New Instruments for Financing Infrastructure in Europe

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Abstract

The crisis is having a severe impact on public finance in all major EU member states. With debt to GDP ratios estimated to reach 100% by 2014, it becomes increasingly arduous to obtain grants from the EU or by national public budgets to finance common European policies - especially investments in major infrastructure projects: a key part of any crisis exit strategy. In this paper we introduce a number of new EU financial instruments to finance infrastructure in Europe. We claim that the European Union's increased need to attract a large volume of financial resources from global markets in support of strategic investments is essential to securing the region's elite status In the fields of knowledge, technology, environment, culture, social cohesion and civil progress. Moving forward, the world's financial markets will likely show extraordinary growing supply of savings in emerging economies. During the recent crisis, intense competition among public debts expanded markedly in advanced economies. Socially cohesive sound economies boasting achievements in technology and the environment will inspire global investors' confidence and attract increasing resources. Approval of a sound and stable euro is strong and the European Union's reputation as a reliable economic area is thriving - in part a result of the Stability and Growth Pact and the ECB's rigorous anti-inflation policy.

The EU will then have to increase the euro's leverage using a better combination of long-term capital and debt instruments (such as project bonds and guarantee schemes) issued by large European funds and other similar long-term public and private financial institutions and investors. The implementation of the strategic projects foreseen by the Lisbon Agenda will require the establishment of European Joint Undertakings, raising capital in industrial and financial environments. These actions, together with the issuance of European Sovereign Debt securities, will strengthen the alliance of European peoples and secure the political cohesion of the Union.

Europe can stimulate growth in coming years by investing heavily in energy, the environment, transport and telecommunications, and making use of innovative, long-term financial instruments that do not burden public finances and consequently, future generations. Important moves to lift the economy out of recession would then be: (1) boosting GDP growth in sectors that ensure "strong, sustainable and balanced" economic growth, (2) reducing investment spending that weighs on public finances; (3) generating major positive externalities for the economy, the environment, and social cohesion; and (4) helping to readjust public finances through renewed growth in GDP and, consequently, revenues.

1. Introduction

It is easy to assume that the economic and financial crisis of 2008-2009 will radically alter the European Union's program managing resources and budget. Certain necessary adjustments may be perceived even now.

An appropriate exit strategy to lift the Union out of crisis is still debated. While immediate relief from recession is sought, remedy should include forward looking measures that stimulate and foster long-term growth. Some choices remain exclusively the province of national governments, though it is hoped that adequate cooperation within Europe and support by the world community will soon arise. Surely shared policies by an integrated Europe focusing on a common good, would yield better results.

The crisis is having a severe impact on public finance in all major EU member states and nearly all other mature economies. Chief among ills is a rising public debt, and this symptom has inflamed: a consequence of discretionary government intervention seeking rescue and stimulate economies and financial systems and of the negative effects of the recession on the public finance ratios and on tax revenues. Rising debt taps the EU's current resources it becomes increasingly arduous to obtain grants from the EU budget to finance common European policies - especially investments in major infrastructure projects: a key part of any crisis exit strategy[1].

Globalization has also allowed Europe interesting opportunities. Emerging economies, with considerable monetary and financial surpluses, are prompted to diversify the management of their reserves and investments, and thus ready to allocate a larger portion to Europe.

[1] ....as demonstrated by the economic stimulus measures adopted by the leading non-EU countries, from the United States to China.

Approval of a sound and stable euro is strong and the European Union's reputation as a reliable economic area is thriving - in part a result of the Stability and Growth Pact and the ECB's rigorous anti-inflation policy.

While it is true that, on average, the debt-to-GDP ratios will reach 100% in the euro Area in 2014, the ratios of the two other major countries with mature economies are projected to rise even higher: Japan's is expected to grow from 217% in 2009 to 245% in 2014 and that of the Unites States could rise from 84.8% to 108%.[2]

In the near future, securities issued by EU member states will no longer be drawn from a disadvantaged position among sovereign issues of the world's major countries. Rather, Europe appears to be in a good place to increase its leverage and attract capital from global markets, thereby financing long-term investment in infrastructure projects (transportation, energy, telecommunications) that generate guaranteed, albeit deferred, returns.

In other words, once the crisis has passed, European infrastructure projects must seek financing from private capital and non-EU public capital rather than rely on the unlikely prospect of receiving funding from national government budgets. Innovative financial instruments will be needed to achieve success: the topic to be explored in greater depth in this paper.

2. Effects of the Global Economic and Financial Crisis

According to a recent report by the International Monetary Fund,[3] the financial crisis will have a significant impact on the public finance of most countries throughout the world. The debt/GDP ratios of the "advanced economies" within the G-20 came to 101.8% of GDP in 2009 and could reach 121.7% in 2014. The public debts of industrial countries are expected to expand the most, while those of the emerging countries should remain broadly stable at around 30% of GDP. The former include: Japan (from 218% in 2009 to 245% in 2014), Italy (from 115.3% to 128.5%), the United States (from 84.8% to 108%),

[2] Forecasts for developments debt-to-GDP ratios are contained in IMF, *The State of Public Finances Cross-Country Fiscal Monitor: November 2009*, November 3, 2009. See also IMF, *The State of Public Finances: Outlook and Medium-Term Policies After the 2008 Crisis*, March 6, 2009, pp. 22-26; and IMF, *Fiscal Implications of the Global Economic and Financial Crisis*, Staff Position Note, 6 June 2009, pp. 22-30.

[3] *Ibid*.

Germany (from 78.7% to 89.3%), France (from 78% to 96.3%) and the United Kingdom (from 68.7% to 98.3%). The latter: China (from 20.2% to 20%), Brazil (from 68.5% to 58.8%), India (from 84.7% to 78.6%), Mexico (from 47.8% to 44.3%) and Russia (unchanged at 7.2%). Taking a long-term view, the debt/GDP ratios of countries with mature economies in 2050 could even exceed 250%.

This means that in the coming decades there will not only be profound structural transformations in the flow of savings and goods as part of market globalisation, but also, there will be a revision - a substantive shift in the paradigm - of the theory and practice of global monetary economics as we have known it until now. Talking about a new Bretton Woods, or simply trying to imagine what the "aging" Western countries will do over the next 50 years to maintain leadership of the world economy, requires a serious rethinking of the values and purposes that will bind the "new world" in which our children and grandchildren will find themselves.

