An Roinn Airgeadais
Department of Finance

High-Level Workshop on Non-Bank Funding of Growth and Jobs in Europe

Dublin, 8th December 2012

SUMMARY REPORT

eu2013.ie

FOR STABILITY, JOBS AND GROWTH

Summary Report of High-Level Workshop on Non-Bank Funding of Growth and Jobs in Europe

Table of Contents

Foreword

It is recognised that the EU needs to continue to do everything necessary to put Europe back on the path of progressive, sustainable and inclusive growth. Securing an appropriate level of finance for long-term investment in infrastructure, SMEs, and other productive activities is particularly important in terms of driving economic growth, fostering innovation, enhancing competitiveness and generating employment. Given the constraints on both public finances and bank lending as result of post-crisis deleveraging, the EU recognises the importance of proactively exploring how the effectiveness of the financial system can be improved to channel available savings towards the financing of both important and necessary infrastructure projects and also enterprises, and in particular SMEs.

The Irish Government, is very much aware of the benefits of long term investment to the European economy and as part of our planning for assuming the Presidency of the Council of the European Union in January 2013, the Department of Finance hosted, on the 8th of December last, a "*High Level Workshop on the Non-Bank funding of Growth and Jobs in Europe"***.** The publication of this Summary Report of the High-Level Workshop complements and supports the EU Commission's ongoing work on this issue and in particular it's Green Paper on the *Long-Term Financing of the European Economy*. Furthermore both publications will support a discussion on the options for long-term financing of economic growth in Europe at the Informal Ecofin in Dublin (April 12th to 13th). Ireland's commitment as chair of the European Council is to facilitate and encourage the development of an appropriate set of policy options that will support the financing of long term investment in growth and employment in Europe. These ongoing initiatives in relation to the financing of long-term investment in Europe, moreover, are consistent with the Growth, Stability and Jobs agenda which is the central theme of the Irish Presidency for 2013.

Michael Noonan, TD
Minister for Finance

Executive Summary

Europe's Funding Challenge

For Europe, securing an appropriate level of finance for long-term investment in infrastructure, SMEs and larger corporations is critical in terms of driving economic growth, fostering innovation and generating much needed employment opportunities. Given the limited availability of public resources and the constraints on bank lending as a result of post-crisis deleveraging, it is recognised that is essential for policy makers and other relevant stakeholders to proactively explore how the effectiveness of the financial system — markets, institutions and financial instruments — can be improved to channel available savings towards the financing of necessary infrastructure projects and enterprises, especially SMEs.

The High Level Workshop

In recognition of both the importance of this issue and also as part of its planning for assuming the Presidency of the Council of the European Union in January 2013, the Department of Finance hosted, on the 8th of December, a "**High Level Workshop on the Non-Bank funding of Growth and Jobs in Europe".** The objective of this participative workshop was to facilitate an open and interactive discussion between senior public decision-makers and leaders of the financial industry on the key issues and challenges relating to enhancing the supply of non-bank funding for investment in infrastructure and SMEs. The European Commission also published on March 25th its Green Paper on the *Long-Term Financing of the European Economy*.[1] The Irish Presidency also proposed that the issue of options for the long-term financing of economic growth in Europe be discussed at the Informal Ecofin in Dublin (April 12th to 13th).

Non-Bank funding of Infrastructure

It is estimated that around €1.5 to 2 trillion in investment is needed to upgrade Europe's transport, energy, high-speed internet and telecommunications networks over the next ten years (€200 bn per annum). At the workshop it was highlighted that compared to the US, Australia and Canada — where institutional investors such as pension funds, insurers and mutual funds are active investors in infrastructure — capital market funding of infrastructure projects in Europe remains underdeveloped.

The representatives of the financial industry who participated in the workshop were strongly of the view that in seeking to increase institutional investment in infrastructure there is an

[1] http://ec.europa.eu/internal_market/consultations/2013/long-term-financing/docs/green-paper_en.pdf

overwhelming need to ensure that the regulatory, legal and fiscal regimes at both the national and supra-national level embrace a stronger market orientation. In this context they argued that the prudential and regulatory framework that is evolving in the post-crisis era is having the unintended consequence of penalizing or constraining the capacity of financial institutions to provide capital for long term investment in growth.

This perspective on the negative impact of the evolving prudential and regulatory framework was challenged by senior policy makers who drew attention to the fact that the objective of regulations such as Basel III and Solvency II was to secure greater stability in the financial sector, and in so doing reduce the economic and societal costs of any future crisis.

It is evident that in essence the European Commission is seeking to achieve an appropriate balance between these two objectives of growth and regulation. At one level it recognises that regulatory systems like prudential supervision need to be strengthened to avoid a repeat of the financial crisis. On the other hand it is aware of the need to ensure that for example capital requirements should meet their prudential goals without unduly affecting growth-enhancing long-term capital formation.

Non-Bank Funding of SMEs

Post crisis deleveraging in the banking sector has served to constrain credit supply to SMEs in Europe given their overwhelming reliance on traditional forms of bank lending. This problem is exacerbated by the fact that currently across Europe SMEs have very limited direct or indirect access to the debt capital markets.

Several participants from the financial industry were concerned that the evolving post crisis regulatory environment was constraining the potential supply of finance to SMEs. The lack of a more robust aggregation or securitisation market capable of either channelling investor interest to enterprises and/or enabling the recycling of loan assets by banks was also seen as a constraining SME access to capital markets. It was suggested that the existing EU policy on securitisation needs to be reconfigured to allow for regulatory treatment to differentiate accordingly between quality and performing products on one hand and more risky or speculative securitisation vehicles on the other.

It was highlighted that several governments have responded to this challenge by developing state-backed initiatives, in which public money is used to leverage additional private sector funding for businesses. It was recognised, however that in seeking to expand or develop alternative sources of non-bank lending to SMEs, credit supply is not the only hurdle that must be overcome as there are also issues in relation to awareness raising, trust, confidence and the overall cost base including in particular the cost of sourcing and collating appropriate information on SMEs. Indeed although there was agreement at the workshop that encouraging alternative supplies of finance for SMEs was essential it was recognised that banks would continue to play an important intermediary role given their origination networks.

Since the financial crisis in 2008 the European venture capital industry has endured a sharp contraction of its investment capacity which has severely affected innovative SMEs access to much needed finance. Additionally this industry continues to be hampered by longer standing challenges such as fragmentation along national lines and the small size of VC funds. Finally it was also highlighted that fewer innovative and dynamic companies are now seeking to scale up using the IPO route to raise development finance due to the fact that they are increasingly engaging in trade sales primarily with US companies.

Action Steps – Non Bank Funding of Infrastructure

A key objective in hosting the Workshop was to begin a debate around possible solutions — both pragmatic and innovative — to the challenge of stimulating increased non-bank financing of long term investment in infrastructure and listed below are the main suggestions that emerged from the workshop discussions.

- ***Project Pipelines***: In order to build investor confidence in transaction flow, there is a need to encourage greater transparency in the pipeline of national and pan-European projects and ensure that this pipeline is not determined by shorter term political horizons.

- ***Procurement Rules:*** It was suggested that local and regional authorities need to focus on ensuring a simpler, more efficient and standardised bidding process for infrastructure projects. Procurement rules could also be adapted to enable the financial industry to take advantage of instruments such as bond solutions and variable credit spread pricing.

- ***Targeting Investors:*** A number of participants alluded to the need to develop strategies and actions that are customized and tailored to the needs of both fixed income investors and public/private pension funds.

