SUSTAINING INVESTMENT

Global challenges and geopolitics will guide how investment is delivered in Europe but what does the European Union's plan for sustainable infrastructure mean for the public and private sectors? asks *Partnerships Bulletin's* editor, **David Keniry**

In July 2019 the European Parliament elected Ursula von der Leyen President of the next European Commission based on her ambition for Europe to be the first climate-neutral continent. Her pledge was to propose a European Green Deal in her first 100 days including the first European Climate Law to enshrine the 2050 climate-neutrality target into law. To achieve this she pledged to put forward a strategy for green financing and a Sustainable Europe Investment Plan (SEIP).

The EU Green Deal is the European Commission's roadmap for making the EU's economy sustainable by turning climate and environmental challenges into opportunities across all policy areas. To achieve this SEIP is to mobilise EU funding and create an enabling framework to facilitate and stimulate the public and private investments needed for the transition.

At a press conference on 9 March to mark her 100 days, von der Leyen noted that despite the departure of United Kingdom, and the arrival of coronavirus, the European Green Deal had not been "derailed" with all her pledges so far delivered.

"Today, it is no longer the question if there will be a European Green Deal," she said.

On 13 March, von der Leyen announced the Commission will use all the instruments at its disposal to mitigate the consequences of the COVID-19 pandemic, as the offices of the Commission and the EIB closed to all but critical staff.

However, the European Green Deal still progressed. The Commission issued a call for projects to avail of the 2020 Connecting Europe Facility (CEF) Energy Work Programme.

In the following days as the pandemic escalated in Europe, the Commission approved a EUR1.4bn investment package for 14 'green projects' in seven Member States under the EU Cohesion Policy that would help deliver on the goals of the European Green Deal.

On 18 March the Commission told *Partnerships Bulletin*: "COVID-19 is a severe public health emergency for our citizens, societies and economies with infections in all Member States.

The situation is evolving on a daily and hourly basis. At this stage we cannot speculate on potential implications in individual policy areas. The Commission will continue to maintain its functioning.

While our immediate focus is on combating COVID-19, our work on delivering the European Green Deal continues. The climate crisis is still a reality, and necessitates our continued attention and efforts. This is one of the very reasons why we presented the climate law: to avoid that climate action, a generational task, is obfuscated by more pressing and immediate challenges."

Connecting Europe

The aim of the CEF, which is managed by the Commission's Innovation and Networks Executive Agency (INEA), is to accelerate investment in the field of trans-European networks and to leverage funding from public and private sectors.

The 2020 CEF Energy call for proposals takes into consideration the European Green Deal objectives, 'namely that energy infrastructure is a key enabler for the transition to climate

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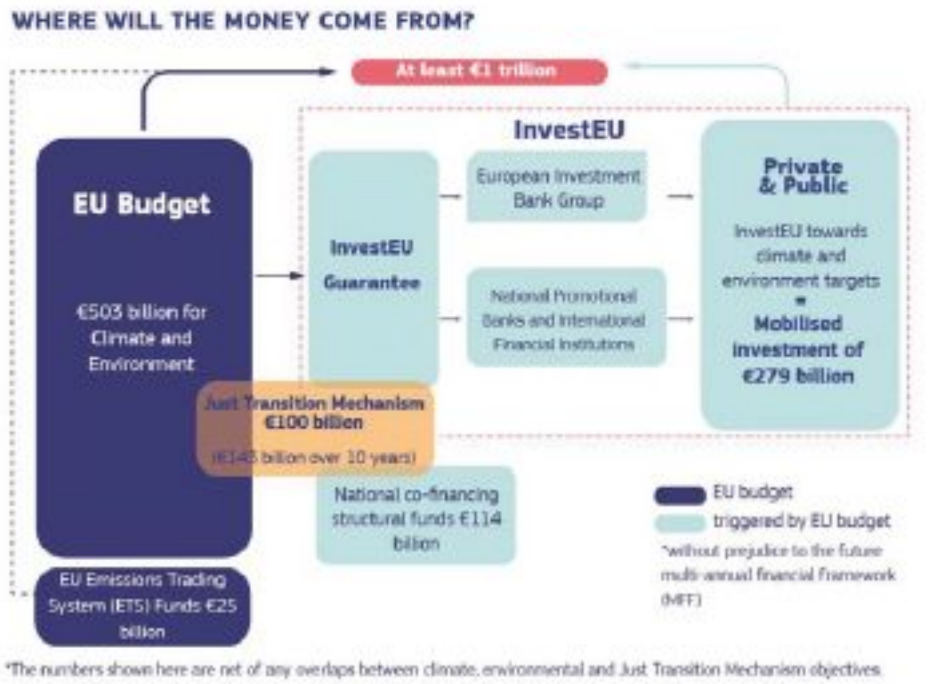

neutrality'.