The recommendations advanced by the International Monetary Fund, are entirely reasonable, but seem both difficult to implement and perhaps insufficient to tackle the system-wide scale of the crisis. Now seemingly traditional steps seeking to ensure that fiscal stimulus measures are temporary, avoid protectionist policies, curb deficits sharply after the crisis has passed, undertake structural reforms to encourage growth and reform pension and healthcare systems, are sensible, but the "conventional wisdom" of the International Monetary Fund has to contend with new demands and problems. Looking forward, the contrast between the old and new worlds will be starker. The old world, rich and powerful, is aging and falling further into debt. The new world, still weak and poor, is young, far less indebted, and is expanding rapidly and therefore has greater potential to accumulate savings. Where will those flows of savings go over the next 20 or 30 years? What reserve currency will the central banks of the world's countries choose? What government securities will the new Chinese, Indian, Brazilian and Russian middle classes select for their portfolios? At the moment, about 80% of financial savings are held by Western countries. However, the financial assets of the emerging countries are expanding at a very rapid rate (2 or 3 times GDP growth). Over the long term, enormous structural changes are to be expected, some sketches seem already emerging. Predictions are easily traced from available data, if viewed from the typically neo-Keynesian macroeconomic

stance of the IMF economists, authors of forecasts. New assets acquired by governments during the crisis could increase in value considerably once the financial storm has subsided. However, these trends could be upended by unforeseeable government actions and policies.

The scenario just outlined poses questions not easily firmly answered. Should a "massive" rebalancing of the monetary flows from the old world to the new be expected? Will the old world accept slow inexorable decline without reacting or, as it has always done in the past, will it decide to take action once again, perhaps militarily? Could the mighty giants of world capitalism decide to engineer a massive dose of inflation to reduce the burden of debt, bringing on serious risk of triggering "new ideological insanities" – thereby wreaking grave social harm and havoc? Will the ECB and the Federal Reserve simply sit back and let this ill-omened scenario happen? Can conflicting interests be reconciled through a system of "world economic governance," capable of implementing major, long-term policies for environmental, social, demographic, commercial and monetary sustainability?

To begin with, serious consideration must be given to possible ways of extricating ourselves from the "new fiscal crisis of the governments" leading G-20 advanced economies. Recent trauma greatly weakened public finances just when girding to face the challenges of pending demographic shock.[4] What risks might this difficult adjustment engender? The sudden increase in public debt, now induced is without precedent, in Western history, excepting periods of war. Considering the costs of the actions taken to prop up financial systems (IMF estimates these nearing 5% of the GDP in advanced economies), the mire, caused by recession and fiscal conditions, not merely cyclical, has reached a magnitude never witnessed before. The deficit adjusted for the business cycle will still be high in 2010, equal to 3.5% of GDP. The end of the fiscal stimulus measures could ease burdens on public finances by about 1.5% of GDP. Meanwhile, we are still faced with high public debt everywhere and interest rates on debt servicing expected to rise by at least 2 percentage points starting in 2014. Finally, in about five years, demographic

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[4] See C. Cotarelli and J. Vinals, *A Strategy for Renormalization Fiscal and Monetary Policies in Advanced Economies*, IMF SPN/09/22, September 22, 2009.

pressures will start to impact, posing serious threats to the fiscal stability of governments. What to do?

The debt/GDP ratio may be reduced:[5] by generating inflation, surplus production and increasing the GDP. The first route is not advisable, and would surely be counteracted by ECB. However, at the global level (especially in the United States, which has a much more "flexible" monetary policy), we cannot rule out the "administration" of a dose of inflation to help deflate the debt balloon generated during the crisis. Recently, it was estimated that with 6% inflation over the next five years the average ratio of government debt to GDP of the advanced economies could fall by 8-9 points, compared with the baseline scenario (inflation at 2%).[6] Obviously, double-digit inflation would have a significantly different impact. Troubles experienced during the 1970s counsel against taking this path. In fact, high inflation seriously distorts the allocation of resources, reduces the rate of economic growth, hits the poorest citizens the hardest, creates social and political instability, and once unleashed, inflation is hard to contain and negative effects are unpredictable. Price stability must be maintained and central banks should work to ensure it.

The second route to cutting public debt, generating significant surpluses over several years, would be difficult to achieve on a practical level, though seemingly a lone alternative. In the last 15 years, no major Western country has managed to curtail current spending,[7] and most of the surpluses (or the initiatives that directly contributed to reducing the debt) were achieved by extraordinary measures, such as privatisations, tax amnesties and accounting operations. At most, a rigorous fiscal policy would keep the

[5] ….in addition, obviously, to privatisation, the assignment of receivables, and, indirectly, the disposal of public assets, as well as other "extraordinary" operations involving the so-called "residual component" (stock-flow adjustments).

[6] The estimate was presented by Ken Rogoff, Professor of Public Policy at Harvard and former chief economist of the IMF, in various recent remarks. For example" *Countries are so deep in debt, they risk drowning in red ink*", The Globe, 10 November 2009. According to another recent estimate, a 6% inflation maybe produce a 20% reduction of the public-debt-to GDP ratios. See Aizenman and Marion, *Using Inflation to Erode the US Public Debt*, NBER Working Paper 15562, 2009.

[7] However, it should be noted that Italy reduced its expenditure in respect of compensation of government employees by 2% of GDP between 1994 and 2000 and the country still has ample room for a rigorous policy of cutting current spending, particularly in intermediate consumption by government departments.

ratio constant, but reducing it is very difficult. The IMF estimates that in order to cut government debt to pre-crisis levels, the average budget adjustment of the G-20 advanced economies (between 2011-2020) would have to be on the order of 8% of GDP, of which, 1.5 points in lower costs for economic stimulus measures, 3.5 points in cuts to primary expenditure (excluding healthcare and pensions), and 3 points in revenue measures, such as tax rationalisation, curbing tax evasion and tax increases. A further 3-4% of GDP will be required to tackle healthcare costs and pension obligations as a result of demographic developments. This achievement would require a decade of spending cuts or tax increases nearing 1-1.5% of GDP annually. In other words, each year, for 10 years, the EU-27, the largest economic area in the world, would be required €150-€200 billion in spending cuts (or revenues increases). Quite a politically treacherous path to take – and dangerous if popular support denied a political class showing no more resources - offering only spending cuts or higher taxes. It is likely that the issue of the "new fiscal crisis of states" will once again dominate political discussion in the coming years.