- ***Capabilities and Quality Data:*** Building a more robust capital markets industry for project finance will necessitate considerable investment in building the requisite competencies and skills across the entire financial system including in banks, institutional investors and asset managers. There is also a need to ensure that there is sufficient quality data on the return and performance from long-term investment in infrastructure.

- ***Regulatory, Fiscal and Legal Framework:*** Representatives of the financial industry were strongly of the view that there is an overwhelming need to ensure that the regulatory, legal and fiscal regimes at both the national and supra-national level embrace a stronger market orientation.

- ***New EU Financial Instruments:*** It was suggested that there was considerable potential in developing innovative EU financial instrument with sufficient capacity to leverage and enhance private sector investment in infrastructure. This would necessitate an increased emphasis on a pooling of resources to create fewer, simpler and more demand driven risk sharing instruments at supra-national level.

- ***Financial Instruments and Products****:* Industry experts from various financial institutions proposed the following financial initiatives as possible innovative solutions to the infrastructure funding gap;

    - Initiating European scaled debt funds with the capacity to deal simultaneously with greenfield and brownfield as well as primary and secondary projects ;

    - Creating a genuine monoline Pan-European insurer for major infrastructure projects.

    - Ensuring a consistent REIT framework across the EU.

    - Supporting bank financing of the initial construction phase of projects, initiating a guarantee mechanism assuming the risk of subsequent placement on the investors market.

    - Developing whole business securitisations, with Heathrow Airport Holdings cited as an example of how securitisation technology can be successfully applied in the infrastructure sector.

    - Creating a real Pan-European municipal bonds market, targeted at local and regional governments that would facilitate increased retail and institutional investment in infrastructure projects,

    - Scaling up the EU-EIB project bond initiative and adopting a more flexible approach to providing assistance to member states with projects seeking funding which may not have previously met their requirements in terms of issues such as project type or credit issues.

The various instruments and initiatives suggested by workshop delegates suggests that there is no one silver bullet for addressing the challenge of financing long-term investment in infrastructure and that rather the solution will lie in the development of a range of customized and tailored financial mechanisms. There was awareness that some of the possible solutions may already be in situ, as in the case of the EU-EIB project bonds, but that these now needed to be scaled up, and in some cases recalibrated or adjusted. It was recognised however that developing new innovative financial instruments must be done in manner that accords with the emerging post crisis regulatory regime.

Action Steps – Non Bank Funding of SMEs

As in relation to infrastructure participants were encouraged to propose initiatives to address the challenge of non-bank funding of SMEs and Mid-size corporations.

- ***Regulatory Framework:*** Financial industry representatives stressed the need to ensure that evolving regulatory regime in Europe was not generating potential market obstacles to enhanced non-bank financing of the SME sector.

- ***Accessing Relevant Data****:* It was suggested that one way of addressing the issues of both the lack of relevant data on SMEs and the costs of accessing it for potential investors would be to require any enterprise that receives government backed financial support be statutorily mandated to provide annual business accounts including credit data to a government maintained database / website. It was also highlighted in this context that there is a need to provide low cost access to SME data on a pan-European basis.

- ***New EU Financial Instruments:*** As in the area of infrastructure, participants highlighted the potential of developing innovative EU financial instrument with sufficient capacity to leverage and enhance private sector investment in SMEs in particular. In this context it was proposed that the development of an EU branded or labelled State Guarantee Scheme for SME lending, based on aggregating existing supports, would be a more effective conduit for attracting additional institutional investment into SMEs.

- ***Securitisation:*** EU policy on securitisation needs to be reconfigured to allow for regulatory treatment to differentiate accordingly between quality and performing products on one hand and more risky or speculative securitisation vehicles on the other. Additionally policymakers should, explore the potential of establishing some form of SME loan aggregation agency, which could lend directly to SMEs and/or pool SME loans to facilitate SME access to the public corporate bond markets.

- ***Fiscal and Legal Frameworks:*** The view from the financial industry was that it was essential that at both the European and national level, the fiscal and legislative framework should incorporate a strong market orientation and in particular include measures that incentivise non-bank investment in SMEs and Venture Capital. It was also suggested that SMEs capacity to access capital markets would be improved by greater consistency in the tax and legal regimes across member states. One participant for example argued that a moving towards the harmonisation of bankruptcy regimes would in their opinion improve the environment for non-bank funding of SMEs.

- ***Initial Public Offerings (IPOs):*** Drawing on the example of the US, there is a need for co-ordinated and focused policies at the national and EU levels, that are designed to incentivise dynamic companies –both SMEs and larger corporations – to continue to grow and scale using the IPO route to raise development finance as opposed to a trade sale exit.

- ***Collaboration and Visibility:*** Increased collaboration and a more visible commitment to progressing credible solutions could actually serve as the catalyst for the emergence of both innovative and pragmatic solutions to the challenge of increasing non-bank funding of SMEs.

Conclusion

Significantly, a clear outcome of the Workshop discussions was that there is strong consensus that attracting increased flows of capital from institutional investors and effectively channelling it towards long term investment in both necessary infrastructure projects and the SME sector is now a core policy priority for Europe. While it is understandable that dealing with the legacy issues from the financial crisis has captured most of the attention at the political level, it was highlighted at the Workshop that delivering the EU's growth strategy, is in part dependent on the enhancing the capacity of the financial system — markets, institutions and products — to complement the contribution of the public sector towards achieving high levels of innovation, productivity, employment and social cohesion.

The discussions at the Workshop reaffirmed the view that the financing of long term investment is dependent on a range of factors including framework conditions — the regulatory environment, accounting rules, corporate governance, taxation and state supports regimes — and also saver/investor outlook and behaviour which incorporates issues such as risk appetite, competencies and capabilities and the agency relationship between investors and asset managers. Addressing this situation therefore will require a range of actions that will both contribute to addressing the barriers to long-term investment and also encourage a shift from excessive short-termism towards investor behaviour that is more conducive to the long-term financing of productive activity.

There are clearly lessons to be learnt from good practice in other jurisdictions such as the USA, Australia and Canada where there is a more developed and robust capital market for both project finance and the SME sector. It is recognised that new instruments, products and initiatives will have to be developed to attract the supply of funding for long term investment. As the Workshop debates revealed, however, both public and private actors are already pursuing innovative initiatives, for example the EU-EIB Project Bonds that are designed to attract and channel pools of fixed income towards productive investment in Europe. Participants certainly were of the view that there is an important role to be played by innovative EU financial instruments and in this regard a key issue appeared to be how to achieve sufficient scale so as to drive economic growth across the European region. It is important to recognise that any new or recalibrated instruments and products will have to be consistent with the evolving post crisis regulatory norms.

Although there were clearly differing positions articulated at the Workshop particularly in relation to role of regulation and associated prudential requirements all participants stressed the need for more intensive dialogue and interaction between the policy community and the financial industry. Indeed there was a real sense at the Workshop that given the importance of this issue to future economic and employment growth there is an onus on senior decision makers, in both the public and private sectors, to collectively engage with the challenge of framing possible solutions to this issue of long term financing in Europe.

Without underestimating the complexities of the various issues that will have to be addressed it is suggested that the process of formulating appropriate policy solutions could be assisted by rethinking the relationship between financial stability and growth. Rather that viewing these as polar opposites or even objectives that need to be traded off against each other, they should actually be recognised as being fundamentally interdependent.