The Commission announced it would release EUR979.6m of EU funding for supporting energy infrastructure projects of common interest that have significant societal benefits and that ensure greater solidarity among Member States. This call for proposals aims at financing actions contributing to the EU's mid-term and long-term objectives in terms of decarbonisation.

The deadline for submitting proposals in the areas of electricity, gas, smart grids and cross-border carbon dioxide networks infrastructures is 27 May 2020. Projects submitted in response to this call will be evaluated between June and September 2020, and the results are expected to be communicated in October 2020.

The call marked a milestone in the transition of the European Green Deal from von der Leyen's ambitious campaign pledge for the Presidency, to a guiding principle that all stakeholders in the infrastructure delivery sector must now grasp if they require the support of the European Union to get a project done. Most projects in the EU do.

The 2019 CEF Transport Multi-Annual Work Programme call closed 26 February with INEA receiving 262 project proposals requesting almost EUR4.53bn in total EU funding. The total available budget for that call is EUR1.4bn.

It adds: 'Considering that the EU's Green Deal Communication has further emphasized the key enabling role of energy infrastructure, including cross-border carbon dioxide networks, in the transition to a climate neutral economy, financial assistance provided under this call for proposals should maximise its added value towards decarbonisation.'

The 2019 CEF Transport Blending Facility call remains open "to promote the substantial participation of private sector investors and financial institutions in projects contributing to the environmental sustainability and efficiency of the transport sector in Europe". Submissions are due by 15 May 2020 and project promoters can contact the EIB's European Investment Advisory Hub (EIAH) to receive advisory services related to financing and blending opportunities. The EIAH was established under the Investment Plan for Europe (the Juncker Plan).

How did EU get here, and what is the Plan?

The 2015-2020 Juncker Plan had three objectives to make smarter use of financial resources; to provide visibility and technical assistance to investment projects; and to remove obstacles to investment and improve the business environment in the EU. The European Fund for Strategic Investments (EFSI), was the Juncker Plan's main pillar. It provides a first loss guarantee under the EU budget to the EIB Group, allowing it to invest in more, and often riskier, projects.

In spring 2019 the European Council and European Parliament backed the Commission's InvestEU Programme (2021-2027) to build on the Juncker Plan by providing an EU budget guarantee to support investment and access to finance in the EU. It is to bring together under one roof and with a single brand the EFSI and 13 other EU financial instruments currently supporting investment in the EU.

The InvestEU Programme consists of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. It aims to trigger at least EUR650bn in additional investment and support four policy areas (or windows): research, innovation and digitisation; small and medium-sized businesses; and social investment and skills; and sustainable infrastructure.

A spokesperson for the Commission told *Partnerships Bulletin*: "we can confirm that indeed it is possible for PPPs to be supported by InvestEU, as our aim is to mobilise private capital. The type of contractual model used for the financing project is up to the project promoter."

How do you make a trillion?

Climate and environmental spending under the EU budget will provide EUR503bn from 2021 to 2030, in line with the 25% climate mainstreaming target proposed for the 2021- 2027 multiannual financial framework (MFF) and including spending on the environment across all programmes. This will trigger additional national co-financing of EUR114bn over this timeframe on climate and environment.

The InvestEU Fund will leverage around EUR279bn of private and public climate and environmentally-related investments over the period 2021-2030 by providing an EU budget guarantee to reduce the risk in financing and investment operations. In March 2019 the Council, the European Parliament, and the European Commission agreed that the EIB Group will implement 75% of InvestEU.

To leave no one behind, the Just Transition Mechanism will include financing from the EU budget, co-financing from the Member States as well as contributions from InvestEU and the EIB to reach EUR100bn of investments to be mobilised over 2021-27, which, extrapolated over 10 years, will reach EUR143bn to ensure a just transition.

The Innovation and Modernisation funds, which are not part of the EU budget but are financed through a part of the revenues from the auctioning of carbon allowances under the Emissions Trading Scheme, will provide at least some EUR25bn for EU transition to climate neutrality.

Following the 15 January vote to support the European Green Deal Anna-Marie Slot, global sustainability partner at law firm Ashurst, told *Partnerships Bulletin*: "The focus on regulation related to sustainability goals is only accelerating. Delivery of the outcomes set out in the proposed European Green Deal will require more than MEPs commitment - industry participants and companies have the opportunity to be on the front foot in creating market driven solutions to the climate neutral challenges."

The EU's Bank

An expert at the EIB explained to *Partnerships Bulletin* that leveraging private finance has to be understood as "crowding-in" private financing. The InvestEU Fund will mobilise public and private investment through an EU budget guarantee of EUR38bn (figure can change in function of multi-annual financial framework negotiations) that will back the investment projects of the implementing partners such as the EIB Group and others, and increase their risk-bearing capacity.