Finally, the third option would be to boost the average rate of GDP growth. While a most desirable solution, is not easy to achieve. Countries with mature economies post modest, if not stagnant, growth (in the last 15 years, growth has not exceeded 2%, while 30 years prior, growth averaged 5%). The much vaunted reforms to liberalize markets, boosting competition and expanding free-market forces, have not yielded desired results. Nevertheless, growth is a strong ally in the fight against debt. For example, with debt equal to 100% of GDP, an annual 1% year increase in growth (assuming constant public spending and a tax burden of 40%) could reduce the debt/GDP ratio by 28 percentage points over 10 years. One feasible way to stimulate growth is to channel major flows of long-term capital in European initiatives with a strong environmental component - investments that contribute significantly while using a minimum of public resources. This will be discussed in the following pages.

3. The Decline of the Dollar and the Rise of the Euro?

Under the prevailing interpretation, the 2007/2008 financial crisis has weakened the dollar and opened up new opportunities in the global monetary panorama.

The dollar has indeed strengthened. Investors, when shaken (by turmoil), largely sought refuge in US government securities market: the most liquid in the world and, in recent times of tremor, widely considered the place to safeguard savings. There has been no real loss of confidence in the dollar's stability.

As regards central bank reserves, IMF data show that 64% of the world's reserves are in dollars and that this figure has continually risen over the last two years.[8] Thus, while it is true that during the crisis American investors shifted their assets from deposits and bank securities to government securities, before gradually shifting back, this does not appear to be the case for the world's central banks; they have regularly accumulated dollar-denominated reserves at a faster pace than during the period preceding the crisis, thereby financing US deficit. It still makes sense to maintain reserves in the same currency as that of foreign debt and foreign trade. Such funds are employed to lighten the debt, ease trade flow and intervene in foreign currency markets.

The strengthening of the dollar could be a short-term phenomenon. It might be argued that the vast amount of securities issued by the US financial market began to erode confidence in the dollar and US government securities. Over the next few years, the United States will be forced to issue large quantities of debt, in part to finance the imposing bailout and stimulus packages approved in 2008-2009. With an evident deceleration in financial globalisation, this could create significant problems for the United States in financing its budget and trade deficits. After the Second World War, the reason most allies and trading partners financed American debt was in part, political: it was the only superpower facing down the Soviet bloc. The United States drew support, even if only as a mechanism for trading military and economic protection and the dollar stood dominant Such motivations have waned.

It is likely that this will all lead to a gradual fading of the dollar's predominance in reserves and international trade. Rapidly growing emerging economies in the midst of increasing global multipolarism will tend to increase foreign exchange reserves and should consider alternatives. The euro and Europe are the most natural beneficiaries of this diversification process.

[8] The data on the estimated composition of central bank reserves are found in IMF, *Currency Composition of Official Foreign Exchange Reserves (The COFER database)*, September 30, 2009.

In 2008, 45% of international securities were issued in dollars, compared with 32% denominated in euros.[9] According to the Bank for International Settlements (BIS),[10] in 2007, 86% of all international transactions were carried out in dollars, compared with 38% in euros.[11] In April 2008, according to the IMF, 66 countries used the dollar as the reference currency for their exports, compared with 27 that used the euro.[12]

Central banks tend to prefer currencies that do not devalue due to inflation, but even more they choose currencies that can be easily monetized for use in open market operations. This latter characteristic depends on the liquidity and depth of the market for government securities issued in that currency. The US securities market is still the largest government securities market in the world: holding almost two-thirds of the reserves of central are dollar denominated, while, sterling and the Swiss franc only account for 2% and 1%, respectively.

Therefore, the only alternative to the dollar in the near future is the euro. The European Union's GDP exceeds that of the United States. It has a stringent and effective inflation target. The Stability and Growth Pact has contributed to the stability of public finances. Though, to date, only 16 EU member states have adopted the euro and differences between the securities of the various member states exist - reflecting the fact that the national economies are not always in step. Larger markets, like Italy, are affected by a certain degree of economic and political instability, but the importance of the euro as a reserve currency is bound to increase, especially in the countries that border continental Europe, such as the Mediterranean-basin countries and Russia. As euro-denominated trade increases, the euro reserves of the central banks of the nearest countries will grow. Between 2008 and 2009, the euro reserves of the central bank of Russia increased from 42 to 47% of the total, while its dollar reserves fell from 47 to 41%.[13]

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[9] IMF, *Currency Composition, op. cit.;* See, R. Moghadam, *Reserve Currencies in the Post-Crisis International Monetary System*, September 24, 2009 by iMFdirect; and L. Goldberg and C. Tille, *Vehicle Currency Use in International Trade,* in *Journal of International Economics*, Issue 76, Vol. 2, pp. 177-192, December 2008.

[10] BIS, *Triennial Survey of Annual Trade*, 2007.

[11] The total for all currencies comes to 200% since each transaction involves two currencies.

[12] IMF, *Currency Composition*, *op. cit.*.

[13] L. Goldberg and C. Tille , *op. cit.*, p. 184.

Diversification of China's reserves will have a much greater impact. It is estimated that 60% of the official reserves of the Chinese central bank are currently in dollars, and this dependence is causing concern. A sudden change of tack could cause the price of American securities to collapse, with a negative impact on both China, whose reserves would be devalued, and the United States, which would be forced to revalue them. It is therefore likely that the Chinese will adopt a strategy of gradual diversification that will require several decades to complete. While gradual, this - given the volumes involved - is a major change that could impact notably in the short-to-medium term.[14]

Clearly, the creation of a single European sovereign bond market, in the immediate future will pose serious competition for the US market,[15] with increasingly ample room for the euro and therefore, European debt to finance infrastructure and development in Europe.

A sovereign European debt around 15-20% of the European Union's GDP would be worth 2-3,000 bn euros.[16] This is a relatively modest portion of the total public debt of the EU-27 member states, equal to 61.5% of Europe's GDP in 2008, the European Commission estimates this figure will rise to 72% in 2009 and 79.4% in 2010;[17] however, adequate to make truly significant strategic investments.

4. Infrastructure Investment and the Role of Long-term Institutional Investors[18]

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[14] It is no coincidence that for some time now there has been discussion of the possibility of transferring a part of the world’s reserves into IMF Special Drawing Rights, which are based on four currencies (dollar, Euro, yen and pound sterling). This marks a return to the “bancor” idea proposed by Keynes after the First World War.