The overall objective of the evolving regulatory framework in Europe is to secure greater stability in the financial sector and ensuring a stable and steady flow of long-term investment will contribute to this. Similarly building institutional investors' confidence to the extent that they are willing to make the types of long-term investment that will drive growth necessitates greater financial stability. It is suggested therefore that fostering a more robust shared understanding of the interdependencies between financial stability, growth and social cohesion and ensuring that the relevant policies and strategies are formulated in a manner that respects this deep interrelationship, could provide a strong foundation for delivering tangible solutions to the challenge of securing the long-term financing of growth and employment in Europe.

SECTION I

The High Level Workshop

Since 2008 the attention of policy makers and other stakeholders in Europe has understandably been firmly focused on dealing with the deep-seated structural problems that emerged in the aftermath of the financial crisis. Although successfully resolving these legacy issues is critical, it is also accepted that the EU needs to be more forward looking in terms of developing a robust range of actions that will contribute to putting Europe back on the path of progressive, sustainable and inclusive growth. Clearly ensuring that there is an appropriate level of finance for long-term investment in infrastructure, SMEs, larger corporations and other productive activities is particularly important in terms of driving economic growth, fostering innovation, enhancing competitiveness and generating employment opportunities.

Given both the limited public resources available for investment, and the constraints on bank lending as a result of post-crisis deleveraging, the EU recognises the importance of proactively exploring how the effectiveness of the financial system — including institutions such as pension funds, insurers and mutual funds — can be improved to channel available savings towards the financing of important and necessary infrastructure projects and also businesses with long term planning horizons. Importantly the Commission has recently published its Green Paper on the *Long-Term Financing of the European Economy*.[2] The Irish Presidency also proposed that the issue of options for the long-term financing of economic growth be discussed at the Informal ECOFIN in April, 2013.

In recognition of both the importance of this issue and also as part of its planning for assuming the Presidency of the Council of the European Union in January 2013, the Department of Finance hosted, on the 8th of December, a "**High Level Workshop on the Non-Bank funding of Growth and Jobs in Europe".** The objective of this participative workshop was to facilitate an open and interactive discussion between senior public decision-makers and leaders of the financial industry

On the key issues and challenges relating to enhancing the supply of non-bank funding for investment in infrastructure and SMEs, The Department of Finance were of the view that stimulating this type of intensive deliberation between key actors is necessary if Europe is to

[2] http://ec.europa.eu/internal_market/consultations/2013/long-term-financing/docs/green-paper_en.pdf

begin to identify and frame practical and innovative solutions to the challenge of ensuring that there is an appropriate supply of non-bank funding for the type of long term investment that will stimulate economic recovery and employment generation.

The High-Level Workshop was targeted at individuals with recognised expertise and experience in this area, and approximately forty key decision makers from international financial institutions, national administrations and European institutions participated in the event. The Workshop was structured around a number of keynote presentations and a series of panel discussions on the themes of non-bank financing of infrastructure and SMEs. Furthermore, in recognition of the importance of encouraging ongoing discussion, the Department of Finance also invited all the participants to make written comments on any issues or themes that were raised on the day of the Workshop. This report includes both the text of the keynote presentations and also a synopsis of the debate that was generated by the participants, and this respect it also draws on the comments that were received from delegates following the hosting of the workshop.

SECTION II

Workshop Presentations:

Spencer Lake (Co-Head of Global Markets, HSBC)
The Greenfield Infrastructure Debt Challenge

Introduction

Governments around the world are beginning to face an increasingly difficult challenge; how to finance new economic and social infrastructure. Economic infrastructure in the transport, utilities, power and renewable sectors underpin our daily practical and economic lives, and this infrastructure requires large amounts of long term debt funding. Impending regulation, facing both banks and institutions, threatens to disrupt the already stressed balance of bank and capital markets funding, and fiscal consolidation is likely to eat into state-sponsored support. Given this challenging context, fresh thinking will be required if new projects are going to get off the ground.

Financing Infrastructure Developments

Operational infrastructure companies (water utilities, toll road operators, airports) generally have access to capital markets finance and bank facilities. In fact, given the current search for yield, these assets are benefiting from increased asset-side demand. This is in contrast with greenfield (new build) projects which currently face a debt funding challenge.

Greenfield investments have historically been funded by the project finance bank market (Europe and UK) or monoline guaranteed bonds (UK until 2007). The former model is increasingly stressed and unpredictable; the latter is no longer viable due to the demise of the monolines. The need for investment in social and economic infrastructure across Europe and the UK has not lessened and, in some countries, national plans are wired into macro-economic policy as a means of both generating construction jobs and promoting future growth. The challenge is how to raise finance in an environment of state austerity and constrained lending.

Post-Crisis Regulation

The key regulatory headwind is the impact of higher capital and liquidity requirements on banks and investors. It is clear that Basel III will (and should) require banks to recognise and price a degree of funding term mismatch and long-term risk. Funding mismatches were, after all, one of the main drivers of the crisis. Solvency II may encourage some insurance funds to seek shorter dated investments as capital held must increase for both longer maturities and stable but lower ratings, the very characteristics of most infrastructure assets. Combined, these developments could reduce the availability of infrastructure finance at a time when traditional funding models have been largely curtailed (in some cases closed) by the financial crisis. Politicians and regulators must work quickly together to ensure this does not happen and recognise the default histories and loss-recovery positions of the asset class are good, making them suitable assets to hold as part of a balanced portfolio for institutional investors.

To avoid asset/liability mismatches (where low-yielding long term loans cost more to fund than they yield), well managed project finance banks consider bank capacity as just one link in a financing chain which broadly encompasses:

- equity, which funds the development of capital projects during the development period then provides a cushion to complement debt during construction
- bank debt (well-suited to funding projects during their construction period)
- project bonds placed in the institutional debt capital markets (a natural home for assets with a long life such as infrastructure has been the pension funds, insurance companies and fund managers that have matching liabilities)
- Mezzanine or credit enhancement products to improve the rating of senior project bonds.

The Role of Capital Markets

Institutional investors have struggled with some of the complexities of lending into construction projects with loan drawdown periods and changing specifications. Over time their familiarity will grow and in some countries, capital market funding of such projects is the norm. For many others with large infrastructure needs, however, there remains an underdeveloped capital market and a lack of willingness by institutional investors to finance long term projects. Banks can better assess and manage start up risks before refinancing in the capital markets. This model could and should create a virtuous circle of allocating risk and recycling capital between different funders. However, this model only works if each link in the chain can rely on the subsequent participant as project finance bank debt is a limited resource which will run out if capital markets exits are not available to allow suitable assets to be recycled.

Pre-crisis, these exit routes were largely a combination of:

- Some banks happy to simply hold long term debt (relying on implicit state guarantees to secure cheap funding and/or not fully pricing the asset/liability mismatch risk)

- Some Banks and sponsors lending for a shorter period (until after construction) in the hope of a future refinancing on 'no worse' terms (the mini-perm)

- Securitisation of loans into CLOs or other means of reallocating risk

- Project bonds issued using with a monoline financial guarantee

These models have been severely stressed by the financial crisis and are unlikely to re-emerge in their former state, due to policy changes, regulation or changes in market liquidity. In the short term, banks have continued to lend, and development finance institutions such as the EIB, ECAs and other forms of government/quasi-government support have filled some of the gap. In an environment of constrained government finances these are unlikely to be sustainable solutions in the long term.

The Need for Innovation

New models need to emerge to efficiently allocate capital to projects to enable new infrastructure to be built and operational assets to refinance bank debt in the capital markets. Banks that have a longstanding expertise in project finance such as HSBC are looking at developing such models, which could include: bank / bond hybrids; bank debt as a bridge to bond refinancing; and partial government or quasi-governmental credit enhancement that does not undermine the benefits of using private sector financings in the first place.

