would have a substantial impact in financing infrastructure and attracting more private capital into infrastructure investments within EFSI.

An extension of the EFSI is key to more growth and jobs in Europe. A larger EFSI is recommended to enhance private capital in otherwise non-financially viable projects across the EU28.

(1) EIB independent evaluation report: EFSI on track to mobilise private capital, 6 October 2016
(2) See (1)
(3) http://www.afme.eu/globalassets/downloads/afme-reports/afme_guide_to_infrastructure_financing2.pdf
(4) Eurostat
(5) AFME-ICMA, Guide to infrastructure financing, PFI Thomson Reuters.
(6) Czech Republic, Hungary, Poland, Slovakia, Bulgaria, Croatia, Romania, Slovenia, Estonia, Latvia, Lithuania
(7) AFME-New Financial, The benefits of capital markets to high potential EU economies, Nov 2016
(8) Moody's, Bridging $1 trillion infrastructure gap needs multi-pronged approach, 24 Feb 2016. On Moody's-rated European projects in 2012-14