[15] “The current global economic crisis has encouraged talk of issuing Euro-area bonds with the backing of the entire set of Euro-area members, including, most importantly, Germany. If this were done on a significant scale and if this debt were to replace the member states' national debt securities, the Euro area would possess a market with roughly the uniformity and liquidity of the United States' Treasury market. But such radical fiscal federalism is not something to which the German government, among others, is likely to agree..” (B. Eichengreen, *The Dollar Dilemma*, in *Foreign Affairs*, September/October 2009, p. 58).

16 The GDP of the EU-27 (2008) came to €12,506 billion (Eurostat figures).

[17] European Commission, *Public Finance in EMU 2009*, May 2009.

[18] For more on this issue, see: F. Bassanini and E. Reviglio, *New European Institutional Long Term Financial Instruments for a Sustainable and Balanced Growth,* now in *Astrid Rassegna*, no. 17/2009, www.astrid-online.it/rassegna/06-10-2009/Bassanini_Reviglio_Goteborg_-riimpag.pdf); Id., *Tempi maturi per un debito sovrano Europeo*, in *Il Sole 24 Ore,* 7 October 2009 (see www.astrid-online.it/Riforma-

It will take a long-term vision to tackle major challenges facing our society: climate change, scarce natural resources, environmental protection, poverty, immigration, and education. Exit strategies for the economic and financial crisis must be developed on this basis. Strategic investments in infrastructure, energy, telecommunications and human resources play a key role in improving quality of life and social cohesion, necessary positive prospects for the economy as a whole.

Policies aimed at long-term global objectives – notably geared toward the fight against climate change and improving the quality of life in metropolitan areas – present an opportunity. Transition to a low carbon economy and laying groundwork for rapid urbanization, are examples requiring major investments in technological innovation, renewable energy, water infrastructure, telecommunications and transport. Such industries are capable of generating attractive returns, stimulating "virtuous chains" of investment and fuelling economic growth and job creation.

World demand for investment in energy, the environment and infrastructure is set to boom over the next few years.[19] In the energy industry, capital expenditure between now and 2030, recently forecast at $26 trillion (in 2008 dollar values), corresponds to an average of $1.1 trillion (1.4% of world GDP) per year.[20] Demand for investment in energy generation will account for around 53% of the sector's requirements. Around half of worldwide investment will be concentrated in the emerging economies, where demand and output will be fast-growing.

The World Bank estimates that, in Europe, €40 billion will be invested annually in new infrastructure. An additional €60 billion will be required for maintenance and replacement of existing infrastructure (mainly in energy generation, telecommunications and transport). The Centre for European Policy Studies recently estimated the overall cost

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[19] Unless otherwise noted, data for this section have been drawn – and partially reworked – from the European Commission, Working Group "2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite)", *Report to the ECOFIN Council*, Brussels, 19 June 2009.

[20] EIA-OECD, *World Energy Outlook*, October 2009.

of transport and energy infrastructure needed solely to tackle climate change-related issues in the European Union at around €50 billion per year over the next 40 years.[21]

A recent report by the European Commission offered an estimate of the overall costs of Trans-European Transport Network (TEN-T and TEN-E) projects:[22] Transport requirements assessed at around €900 billion (between 1996 and 2020), of which €400 billion had already been spent by the end of 2007, with a further €500 million to be spent by 2020. Priority projects alone will cost an estimated €400 billion between 1996 and 2020, of which around €130 billion had already been invested by the end of 2007, with the remainder of about €270 billion due to be spent by 2020. The European Union will have to invest at least €30 billion in energy infrastructure by the end of 2013 (€6 billion for electricity transmission, €19 billion in gas pipelines, and €5 billion in liquefied natural gas terminals) in order to achieve the priorities outlined in the Trans-European Energy Network (TEN-E) guidelines. Estimated costs fall between €700 million and €800 million annually to connect new renewable energy plants.[23]

Clearly, it will be difficult to fund investments of this size solely from public resources, particularly with European countries' debt significantly raised in the wake of the financial crisis. More capital must come from private investors in Europe and public sources in countries that are running financial surpluses. The issue of the forms and instruments required to channel such capital into long-term investments in infrastructure is a key element of recovering from the recession and developing a model for sustainable and balanced world economic growth. Given the structural constraints on public finance in many industrialized economies, new long-term financial instruments capable of attracting private capital would present an enormous benefit in lightening the burden on public finance and future generations maintaining direct public investment in fixed and human capital.

[21] Centre for European Policy Studies (CEPS), *Financial Impacts of Climate Change: What scale of required resources,* 2008.
[22] European Commission, *Trans European Networks: Towards an Integrated Approach*, Communication 135, 21 March 2007.
[23] According to a market study commissioned from McKinsey by the working group responsible for the "Marguerite, 2020 European Fund for Transport, Energy and Climate Change" in May 2009 (see herein), the European market in which the Fund is involved (transport infrastructure, energy grids, renewable energy and climate change) is estimated to be worth around €30 billion annually.

The crisis has modified investors' risk profiles. In the future we will probably see greater demand for long-term, low-risk investment products from large pension funds, insurance companies, sovereign wealth funds and households and small investors.

Bringing together the demand for long-term, low-risk financial investments and the demand for infrastructure financing, which promise reliable and stable cash flows, creates an opportunity to rebound from crisis. This solution would sustain the vast future demand for new infrastructure while simultaneously assisting to recover the world's financial markets.[24] In this manner, investors also make major contributions to long-term economic and social planning, and become key allies of global policymakers in their effort to correct imbalances generated by the crisis and restore economic and financial stability - both in the short term and for future generations.

New regulatory and prudential framework is necessary to support such long-term investors. It must include specific incentives, appropriate accounting rules, effective corporate governance systems and new rules on financial market segmentation.[25]

5. The Effects of the Financial Crisis on PFI Initiatives and the "Marguerite" Network

Traditional sources of senior debt for infrastructure and energy projects have contracted sharply in global recession. Capital markets supply insufficient debt financing to these sectors, owing to a shortage of transactions backed by monoline insurers and low investor appetite for unguaranteed project bonds.

Obtaining long-term bank credit is also especially challenging at present due to liquidity and capital constraints on major banking groups. Syndicated loan volumes are down as are amounts banks will commit to individual transactions.