Much of the success that we've seen over the past decade in attracting institutional investment in infrastructure in places like the US and Canada needs to be replicated elsewhere. In 2011 the US the municipal bond market accounted for 9% of the total bond market with $3.7 trillion in principal and over one million different bonds outstanding. In Canada, total public bond financing has been CAD$9.4 billion since 2007. These markets clearly demonstrate what is achievable if the right market conditions exist to incentivise retail (via tax-breaks) and institutional investors to help finance infrastructure development. As insurance companies, pension funds and asset managers seek to allocate greater amounts to this sector procuring authorities/ sponsors and banks need to find better ways for these investors to engage in the sector.

Ultimately the changing nature of banks means that we will be forced to seek out new financing models for infrastructure debt funding and, given the different asset classes involved we're going to see a lot more innovation in the markets from governments, supranationals, banks, institutional investors and sponsors. It's going to change the very nature of public private partnerships and the underlying financing of those transactions. It's going to be a very exciting time to be involved in infrastructure debt.

Gerassimos Thomas (Director, DG ECFIN)
"Non-Bank Funding of Economic Growth and Employment in Europe"

The Europe 2020 strategy for smart, sustainable and inclusive growth implies huge long-term investment, notably in the areas of economic and social infrastructure, research & development and innovation. However, the supply of long-term financing has shrunk due to the necessary deleveraging of the banking system as a result of the financial crisis.

Balancing Regulation and Growth

The EU Commission addresses the issue of long-term financing from at least two angles;

- Firstly regulatory systems like prudential supervision need to be strengthened to avoid a repeat of the financial crisis.
- Secondly specific policies and public initiatives should foster the supply of private financing for long-lived assets.

As to the first, an important recent lesson learned is that capital and liquidity need to be high enough to keep the fiscal cost of major financial shocks at acceptable levels. That said, capital requirements should meet their prudential goals without unduly affecting growth-enhancing long-term capital formation.[3]

Public Policies and Initiatives

To spark a broad public debate on how to ensure long-term investment, the Commission will soon publish a Green Paper on the long-term financing of the European economy[4], followed by a road map for policy action in the second half of 2013. The Green Paper will, among other things, help understand the links between long-term financing and financial-sector regulation, other sector regulations, and accounting and taxation systems. It will also explore new EU initiatives and financial instruments support of long-term investment.

As for the specific policies and public initiatives to foster the financing of long-term investment, the European Commission has for more than a decade developed innovative financial instruments such as credit-enhancement mechanisms and venture capital schemes, with risk-sharing together with the European Investment Bank Group. The common underlying philosophy is to use a limited amount of public money to unlock much

[3] In this respect DG MARKT has requested the European Insurance and Occupational Pensions Authority to examine whether adjustments are needed to the calibration and design of capital requirements for investments in certain assets under the envisaged Solvency II Regime.
[4] The Green Paper on Long-Term Financing of the European Economy was published on the 25th March 2013.

greater volumes of private financing for projects that are economically useful, financially sound, yet risky enough to make safety-driven investors hesitate. These instruments have proven their usefulness but have been, to date limited in scale. Some examples of the various innovative financial instruments that the EU has introduced are outlined below.

- The Risk-Sharing Finance Facility for R&D and innovation, to which the EU and the European Investment Bank jointly contributed EUR 2bn, has proven that debt finance works in R&D, unlocking financing of some EUR 10bn during the current Financial Framework (2007-2013), implying leverage of 10 times the EU budget committed.

- The developments of a range of SME and venture capital programmes have also made a tangible difference for thousands of SMEs across Europe. The High Growth and Innovative SME Facility has supported venture capital investments of more than €2bn, leveraging approximately six times the committed EU budget,

- The SME Guarantee Facility, with an EU budget of about half a billion euros, is expected to have facilitated SME lending up to 60 times that figure based on past experience.

- Finally the Europe 2020 Project Bond Initiative has set out to credit-enhance infrastructure PPPs sufficiently to interest institutional investors and make bond financing viable.

Future Policy Direction

Going forward, the main challenges for the Commission are to set out a clear vision regarding long-term financing, notably with respect

(a) to the role of the banking system;

(b) the necessity to stimulate capital market financing of not only infrastructure investment but also of SMEs and innovation;

(c) the necessity to overcome fragmentation by helping to create the single financial market, and

(d) the need to enhance liquidity, for example through securitisation and the development of new asset classes (*e.g.* infrastructure).

Regarding the future financial instruments proposed in the next Multi-annual Financial Framework (MFF) 2014-2020, we need to "industrialize" the process in order to deliver fewer, simpler, and more demand-driven risk-sharing instruments to be used at larger scale in Horizon 2020 (R&D), COSME (competitiveness & SME), Connecting Europe (infrastructure) and other programmes. There is also a need to incorporate structural fund support instruments developed by the member states into a standardised, simplified framework to allow for faster delivery of funds and policy learning across the Union. To make this possible, we have proposed a Common Provision Regulation for Structural Funds, which is currently under negotiation in the EU Parliament and Council. We have to attract a critical mass of private finance for long-term investment to support sustainable growth of the EU economy. The EIB and national public banks or alternative national vehicles have to coordinate to ensure delivery.

Deirdre Somers
Chief Executive, Irish Stock Exchange

Introduction:

The Irish Stock Exchange (ISE) provides a market for small to medium size enterprises. The Enterprise Securities Market brings the Irish broker, corporate finance and advisory community who are often the only entities most incentivised to support, analyse and promote Irish companies, from early stage and are prepared to take a long term view.

The Irish Experience

Ireland has one of the highest rate of business start up in the EU, especially in the technology, clean-technology, medical technology and agribusiness sectors. Annually Enterprise Ireland provides financial and other supports to approximately 70 to 80 companies under their High Potential Start Ups programme. A key objective of this support is to assist these enterprises achieve scalability. High potential start-ups experience few problems in attracting investment from sources such as state investment initiatives, venture capital funds, private equity investors and/or business angels. These companies do however face real challenges where an exit is required or where they require significant new funding that is beyond the capability of the early stage investors

Significantly 90% of these companies will be the subject of trade sales, with the vast majority bought by US corporations though there is a growing minority of Asian buyers. Our experience demonstrates that within five years of trade sales, the overwhelming majority of companies will have transferred both their R&D and Intellectual Property Activity outside of Ireland; reduced in terms of scale and total employment in Ireland and in the certain cases will have closed down their Irish based operations and been absorbed into the wider multinational group. Additionally, we estimate that more then 20% of all companies currently on the market will go private within the next 3 years, unless the markets become more relevant.

ISE initiatives for mid-size enterprise

The Irish Stock Exchange has been particularly active in developing a range of initiatives that are designed to support the listing of mid-size enterprises including;

- The development of the Enterprise Securities Market (ESM) which provides for easy admission to both ESM and AIM, based on one process and document.
- Dependence on the ESM adviser is more cost effective than the main market. In this context we are also exploring NASDAQ complementarity.

- The introduction of nominal fees and a focus on ensuring reduced or less burdensome regulation.
- The co-ordination of brokers that are interested in, and incentivised to support Irish SME's.
- The provision of education to pre IPO companies on key issues such as corporate governance, disclosure, market expectation and investor relations (IR).
- Ongoing engagement with, and lobbying of, the policy system — at the national and EU levels —in relation to issues such as Venture Capital Trusts, seed capital relief, stamp duty and de-risking/reducing the complexity of share schemes;
- The establishment of a cross broker initiative that was designed to develop and articulate common messages on the following issues:
    - What is the value proposition of an Initial Public Offering (IPO)?
    - How do we demystify the concept of an IPO and create a context where entrepreneurs/companies view it as a credible alternative to the "US or Asian" trade sale?
    - The early and regular provision of education on what being a public company means and what are the real and substantive benefits of going public for both the company and its early stage investors?
    - The need for an enhanced focus on coordinating analysis for particular sectors.
- The white labelling of an ISE Investor Relations (IR) tool, that was developed , in partnership with Thomson Reuters,
- Increased peer group networking including the provision and promotion of the Small Cap Index.