"The idea is that thanks to the backing of the guarantee and for instance the excellent reputation of the EIB Group (with AAA rating), private investors feel more inclined to participate in projects which bear a bit more risk. The notion

of additionality, which is a corner stone of the EFSI programme, will also be a key element in InvestEU. Crowding-in private financing will be done through a variety of instruments throughout the four policy windows of InvestEU, typically through debt and quasi-equity products."

For the sustainable infrastructure window there is a target of 55% for climate and environment related investments while the entire InvestEU programme is expected to be 30% climate related investments.

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The public sector

With vast sums of cash and an even larger amount of acronyms to deal with, the SEIP will be able to benefit from the Advisory Hub as foreseen in the InvestEU programme.

The InvestEU Advisory Hub will be available for:

A) Public (incl. Member State central & local authorities) and private project promoters;

B) Financial and other intermediaries to implement financing and investment operations for the benefit of entities that face difficulties in obtaining access to finance.

The different types of advisory support offered under the InvestEU Advisory Hub to eligible beneficiaries, would include the following:

- Project advisory (e.g. identification/generation; preparation and development; Financial structuring
- Capacity building (e.g. Strengthening capacity and investment readiness of organizations; Environmental and/or social sustainability structuring and impact assessments and State Aid rules)
- Market development (e.g. Market development activities; communication and awareness raising)

Will the private sector invest?

EIB has confirmed to *Partnerships Bulletin* that it is expected that PPPs will be one of the possible models that will help deliver the SEIP. Investment Platforms will also be considered as a possibility to implement InvestEU and therefore also the SEIP.

Investor International *Public Partnerships* (INPP) told Partnerships Bulletin PPP mechanisms are a proven market concept and provide an off the shelf mechanism for leveraging private sector to support the delivery of the EU initiative.

Erica Sibree, head of investor relations & capital sourcing at the London-listed fund said "There is significant private sector investor interest in supporting low carbon investments. Combining this with clear government policies would support confidence in the market to commit to long term investment."

Sibree added: "The net-zero challenge is significant, and will require close collaboration between public and private sector if it is to be realised. The plan should provide a clear roadmap of what projects are required, where they are needed and when they should be pursued. The plan should then provide clear guidance on the financing mechanisms that could be considered by public administrations to deliver them, consulting with the private sector to ensure they also provide attractive commercial returns to encourage investment from external sources.

To execute sustainable projects she suggests the Plan should go beyond theoretical concept, and test the technologies that are going to be required.

"Targeted innovation policies should focus on technologies that have the greatest potential to cut carbon emissions, maximise knowledge-sharing between businesses and sectors and build on existing areas of industrial strength. Trials should be undertaken in the immediate term at the federal level to prove concept for innovative new technologies (e.g. hydrogen, carbon capture and storage). This will then pave the way for investment from the private sector."

The truth will be in [the] Tallinn

INPP's investment advisor, Amber Infrastructure has been appointed as the exclusive investment advisor to the Three Seas Initiative Investment Fund (3SIIF), the largest dedicated Central and Eastern Europe infrastructure fund, holding an initial close with EUR520m in capital commitments.

3SIIF will target an established pipeline of investments into energy, transport and digital infrastructure in the 12 EU CEE member states which border the Baltic, Adriatic and Black seas where the demand for long-term commercial investment into national infrastructure is among the highest in the EU.

Amber told *Partnerships Bulletin* 3SIIF will invest strategically in infrastructure projects in the Three Seas region, identifying and engaging with a range of investors and financial institutions and seeking to align its own investment criteria with that of the projects and businesses it invests in. Cornerstone investors including Bank Gospodarstwa Krajowego (BGK) and EximBank, Poland and Romania's respective national development finance institutions.

In February, US Secretary of State Michael R. Pompeo that the International Development Finance Corporation (DFC), with the support of Congress, intends to provide up to USD1bn in financing to CEE countries of the Three Seas Initiative "to galvanize private sector investment in the energy sector."

On 5 March the chief executive officer of the DFC Adam Boehler met with the President of Estonia Kersti Kaljulaid in Washington DC to discuss the 3SIIF, with the next Three Seas Summit that is scheduled to take place in Estonia's capital, Tallinn in the summer.

The DFC was established by President Donald Trump to support the private sector to finance critical infrastructure and energy projects in emerging markets. The development bank has hit the ground running since it officially replaced OPIC in January, with investments approved by its board for projects across Asia, Africa and the Americas.

Pompeo and Trump have made no secret that the DFC is the softer edge of the USA's rivalry with China and Russia. The EU itself has now become the next front in that rivalry.

The ramp-up in infrastructure and investment in the EU will be guided by the dual challenges of climate change and COVID-19. How the EU works with the US, and its European neighbours, will define its success.