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[24] For a more extensive discussion, see F. Bassanini and E. Reviglio, *Long Term Investments The European Answer to the Crisis Towards a New European Policy of Value Creation for Future Generations,* op. cit

[25] For more information, see Eurofi, *A specific treatment is required for long term investments*, working paper, June 2009, now online at http://www.astrid-online.it/Dossier--d1/DISCIPLINA/Note-e-con/EUROFI_Long-term-Investment_Working-paper_29_06_09.pdf; F. Bassanini and E. Reviglio, *New European Institutional Long Term Financial Instruments for a Sustainable and Balanced Growth, op. cit.*

As financial institutions are increasingly risk-averse, leveraged financing structures require far more equity capital than in the past. It is difficult to get major infrastructure projects off the ground without the involvement of public equity capital or long-term public institutional investors capable of attracting private capital. On the other hand, emerging sectors such as strategic investments in renewable energy and environmental infrastructure are expected to be an increasingly attractive asset class for banks and capital markets.

At the September 2008 ECOFIN gathering in Nice, the Italian Minister for the Economy and Finance proposed to support the European Economic Recovery Plan as a better alternative over any exit strategy plan involving the already troubled EU budget. The plan establishes major equity funds, fuelled by financial institutions, for channeling private capital, households' savings and public funds from non-European countries in search of diversification opportunities.

, the establishment of, major equity funds fuelled by financial institutions willing to invest capital in long-term projects earning, non-speculative returns, by channelling private capital, household savings and, where appropriate, public funds from countries outside Europe seeking to diversify.

After the approval of ECOFIN, the European Commission and the EIB, joined by representative European long-term institutional investors - Caisse des Dépôts et Consignations (CDC), Cassa Depositi e Prestiti (CDP), and Kreditanstalt für Wiederaufbau (KfW) – started developing and implanting the project. These market-oriented public institutions (most in private-law form) have significant technical skills and forward-looking dedicated interest in public welfare.

The working group's three month study delivered a proposal, adopted by the European Council on 20 December 2008. In 2009, an *ad hoc* committee of technical experts from the EIB, CDC, CDP and KFW started setting up the "Marguerite, 2020 European Fund for Transport, Energy and Climate Change". The ICO of Spain and PKO of Poland subsequently joined the project, making for six founding members. The Fund was established in Luxembourg on 12 November, and the first meeting of its governing bodies was scheduled for 3 December in Brussels. The European Commission granted €80 million to the Fund, less than the amount invested by the other founding members, but of

great symbolic importance, as it is the only contribution drawn from the resources of the EU public budget. Other potential investors that have declared an interest in joining the operation include the British Treasury (as a sponsor of private pension funds), Bank Polski (BGK) of Poland, the Bulgarian Development Bank, a Slovenian institution, Caixa of Portugal, and an Irish institution. Such investors will have smaller stakes, and will not be represented on the Fund's governing bodies.

Under the original plan, the Fund was to be significantly larger, with assets of up to €10 billion. The founders decided to follow a more prudent route and begin with a smaller initial closing: setting the maximum at €1.5 billion. Nevertheless, as the months have passed, the view that the maximum can be raised significantly, indeed, as much as the ceiling initially envisaged, has gained ground. At the same time, there is increased awareness that the demand for financing strategic infrastructure projects of European interest may exceed the €30 billion per year estimated in the study that the Fund commissioned from McKinsey. If the initial project is successful, expansion or set up of similar funds could soon become irresistible.

The working group also explored the option of deploying other financial instruments that could potentially help enhance the Fund's activities and increase its resources. Two such "market-conform" tools – project bonds and guarantee systems – are discussed below.

It is estimated that over the next few years, due to multiplier and support effects for private funds, the Marguerite will mobilize investments in the order of €30 billion - €50 billion in the European energy and infrastructure sectors. The geographical scope of the investments should span all 27 EU member states. Priority sectors being: 1) TEN-Ts and other associated transport infrastructure; 2) TEN-Es, including electricity, gas, LNG and oil pipelines, grids, interconnection systems and storage; and 3) renewable energy generation (including photovoltaic, solar and wind). Mainly investing in equity stakes, primarily in new Greenfield projects, but as noted above, the Fund will also have associated debt facilities managed directly by each individual institution. These additional facilities could potentially mobilize many billions of euros in added resources.

In brief, the Fund will to all effects be "market oriented", but distinguished from traditional private equity funds by: (1) seeking "non-speculative" returns; (2) investing

with long-term horizons; and (3) gathering significant institutional endorsement helmed by the European Commission among the founder members.

The Marguerite Fund proves "reinforced cooperation" in European finance works and stands prototype for a "family of European funds for growth" to support the Lisbon Agenda's ambitious objectives. It may foster the emergence of a new broad cooperation of long-term *institutiona*l investors – a "European Super Fund" – a solid buttress for strategic infrastructure.

6. European Single Project Bonds[26]

Potential alternatives exist to raise funds for infrastructure, within given limits imposed by current economic conditions noted earlier. The resulting investments could prove to be an attractive opportunity for pension funds, insurance companies, sovereign wealth funds and households.

Single project bonds for energy or transport programs could be particularly important at a time when leverage is severely diminished Following the collapse of monoline insurers toward the end of 2007 as well as of several securities' markets.

Project bonds sponsored by the Marguerite Network would be particularly appealing. The "reputation premium" generated by the European Commission's participation and the prestige of the other founding shareholders would surely lower costs, raise the credit ratings of the securities involved, and create an asset class attractive to investors seeking to match their liabilities with long-term, fixed-income assets, including European households and foreign sovereign wealth funds diversify. With well-prepared projects, funds raised directly, would not officially deplete public accounts of either the European

[26] On 25 September 2008, the Vice-President of the European Commission with responsibility for transport policy, Antonio Tajani, met with the EIB President Philippe Maystadt and his Italian and Greek Vice-Presidents to investigate potential strategies for maximizing the EIB's involvement in funding major transport infrastructure projects. A decision was taken to set up an informal working group consisting of representatives from the Commissioner's Cabinet, the Directorate General for Transport and Energy, and the EIB, with the objective of studying new tools for financing TEN-T projects and facilitating participation by private investors. For the most part, the proposals presented in this and the following section have been taken (in some cases verbatim) from an informal memorandum drafted by the working group in the summer of 2009.

Union or individual member states.[27] The Marguerite Network, is key in its very essence: providing track time evidence crucial to project bond promoters, as a new generation instrument garnering guarantees and technical support.

In the past, a number of member states have urged greater Commission involvement in ownership of the TEN-T and TEN-E projects, and so called for the issue of Eurobonds to enable the dedicated EU budget. Discussed further on, an amendment to the European Treaties is necessary before the Commission may dip into the capital market. Such a path promises to be sufficiently challenging so as to render the route relatively impractical in the immediate future.