Challenges:

The Irish Stock Exchange, however, recognises that increasing IPO activity amongst Irish medium-sized enterprises faces a number of challenges.

Investment: Overall the nature of investment remains fragmented, specialised and risk-adverse for medium size enterprise. There are at present few clear pools of capital that can be targeted, very limited collective investment activity and a discernible lack of risk incentive.

Ecosystem: The environment in which we operate is small and getting smaller. Markets are becoming more polarised and the trend of cherry picking larger stocks is undermining the business rationale of nurturing smaller stocks, for both brokers and exchanges.

Scale: For large brokers and investors the scale of SME's remains unattractive, with only certain "trendy" sectors whose value proposition has been commoditised to a certain extent, displaying the capacity to go against this trend.

Culture: The prevailing norm is for serial entrepreneurs to sell their business and start again, as they appear somewhat reluctant to hand over the day to day running of their company to an external professional management team

Scaleablity: Irish SME's are initially geographically dependent and they will rarely attract investment, broker or analyst support from outside of the UK and Ireland. This pattern will not change unless and until accounting treatments; language; company law; shareholder protections and corporate governance; become more standardised and most importantly EU broker and analyst networks become more established at the second tier level.

Analyst Coverage and broker support: Encouraging analysts and brokers to extend their coverage and support respectively beyond their domestic environment is one of the greatest challenges for an SME with growth ambitions.

Value proposition for exchanges: Addressing all of the aforementioned challenges could involve significant spend for little or no guaranteed return. Individual SME's are not an attractive business proposition in their own right. However, since we are still a mutual the incentive for such activity remains. .

Tax Incentives: There continues to be, in our opinion, tax related disincentives to retail investment and the tax regime overall is not sufficiently nuanced toward risk capitol either for investors of for the owner entrepreneurs.

Public Policy and Political Ambition: There remains, from our perspective, a limited understanding of the economic multiplier of enhancing scale and growing indigenous public markets. Although the stated political ambition is to increase the scalability of Irish enterprises, retain intellectual property and support the growth and clustering of technology firms there remains no articulated target for IPOs/ public markets which contrasts with the policy approach in the United States.

SECTION III

Discussion and Debate

Introduction:

As was mentioned earlier the high-level workshop was designed as a participative event in which the emphasis was on facilitating an open and intensive discussion of the key issues, challenges and also opportunities relating to the theme of non-bank funding of growth and employment in Europe. In particular participants were encouraged to see the event as the beginning of a process of problem-solving deliberation that is designed to generate both innovative and pragmatic solutions to the challenge of securing an appropriate flow of finance for long-term investment under two headings namely;

- **Non-bank funding of Infrastructure Projects, and**
- **Non-Bank Investment in SMEs**

Consequently following the Workshop all participants were given an opportunity to make further written comments on the issues that were raised on the day. The following is the discussion, written in accordance with the Chatham House rule, under which comments made both at the Workshop and in the subsequent written correspondence, can be quoted but the speakers and other participants should not be identified.

Non-Bank Funding of Infrastructure:

Europe's Underdeveloped Capital Market

It is estimated that around €1.5 to 2 trillion in investment is needed to upgrade Europe's transport, energy, high-speed internet and telecommunications networks over the next ten years (€200 bn per annum). Given the current constraints on public finances and the limited resources to finance investment, European Governments will be less able to meet the long-term financing needs in the period up to 2020. Additionally, as is discussed below, bank lending for infrastructure is under considerable strain as a result of post-crisis deleveraging. In this context there was an overwhelming consensus amongst all the delegates at the workshop that securing increased levels of non-bank —or capital market — finance for long-term investment in infrastructure is now a core policy priority for Europe, given the pivotal role that infrastructure development plays in driving economic recovery, enhancing competitiveness and innovation and stimulating much needed employment opportunities.

The comparative data from the US, Australia and Canada, that was provided in the keynote presentations, demonstrated the extent to which pension funds, insurance companies and mutual funds are active investors in project finance in these regions.[5] This information and the subsequent debate at the Dublin Workshop clearly reaffirmed for participants the underdeveloped or limited role that capital markets play in the funding of major infrastructure projects – transport, utilities, technology and educational facilities — across the EU.

This disjuncture between Europe and other jurisdictions in terms of the role that institutional investors such as pension funds and insurance companies play in project finance was, it was argued, a consequence of the dominance of the banking sector, which traditionally has provided up to 94% of the funding for infrastructure development across Europe.

One senior industry professional offered the view that the Eurozone crisis, coupled with the more burdensome Basel III capital requirement had impacted negatively on the dynamics of the project finance origination market as evidenced by a significant shift in both market price and structure. The consequences of, this same contributor stipulated, was that many European banks were closing their US project finance lending capabilities and downsizing their European lending commitments. Indeed it was indicated that project bond issuance has been mostly driven by US issuance as European banks continue to deleverage, reduce their exposure and lending is now at an increased spread.

[5] Two of the participating financial institutions also provided the Department of Finance with aadditional commercial information on global trends in infrastructure funding.

Additionally while European banks are continuing to lend in their home countries the fall in average loan tenor from approximately 14 to 11.7 years since 2007 clearly has implications for the funding of projects with longer term planning horizons. In fact one industry expert concluded that overall the appetite from banks for project finance in Europe has decreased over the course of 2012 and that this was especially noticeable in Southern Europe. As is evident, from the discussion below on the EU-EIB Project Bond initiative, there is clearly a view that project bonds could provide an effective mechanism for securing funding for infrastructure development especially as capital markets are increasingly receptive to this type of structured finance alternatives. The view from industry, however, was that the continued problems in the Eurozone banks had constrained the anticipated surge in bond issuance in 2012. Indeed there was a fairly strong agreement that Europe is facing a situation where as a result of deleveraging banks are effectively exiting the 'market' quicker than alternatives can be found, thus creating a critical funding gap in relation to the financing of long-term investment in much needed infrastructure.

Interestingly it was remarked upon by several participants that while capital market engagement in project finance is much more advanced in the USA, Australia and Canada each of these jurisdictions has developed its own tailored or customized approach to ensuring that their financial system — including institutions such as pension funds, insurers and mutual funds — is effective in channelling available savings towards the financing of important and necessary infrastructure projects.

In the USA, the tax and regulatory environment is viewed as providing incentives to institutional investment in this type of asset class. Furthermore an integral feature of the US system is a sophisticated and robust municipal bonds market. Although on one level municipal bonds would appear to be an attractive option for cash-strapped public authorities in Europe, it was suggested that a combination of technical issues, operational capacities and the lack of sufficient professional skills posed major barriers to the emergence of such a market in Europe. Furthermore one participant indicated that Eurostat accounting rules in relation to public debt were also a constraining factor and as such it was proposed that municipal project bonds should not be labelled as debt in order to stimulate the issuance of this type of funding instrument.