In contrast, European single project bonds issued directly by project sponsors create a fast and attractive instrument. Due to the recent difficulties experienced by monoline insurers, no such securities currently exist on the market. Prior to the crisis, a significant part of the project bond market was "wrapped", or, in other words, secured with AAA monoline guarantees, and donned high ratings. Attractive dressings appealed to institutional investors seeking assets with ratings purportedly making the requisite grade due their long-term and fixed-income liabilities.

7. Guarantee Schemes and Project Bonds

The Marguerite Network could provide debt service guarantees to cover project bonds. Under the current regulatory framework, guarantees are an acceptable alternative to loans provided to cover profiles at risk. Bonds issued for individual projects, if European Super Fund-sponsored, would naturally adopt the Network's credit rating.

Sporting solid reputation and technical expertise in "assembling" PPP projects, and an added monoline guarantee to security, any Marguerite recommended instrument, with a high rating and low cost, is certain to attract investors. In the event a project's full funding were not covered by bonds, banks may then invest. Single project bonds promise: (a) non-encumbrance on national budgets (or more pointedly on Network members' accounts –

[27] If the funding is issued by a "market unit", even if that unit is 100% owned by the State or some other public sector entity, and if, thanks to an appropriate financing structure, at least two out of the three risks that characterize a PFI project (construction, traffic and tariffs) are transferred to the market, then in compliance with the ESA-95 accounting rules, this debt is not included in the national public debt, valid for compliance with the criteria of the Maastricht Treaty and the Stability and Growth Pact.

other than the cost of the guarantees); (b) facilitation of projects with long-term goals – as of late left outside market means; (c) a "market-conform" instrumental attraction (d) no crowding-out effect - as a portion of debt may be bank-designated. Note the above-proposed is similar to the proposal introduced/presented in Obama's stimulus plan,[28] tailored to fit Europe

Projects financed by issuing securities on capital markets and guaranteed (by Marguerite) promise studied structure and regular, reliable returns. Cases presenting technologically complex construction or other intricacies at issue, will most likely depend on availability of payment cash flow, rather than asset use support.

8. European Joint Undertakings[29]

Instruments envisaged to achieve Lisbon Agenda objectives, European legislative designs encourage exercising technological research and development programmes. The instrument named "Joint Undertaking", has attracted little attention and usually sits unemployed. According to Article 187 of the Treaty on the Functioning of the European Union (TFEU), the Union may "set up Joint Undertakings or any other structure necessary for the efficient execution of Union research, technological development and demonstration programmes". Related decisions, to be taken by the Council, acting on Commission proposals after consulting the European Parliament and the Economic and Social Committee, as outlined in Article 188 of the TFEU. It is also possible to establish "European Joint Undertakings" through "reinforced cooperation". Recently these provisions allowed the European Union and the ESA to implement the Galileo

[28] In the United States, as in the European Union, the new Administration is seeking to counter the recession with economic stimulus measures that include a significant commitment to new investment in public infrastructure. The stimulus package provides for the issue of new types of project bonds, which are accompanied by significant direct tax relief for the net interest accrued on the bonds. For example, the "Recovery Zone Economic Development Bonds" are to be issued to finance public infrastructure projects or the construction of projects to deliver public services, as well as for projects connected with employment growth and career development. The "Qualified Energy Conservation Bonds" provide $2.4 billion for projects related to renewable energy and building maintenance to meet energy-efficiency and environmental standards. The new stimulus package also includes project bonds for rail transport, as well as $1.6 billion in "New Clean Renewable Energy Bonds" to finance biomass and hydroelectric power generation.

[29] See Domenico Moro, *L'impresa comune (ex art. 171, Trattato CE) come strumento di una politica Europea di investimento nelle reti trans Europee*, in *L'Europa dei progetti – Imprese, innovazione, sviluppo*, 2007, pp. 201-249, and references contained therein.

programme. The first Joint Undertaking, Euratom (1957), was subsequently reinforced in EEC Treaties (1987 and 2001).

Galileo exemplifies the potential of this European governing tool. Form is outlined and functions are clearly defined. Founded when Europe, forced to rely on the United States' GPS system during the Balkan crisis in 1999, realized an urgent need for an integrated European satellite system. The Galileo Joint Undertaking was established in 2007 to govern the creation of a system, by then to be principally dedicated to civilian purposes. The initiative proposed a GPS system in place, by 2013, to deliver five main civilian services for the security of Europeans. Together the European Parliament and Council budgeted €3.4 billion for the 2007-13 term, designed a system of governance and structured an implementation of the programme.

The European Commission acts as project manager and contracting authority, while the European Space Agency (ESA) serves procurement and design. Together, these founding partners, provide security, continuity and technical support. Potential future partners might include the EIB, European or international private companies or the non-European nations such as China, India or Israel.

The European Joint Undertakings sets a historical precedent similar to the United States government's "Federal Government Corporation", a mechanism geared to raise and combine public and private capital needed to spur national growth, strengthen depressed regional economies, or support services necessary for public welfare which the private sector was then unable to permit.

The "Federally Chartered Corporation", provides services of combined socio-economic significance. From water management to postal service, either wholly or partially owned by the federal government, though never consolidated in federal government accounts.

If we were to compare the US context with what is now coming about in Europe, we could equate wholly public federally chartered corporations with the Community's 'Executive Agencies' and the mixed public/private variety with Joint Undertakings, and, should we wish to adapt the terminology to the European regulatory context, we could call them 'Union Corporations' or 'Community Corporations'. In any event, for the purposes of Europe's economic policy authorities, the balance sheets of these enterprises would not be

included in the accounts of the individual member states or, without changes in Eurostat rules, even in the accounts of the European Union.

Joint Undertaking' purpose, defined in the Treaty on the Functioning of the European Union (EFEU), is to program "efficient execution of Union research, technological development and demonstration " This role is well-cast to fund and implement strategic infrastructure projects that feature a high level of research or technological innovation and development fund; adapted projects abound in the energy sector alone: renewable energy, energy savings, waste reduction in energy transport and distribution, energy storage, and the development of fourth-generation nuclear power plants all require investments in basic and applied research and technological innovation – costs fast growing beyond means sustainable by even the largest multinational corporations. A new "European Energy Union Corporation" perfectly fits this project. Promotion by Euratom, itself a Joint Undertaking, would attract private capital from both the industrial and financial worlds.