Attention was also drawn to the fact that not only have Australian superannuation funds, been strong supporters of private infrastructure since the institutionalisation of the market in the mid 1990s but also that limited opportunities domestically has led to significant overseas investment in utilities and transport (including into the UK) by Australian funds. Similarly, it was highlighted that Canadian pension funds, including public sector worker's pension funds, are active investors in infrastructure including direct investments in a range major transport and utilities projects in Europe.

Participants at the workshop were fully cognisant of the scale of the challenges associated with developing a financial system — in terms of markets, institutions and instruments — that is more effective at channeling savings towards long-term investment in infrastructure. At the same time there was a discernible feeling amongst them that the existence of a large, relatively untapped, external pool of fixed-income in conjunction with obvious investor appetite for investing in long-term infrastructure assets represented a tangible opportunity for Europe that could, and indeed should, be grasped. Indeed one industry professional strongly argued that given the necessity of stimulating both economic recovery and jobs growth, both industry and policy community should see the current 'funding gap' as an opportunity to (re)launch a programme of major cross national infrastructure projects. This would require however a concerted and collaborative effort to create the type of innovative 'solutions that would appeal to large external investment pools

The Prudential and Regulatory Framework:

There was a strong consensus from various representatives of the financial industry that the prudential and regulatory framework that is evolving in the wake of the financial crisis is exerting an unintended negative influence on both asset allocation and investor propensity to invest in long term infrastructure projects. The new prudential frameworks for banks — in particular the liquidity and capital requirements under Basel 3 — were, it was argued, putting pressure on maturity transformations and increasing the cost of long-term financing provided by banks. It was suggested that this will potentially reduce banks engagement with long term infrastructure financing, which is problematic given that banks were traditionally the dominant source of such funding in Europe.

Similarly, industry representatives contended that the regulatory changes being proposed under Solvency 2 will make the holding of long-term assets by insurers more expensive and will prevent them from significantly increasing their investment allocation to the infrastructure asset class, at a time when it is recognised that Europe needs to channel additional capital market investment to the project financing of necessary infrastructural developments.

One participant suggested the current regulation for pension funds and insurance companies makes it increasingly more difficult to source debt with maturity over 5 years for infrastructure projects, and for example EU legislation and guidance will have an adverse impact on future demand for infrastructure bonds. It was highlighted however that the evolving regulatory framework has not prevented a range of infrastructure finance transactions from being executed across a variety of sectors in Europe. Indeed, during the course of the discussion a number of delegates drew attention to the fact that new and innovative infrastructure financing models are being developed to meet the funding challenge. The prevailing view from the industry, however, was that given the unintended consequences of prudential and regulatory changes member states should collectively lobby for greater leniency on capital charges in relation to infrastructure related bonds and loans.

Importantly, this perspective on the negative impact of the evolving prudential and regulatory framework was strongly challenged by a senior public policy official, who drew attention to the fact that the overriding objective of regulations such as Basel III and Solvency II was to promote greater financial stability. As such they were neither designed nor intended to act as a disincentive to necessary institutional investment in productive activities. Indeed several delegates reminded the Workshop that given the financial, economic, social, and political costs imposed by the 2008 financial crisis there were very good reasons for seeking to strengthen the prudential framework for the financial sector. Weak regulation and supervision were after all among the key reasons for both the crisis and the current challenged state of the banking sector and financial markets in Europe.

Aside from the fact that there are sound economic and financial benefits associated with better regulation it was also highlighted that there is across member states a discernible political desire to be seen to be taking strong action to curtail highly speculative financial activities. One individual highlighted that there was a broader public interest dimension to the changes that have been, and are being, introduced to ensure a strengthening of the supervisory regime. Indeed two senior policy makers indicated that in this context all stakeholders will have to address the trade off between ensuring effective prudential regulation and stimulating economic growth. It was noted that Commission's forthcoming *Green Paper on Long Term Financing*, recognizes the importance of finding the appropriate balance between the need to strengthen prudential regulations and the need to avoid penalizing investments in projects of general interest. In part this may involve fine tuning and/or redesigning elements of the new regulatory framework and attention was drawn to the fact that EIOPA has been asked to examine whether adjustments are needed to the calibration and design of capital requirements for investments in certain assets under the envisaged Solvency II Regime. Conversely the point was made that the financial industry itself has to respond to the changing environment, and demonstrate its willingness and capacity to develop products, instruments and initiatives that accords with the aims and objectives of the post crisis regulatory regime

EU-EIB Project Bonds

Given that investment in infrastructure is critical to driving economic growth, fostering innovation and enhancing competitiveness there was at the workshop, a considerable interest in the role of the EU-EIB Project Bond Initiative in unlocking capital market investment in key infrastructure projects.[6] The objectives of the pilot EU-EIB Project Bond are two fold namely;

- to stimulate investment in key strategic EU infrastructure in transport, energy and broadband, and
- to establish debt capital markets as an additional source of financing for infrastructure projects

This initiative was designed to attract institutional investors to the capital market financing of infrastructure projects with stable and predictable cash flow generation potential, by means of enhancing the credit quality of project bonds (senior debt) issued by private companies. It was also intended to serve as a demonstration effect in terms of highlighting to the capital markets the potential benefits of this type of investment.

Both representatives from European Institutions and the financial industry were of the view that this was a very positive initiative and that it had functioned as an efficient mechanism in creating credit enhancement to facilitate public-private investment in infrastructure. It was pointed out for example that interest from institutional investors in this initiative was strong and growing given the increased focus on infrastructure as an asset class. Furthermore it was stated that this initiative has been reviewed by the rating agencies in relation to several transactions and this had led to a multi-notch upgrade of projects.

The high level of institutional interest in Project Bonds was, it was suggested, a reflection of both the fact that this was viewed as a relatively safe vehicle — with credit enhancement support offering a high level of risk mitigation for construction and other risks — and also that it was clearly attractive on a yield basis. Consequently as a long-term asset, this is especially interesting for investors with long-term liability structures, such as life insurance companies, which is the type of institutional investment Europe needs to harness.

[6] See http://www.eib.org/about/press/2012/2012-153-eu-eib-project-bond-initiative-launched-with-start-of-pilot-phase.htm

During the discussion on the EU-EIB Bond, reference was also made to the "Marguerite fund", the 2020 European Fund for Energy Climate Change and Infrastructure that was established with the backing of six major European financial institutions in order to make capital intensive infrastructure investments.[7] It was noted for example that under this vehicle six funds have been signed off and that there is potentially a very strong pipeline of projects going forward. Although this initiative was not discussed in any real detail one industry expert did suggest that there was merit in exploring how with some adjustment and reconfiguration similar 'sister' funds to Marguerite could be developed in order to channel finance into investment in infrastructure.

While the overwhelming view from the Workshop was that EU-EIB Project Bonds were successful, one industry professional did suggest that in order to attract higher levels of institutional investment and also to further convince the rating agencies, there is a need to both go beyond the current priority of focusing on greenfield projects and also to package or aggregate the various projects rather than dealing with them as isolated initiatives. Certainly it was indicated that a key issue going forward for the Project Bond Initiative in terms of scaling it up will be transaction flow. It was also suggested that there could be merit in allowing for capital market financing solutions in the tender procedures. Additionally it was stated that while the Project Bond initiative could potentially play a positive role in supporting transactions by lower rated countries, as a market driven instrument this was also a function of institutional investor appetite. Responding to this point, one senior policy maker stipulated that in order to support employment and growth across all member states there is need for the EIB and EU to adopt an increasingly flexible approach to providing assistance to member states with projects seeking funding which may not have previously met their requirements in terms of issues such as project type or credit issues. Equally it was mentioned by several policy makers that moving the project Bond Initiative from pilot stage to full scale roll is in part related to the outcome of the discussions on the EU's Multiannual Financial Framework.