If Article 187 of the TFEU remains unchanged, unless existing text is interpreted much more loosely, there are relatively fewer options for Transport. Though a sector commonly considered mature, particular situations could summon. Innovative Projects into play: technically intricate plans requiring complex organisation and unique works, repeatable only in other parts of the world, resulting in an accumulated know-how on which European enterprises could capitalize.[30]

With a minor amendment to Article 187, an acceptable structure also for special transport projects might be created through innovative weavings of European Economic Interest Groupings (EEIGs) or with the European Company, stitched within the framework of reinforced cooperation under Article 329 *et seq.* of the TFEU.

TEN-T projects budget needs nearly €500 billion, of which, high-priority projects claim €280 billion. The European Construction Industry Federation (FIEC)[31] originally

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[30] Examples of these types of technological advanced projects are the Brennero and Lyon-Turin primary tunnels.

[31] Fédération de l'Industrie Européenne de la Construction (FIEC), *Propositions de la FIEC pour le financement des infrastructures ferroviaires en Europe*, Brussels, September 2002.

proposed a 30-year, 6% fixed-rate loan, with a 10% contribution by the European Community, 20% gained from the private sector, and European participation that varies from 50 to 70%, depending on whether or not member states individually commit 20%. These investments could be financed by one or more Joint Undertakings, if a minor amendment to Article 187 made it practical, or by a European company promoted by the member institutions of the Marguerite Network. In this way, one or more large European transport initiatives could take flight and glide smoothly as Amtrak[32], originally established under the New Deal. The territory might be better adjust to a Joint Undertaking fit if each European Corridor were addressed individually and advantaged by provisions governing reinforced cooperation. “Missing links”, like the transalpine tunnels, might be the best beginnings, because such projects expect delays and are commonly found most difficult to implement. Leaving a part of the corridors independent offers national railway companies shareholder options to be shared with the EU, the EIB, and other long-term investors.

The FIEC study mentioned above proposed that a portion of debt service cost could be financed by a special-purpose tax on the diesel fuel used for road transport. Current European treaties require unanimous approval for the establishment of new European taxes. Therefore, although quite reasonable, the proposal would be difficult to implement. A tax fixed at two cents per litre, would yield €8 to €11 billion per year. The transalpine tunnels’ project could extend to 50 years, and significantly reduce annual debt service cost, last estimated by the FIEC as on the order of €15.4 billion per year.[33]

The creation of European Joint Undertakings by applying “reinforced cooperation” could prove beneficial. A required qualified majority, would speed the process: a

[32] “The decision to opt for a European Track,” Domenico Moro writes, “has another important implication that, although not of an industrial nature, could contribute significantly to influencing public opinion in Europe and, consequently, of Europe’s economic and social forces. Indeed, as the American narrative celebrates “Route 66”, and Amtrak itself, thereby contributing to the strengthening of the American identity, the European Union should, with a grand European plan of environmentally sustainable public works, seek to instil the same enthusiasm among the young generations of European citizens.”, *op. cit.*, p. 227.

[33] Which includes: Priority Project 1. Primary Brennero Tunnel (4.3bn); Priority Project 6. Primary Turin-Lyon Tunnel; and Priority Project 24. Third Pass (4.5bn). It has been calculated that the cost of paying for the works over 50 years at an annual rate of 6% would be smaller than the funds that the EU expects to spend for the Trans-European Transport Network.

"qualified group" of member states could participate from the start (as in the case of the euro), and other countries could join at a later date. European Joint Undertakings are corporations under a European Union umbrella. The EIB, European public or public-private banks, and major transportation and energy companies, would have a share of each "contribution", which could easily arrive at several billion euros. Much of the financing, in form of debt, could attract public and private banks, as well as large, long-term institutional investors (such as pension funds, insurance companies, and sovereign wealth funds, etc.).

It is clear that these projects will only be successful if a significant portion of the necessary funding is provided by European special-purpose funds or taxes, by European public debt, or by a combination of the innovative instruments discussed herein. Public and private enterprises and institutions alone, without public support, would be highly unlikely to sustain the substantial costs of these large, strategically important projects.

9. Union Bonds and New Financial Instruments for European Growth

The financial instruments discussed thus far, are advantageous because they do not impact directly on public resources. Not ordinarily funded directly by the European Union's budget or that of member states, they do not increase general government debt. Drawn on funds from private capital markets and global institutions, or raised through institutional investors and others that lie outside the regular scope of government. Tapped are the substantial savings of European households and significant private and public capital outside of Europe seeking reliable, diverse long-term investment opportunities.

The landscape of instruments that may finance strategic European infrastructure projects is incomplete if "Eurobonds", or "Union Bonds" are excluded.

Unlike project bonds, Eurobonds are actual European sovereign debt instruments. Proposed by Delors[34], and reintroduced by Tremonti, they have met with staunch

[34] "While Delors was the first to speak of a European investment plan in the communications sector, in research and in the major trans-European networks, as well as of "Union Bonds" as a means of financing such projects, the first proposal to issue such bonds actually dates back to Jean Monnet and the establishment of the ECSC. This is no coincidence, given that redemption of the bonds issued by the ECSC, an institution with legal personality, was backed by the taxes on European coal and steel products. Indeed, Article 49 of the Treaty establishing the ECSC states, "The High Authority is empowered to procure the funds necessary to the accomplishment of its mission: by imposing levies on the production of coal and

resistance. But changing times see public debt in all European countries rising and converging around 100% GDP. Therefore, it is becoming more difficult to present Eurobonds as an "asymmetric" instrument with which countries carrying higher levels of debt offload onto those with less. Furthermore, if used only for financing strategic plans of the Lisbon Agenda, Eurobonds would repay themselves (either entirely or in large part) and not burden future generations.

Issuing Eurobonds offers another way of creating an asset class attractive to large global investors and the arguments in favour of such issue are well known. The European Union's increased need to attract a large volume of financial resources from global markets in support of strategic investments is essential to securing the region's elite status in fields of knowledge, technology, environment, culture, social cohesion and civil progress. Moving forward, the world's financial markets will likely show extraordinary growing supply of savings in emerging economies. During the recent crisis, intense competition among public debts expanded markedly in advanced economies. Socially cohesive sound economies boasting achievements in technology and the environment will inspire global investors' confidence and attract increasing resources.

The dollar's strength has permitted the United States to finance its growth by borrowing from the rest of the world. Europe should do the same. Infrastructure built by public means, when mature, should manage to repay the debt it induced. This is the Golden Rule in public finance. New European sovereign debt dedicated to finance capital investments, as opposed to current spending, will not burden public finances or future generations.