[7] See http://www.margueritefund.eu/index.php

Actions Steps and Possible Solutions - Infrastructure

As was outlined earlier, participants were encouraged in the course of the Workshop to articulate possible solutions — both pragmatic and innovative — to the challenge of stimulating non-bank financing of growth and employment and this section illustrates the various action steps and ideas that were generated in relation to the funding of long term investment in infrastructure.

Project Pipeline

In order to build investor confidence in transaction flow, so that they are willing to commit their savings pool, there is a need to ensure greater transparency in the pipeline of projects both in individual states and across the European region. Furthermore this pipeline should be determined by a longer term planning horizon rather than being premised on the shorter term political cycle.

Procurement Rules

It was highlighted that both EU and national procurement rules and guidelines were developed for the pre-financial crisis era in which bank funding for large scale projects was more prevalent. There has been some change in this regard with procurement rules becoming more flexible as public authorities are adapting were possible, partly due to the fact that they are being forced to do so by a combination of lack of bank funding and government pressure. In this regard it was proposed that local and regional authorities need to go further in terms of ensuring a simpler, more efficient and standardised bidding process for infrastructure projects. Procurement rules should also be adapted, the financial industry argued, to allow them to take advantage of instruments such as bond solutions and variable credit spread pricing.

Financial Instruments and Products

During the discussion on infrastructure, one senior decision maker with considerable international experience of project financing provided an overview of a number of potential financing solutions to Europe's infrastructure gap, which included a brief summary of what he considered to be the various advantages and disadvantages associated with each instrument (see Table 1).

Table 1: Potential Financing Solutions

Instrument	Advantages	Disadvantages
Unwrapped Bonds	Simple; Track record of deliverability Access to long term capital (no refi)	**Relatively expensive;** **Greater equity requirement can be unattractive for corporates**
Wrapped Bonds	Simple and well understood; Cost efficient (compared to unwrapped); Access to long term capital (no refi); Controlling creditor resolve	**Reliance on single guarantor (downgrade risk)** **Less yield for credit investors** **Limited Investor Demand**
Bank / Bond Hybrid Structures	Banks managing construction risk; Benefits of long tenor via investors; Controlling creditor issue resolved for construction phase	**Increased counterparty risk and analysis for investors;** **Bank guarantee represents double margin if bond issued on day 1** **Refi risk**
Mezzanine Debt (Funded / Unfunded)	EIB's contingent mezz is economically efficient Funded mezz offers economic advantage over unwrapped solutions Controlling creditor issue resolved in the funded mezzanine case	**EIB may not be willing to act as controlling creditor** **Funded mezz require compensation should they be refinanced post completion** **Funded mezz rights may conflict with bondholders, investor acceptance untested**
EIB's Project Bond Credit Enhancement (PCBE)	**Economically highly efficient; being contingent the product incurs no ongoing cost until drawn** **Provides liquidity and cover in default thereby improving probability of default and loss given default** **Relatively simple structure (rights of EIB provider more likely to be an issue for equity).** **EIB's support will enhance investor demand**	**PCBC is constrained to 20% cover / A-rating** **Timing of deployment of PCBE might conflict with equity interests** **EIB may not be willing to act as controlling creditor**

Source: Workshop Participant

Similarly other experts from various European financial institutions proposed the following initiatives as representing potential solutions to the challenge of securing an appropriate flow of finance for investment in long-term infrastructure projects namely;

- Drawing on the US and Canadian experience there is considerable potential in creating a real Pan-European municipal bonds market, targeted at local and regional governments that would facilitate increased retail and institutional investment in infrastructure development. Creating such a European-wide muni-market however would require establishing the market conditions that would incentivize retail and institutional activity.

- Supporting bank financing of the works by initiating a guarantee mechanism assuming the risk of subsequent placement on the investors market;

- Creating a genuine monoline Pan-European insurer for major infrastructure projects.

- Ensuring a consistent REIT framework across the EU

- Initiating European scaled debt funds with the capacity to deal simultaneously with greenfield and brownfield as well as primary and secondary projects ;

- Developing whole business securitisations, with Heathrow Airport Holdings cited as an example of how securitisation technology can be successfully applied in the infrastructure sector.

The various instruments and initiatives suggested by workshop delegates suggests that there is no one silver bullet for addressing the challenge of financing long term investment in infrastructure and that rather the solution will lie in the development of a range of customized and tailored financial mechanisms.

There was amongst delegates an acknowledgement that addressing this complex issue will in part involve the development of new financial instruments, products and/or initiatives. Equally there was awareness that some of the possible solutions may already be in situ but that these now needed to be scaled up, and in some cases recalibrated or adjusted, in order to ensure that they can function as efficient and effective mechanisms for channelling savings towards projects with a longer term planning horizon. One participant stressed that there is clearly a need for the industry to proactively explore how to create well-rated, liquid and investible asset-classes for fixed income investors. Evidently developing new and/or recalibrated products and instruments necessitates collaborative and focused action by both policy makers and the industry. Significantly one senior policy maker strongly affirmed that developing new and/or reconfiguring existing financial instruments must be done in manner that accords with the emerging post crisis regulatory regime.

Targeting Investors

A number of participants alluded to the need to develop strategies and actions that are customized and tailored to the needs of both fixed income investors and public/private pension funds. It was suggested that this was one area where wrapped solutions and/or state guarantees could serve to unlock the potential of the capital markets to fund infrastructure. Equally, it was proposed that public sector pension assets should be more proactively encouraged and incentivised to invest in this particular asset class.

Capabilities, Competencies and Quality Data

There was a high level of awareness amongst industry representatives that a more developed capital markets industry for project finance necessitated considerable investment in building the requisite competencies and skills across the entire financial system including in banks, institutional investors and asset managers. Similarly, the public system would also have to gear up its skill base in this regard. In particular it was stressed by one professional, with considerable experience of project finance that the key stakeholders needed to develop a richer and deeper understanding of the nature and dynamics of investment in this asset class. This moreover highlighted the need to ensure that there is sufficient quality data on the return and performance from long-term investment in infrastructure. The availability of such data is critical to building investor confidence in this type of asset class.

Regulatory, Fiscal and Legal Framework:

The representatives of the financial industry who participated in the workshop were strongly of the view that there is an overwhelming need to ensure that the regulatory, legal and fiscal regimes at both the national and supra-national level embrace a stronger market orientation. Notwithstanding the factors that underpinned the financial crisis in 2008, these individuals maintained that attracting higher levels of institutional investment in infrastructure across Europe is dependent on developing a regulatory and fiscal architecture that clearly incentivises such activity. For example a number of delegates referred for the need to introduce tax incentives for long-term investment while several others suggested that tax alignment across member states was also necessary in seeking to attract funding from external fixed-income investors. As outlined earlier a number of delegates also advocated the need for greater leniency on capital charges in relation to infrastructure related bonds and loans. Reference was also made to the need to ensure that accountancy rules in relation to treatment and reporting do not act as a disincentive to longer term investment. Given that there remains opposing views on the extent to which the regulatory, fiscal and legal framework is a barrier to securing long-term investment in infrastructure from non-bank sources it was accepted that there is a need for ongoing and deep dialogue between the industry and the policy community on this complex issue.