On this topic we would like to make a proposal.

To begin, we propose that each member state should transfer a quota of its national debt into Union bonds or Euro bonds. Each national quota should be in proportion of each member state GDP and therefore non-discriminatory (for instance, 15% or 20% of GDP). To finance this, each member state on an ongoing annual basis would commit the funds required to service the part of debt transferred to the EU, measured on the cost of its national debt service and not on the lower cost of servicing Union Bonds.

steel; by borrowing." In the case of European companies, redemption of the European bond could be directly backed by the rates charged to users of the services created or by the license fees for the management of the infrastructure.

Such a mechanism has the following advantages: (1) it will create a large, deep and liquid Union bond market (worth 2/3 trillion euros), which undoubtedly would attract long term global investors and central banks reserves; (2) it will have a neutral effect on the national budgets, so it would not stimulate the single member state's propensity to increase its national debt; (3) the extra funds which would come from the spread differentials between the national sovereign bonds and the Union bonds' yields (8/9 billion euros a year) could go directly into the EU budget to finance common strategic investment/projects in key sectors of EU long term investments plans (with a considerable leverage effect); and (4) the creation of a common European sovereign debt will have a great political significance, at least as important as the creation of the Euro.

There are several rationales in favour of these proposals. The Union could raise money at a cost lower than any national government or any other public or private entity. It could invest the revenues generated by the financial instruments (equity, quasi equity, mezzanine, project bonds and guarantee schemes) for financing/supporting long term strategic projects with moderate risk/yield profiles and strong positive externalities in terms of sustainable growth, employment creation and the generation of direct and indirect tax revenues. If the EU also will assure regulatory, accounting and fiscal incentives for long term investments, these initiatives will represent an evident advantage for long term investors (pension funds, insurance companies, SWFs and retail), reinforce the stabilization of financial markets and contribute to funding an "exit strategy" from the current deadlock on national debt and deficits

10. Conclusions

Europe can stimulate growth in coming years by investing heavily in energy, the environment, transport and telecommunications,[35] and making use of innovative, long-term financial instruments that do not burden public finances and consequently, future generations.

As more advanced economies compete to attract resources from the rest of the world, it is probable, that the euro will strengthen in relation to the dollar in its stability, reliability and thereby fortify the securities issued by European institutions in world

[35] …but also to support the "real" economy (manufacturing, agriculture and tourism).

financial markets. Therefore, it is time to reap the benefits of Europe's stability policy and attract capital for investment in projects that achieve sustainable, eco-compatible and socially advanced growth. The countries that promise increasing "surpluses" of savings (China, India, Russia, Brazil, Mexico) will seek investment opportunities, new technology and infrastructure development, and Europe must participate in this process. In decades to come, the relationship between advanced and emerging countries will inevitably be reciprocal. If Europe implements strong, proactive cooperation policies with the emerging economies – both attracting capital and offering technology and expertise for sustainable development – then exchange will permit bilateral gain and will uphold common good.

This may be achieved by increasing the euro's leverage using a better combination of long-term capital and debt instruments issued by large European funds and other similar long-term public and private investors, as well as by establishing European Joint Undertakings that raise public and private capital from both the industrial and financial worlds in order to execute the strategic projects of the Lisbon Agenda and contribute, both substantively and symbolically, to strengthening the alliance of the European peoples. It will also be important to issue European sovereign debt to secure the political cohesion of the Union itself.

The Maastricht Treaty prescribed balanced and sustainable growth, not the sluggish, relatively low-quality existence found in too many areas of the Union today. Creation of a European internal market and monetary union, the important liberalization of the markets – for goods and services, capital and labour – the dismantling of many of the public monopolies in the key sectors of energy, telecommunications and public transport, and the significant reduction in government intervention in the economy failed to produce the growth rates that were expected.

A delay in achieving the objectives of the Lisbon Agenda has been considered the cause of detained development. Though the argument might be reversed, and delays in implementing the Lisbon programmes, especially investments in infrastructure, technological innovation and research, could be asserted as causes of stalled growth in recent years. With the reduction of public debt and deficits to historical lows, Adam Smith's 'invisible hand' should have given the European Union the world's highest rates of growth, but this did not happen. Conversely, those areas of the world that grew the most

did so by actively managing of their economy (China), by leveraging the return of natural resources to state control (Russia), or by increasing public spending, particularly for military purposes (the United States). Setting aside ethical and political consideration, these three solutions are not practical for Europe. The European way (convergent with the United States' new direction under President Obama) entails promotion and stimulus of growth in strategic infrastructure, research and education, and preserving and protecting the environment.

Europe's path is largely obtruded by two factors. To begin with, European governing bodies have been so far somewhat ineffective, the Parliament and the Commission, together struggle with the democratic legitimisation of the Union's decision-making process.

The entry into force of the Treaty of Lisbon will enable Europe to act on its agenda: vesting the European Parliament with true co-decision making powers, including effective involvement in the budget process and freeing the Council from the paralyzing unanimity rule. A stable Presidency of the European Council along with new regime cooperation will enhance the decision-making capacity and the democratic legitimisation of Europe's institutions, while defining and implementing stronger common projects in support of strategic growth.

Another factor to contend with is the inadequacy of the Union's budget to fund needed large-scale projects in infrastructure, technological innovation and research called for under the Lisbon Agenda. Not much has been done or decided to increase the Union's "own resources". Today more than ever, with the public finances of the member states straining under the burden of the bailout, stimulus plans and the automatic effects of the recession, it is unlikely that the Council would manage an increased use if the Union's own resources in order to finance large-scale joint investment projects. Today, more than ever, the state of the world's economy begs the use of alternative financing to feed the future. Options include European funds for the long-term financing of infrastructure, Eurobonds, securities issued by the major European funds, long-term European investors and the new European Company.

In addition, the instruments proposed have significant "systemic" value: starting from the bottom, but with a direct role for the European Union, they would represent new

institutional forms of European public-private partnerships operating with “market” instruments under the EU “brand”. This would attract private European investment and public and private capital from outside Europe, and involve major private-sector companies to finance and implement key public projects of strategic importance to all of Europe.

For the European Parliament (and the Commission), issuing European securities and promoting European investment funds could be the only way to support growth designed through large European infrastructure projects and enable Europe to contribute to the strong, sustainable and balanced growth called for by the G-20 in Pittsburgh.