New EU Financial Instruments

With just 1% of the EU budget devoted to financial instruments, there was clear view at the workshop that there is scope to increase this and to use financial instruments as a means to leverage budget sources and enhance private sector investment in key policy areas such as infrastructure. Creating sufficient scale to attract funding into innovation and infrastructure in this regard may require an orientation away from a focus on national level grant based initiatives towards fewer, simpler and more demand driven risk sharing instruments at supra-national level. A greater emphasis on the pooling of national resources and the creation of a European Brand for quality financial products were also seen as possible ways in which EU financial instruments could be used more effectively to attract institutional funding for long-term investment in infrastructure. It was recognised however that achieving this will necessitate changes in relation to how Cohesion and Structural funds are allocated and operationalised.

Non Bank Investment in SMEs

Constraints on Credit Supply to SMES

As noted above, in the aftermath of the financial crisis, banks are being forced to deleverage their balance sheets which in turn are placing downward pressure on their capacity to engage in business lending. This is particularly challenging for the SME sector in Europe given their overwhelming reliance on traditional forms of bank lending. Clearly alternative sources of finance do exist for European companies, and indeed, it was suggested that now is the time to begin to exploit the potential of such sources. The prevailing view amongst the delegates was, however, that currently across Europe small and medium enterprises have very limited direct or indirect access to the debt capital markets.

Although the financial crisis since 2008 has made access to finance more problematic for the SME sector, one contributor outlined that the crisis to an extent had actually exacerbated a longer-term developmental challenge for Europe in terms of the financing of innovative, high growth potential SMEs. Several delegates alluded to the fact that they considered that the regulatory environment was also constraining the potential supply of finance to SMEs. For example it was argued by one industry professional that the most recent proposal from the Basel III committee on the securitisation risk weights for financial institutions, if implemented in its current form, is likely to substantially increase the capital requirements for financial institutions holding SME CLO bonds. This would, in their opinion, more than likely soften investor demand which is problematic given that the SME CLO market had been an important non-banking funding tool prior to the financial crisis. Similarly another industry representative strongly argued that UCITS functioned as a structural impediment to non-bank lending to SMEs.

Securitisation and SME funding

There was at the workshop quite a lively discussion of potential role of securitisation in meeting the funding needs of the SME sector in Europe. A number of financial institutions stipulated that since 2008, not only had confidence in the securitisation industry been damaged, but also just as importantly, all securitisation products and instruments had been subject to negative treatment under the new and evolving regulatory regime. Consequently it was stated that Europe lacked a more robust aggregation or securitisation market capable of either channelling investor interest to enterprises and/or enabling the recycling of loan assets by banks. While sub-prime Asset-Based Securities had been at the root of the financial crisis, other forms of securitisation have actually performed well in the period since 2008. Given the potential improvements in flows of credit to SMEs that a revamped high quality securitisation market could provide, it was, the industry argued, vital for policymakers to provide constructive signals that investment in high quality securitisation is to be encouraged.

This, it was indicated, is particularly important for non-bank investors who rely on reasonable secondary market liquidity. Several contributors argued that the existing EU policy on securitisation needs to be reconfigured to allow for regulatory treatment to differentiate accordingly between quality and performing products on one hand and more risky or speculative securitisation vehicles on the other. Equally, it was accepted by the industry experts, that there is an onus on the securitisation industry to rebuild its reputation and that initiatives such as the Prime Collateralised Securities (PCS) initiative were seen as representing a step in the right direction.[8] Central to the PCS initiative, is the PCS label or quality kitemark, which can be awarded to securitisation issuance that meets strict criteria in relation to transparency, simplicity, liquidity and quality.

Policymakers should, according to one professional working in this area, also explore the potential of establishing some form of SME loan aggregation agency, which could lend directly to SMEs and/or pool SME loans to facilitate SME access to the public corporate bond markets. It was noted that following a recommendation of the Breedon Report[9] a feasibility study on the establishment of such an aggregation vehicle has been carried out for the UK Department of Business, Industry and Skills. Although this positive perspective on the role of the asset backed securities market in ensuring a financial flow of credit to SMEs and mid-size corporations came from industry representatives, it was also clear that they were strongly distinguishing between simple, transparent and quality securitisations and other badly underwritten, opaque and over-leveraged issuances.

One financial institution indicated that the SME Collateralised Loan Obligation (CLO) market has not developed as well as would have been expected not only due to regulation but also the as a result of a lack of standardisation, which is in marked contrast to the discernible improvements in the securitisation of mortgages or consumer assets. The rather limited development of this market may be in part due to the fact that SME risk can be very bespoke, depending on whether the underlying borrower is a 'small' or a 'medium' company. Asset granularity, which is very important for an SME CLO investor, can also vary substantially. The lack of clear support from rating agencies and the absence of a central

[8] See http://pcsmarket.org.
[9] This report is available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32230/12-668-boosting-finance-options-for-business.pdf

industry body equivalent say to the Council of Mortgage Lenders in the UK Mortgage market were also cited as obstacles to the future development of this market. Finally it was also indicated that the SME CLO market also faced serious problems in relation to data quality and transparency. In marked contrast it was highlighted that the discernible improvements that have been made in relation to data quality and transparency in the RMBS market have made a positive contribution to what is a rather stable RMBS investor base.

Public Policies to Stimulate Non-bank Lending to SMES

A number of participants highlighted that several governments in response to the more challenging environment for bank lending to enterprises in general, and SMEs in particular, have developed state-backed initiatives, in which public money is used to leverage additional private sector funding for businesses. The UK Treasuries' recently introduced Business Finance Partnership[10] and the new SME funds established by the National Pension Reserves Fund (NPRF) in Ireland[11] (see) were mentioned as two examples of this type of innovative activity. Both of these aforementioned examples involve the establishment of a number of long-term commercial funds in which the state acts as the cornerstone investor alongside additional private investment from third-party investors. The objective of these state backed initiatives is increase the supply of capital through non-bank lending channels and, in the longer term, to help to diversify the sources of finance available to businesses

A senior policy maker indicated that the UK's Business Finance Programme is also being utilised to develop the capacity of non-traditional lending channels that lend directly to small businesses with £100m being invested by the Department of Business, Innovation and Skills into existing peer-to-peer lending platforms. Similarly an industry representative also drew attention to the fact that Multilateral trading facilities also offered retail investors and investment firms a real alternative to trading on formal exchanges.

It was stressed however, by senior public policy decision-maker, that credit supply is not the only hurdle that must be overcome in seeking to develop non-traditional sources such as peer-to-peer lending and crowd funding as credible alternatives to bank lending. The UK experience to date in fact demonstrates that there are also important challenges in relation to a low level of awareness of such funding sources within the SME sector; a tangible lack of trust and confidence in non-traditional funding channels and the overall cost base including in particular the cost of sourcing and collating the appropriate information on SMEs. Indeed although encouraging alternative supplies of finance was viewed as essential it was

[10] See http://www.hm-treasury.gov.uk/bfp.htm
[11] http://www.nprf.ie/Publications/2013/NPRFAnnouncesNewSMEFunds.pdf

necessary to recognise the continued importance of the intermediary role of banks given their origination networks.

It was also pointed out that in seeking to diversify the sources of funding available to SMEs there is a need to get the right balance between protection for investors — notably small/individual investors — and actually encouraging the growth of alternative supplies of credit that are commercially viable. Interestingly it was suggested that the regulatory environment in the UK is still somewhat predisposed towards the banking sector compared to the other new forms of funding. At the same time it was accepted that building the confidence of both lenders and borrowers in innovative vehicles such as peer-to-peer lending will necessitate establishing an appropriate regulatory framework and indeed the UK Treasury plans to launch a public consultation exercise on peer-to-peer lending during 2013 to decide exactly what form the regulation should take.

Information Asymmetries and Costs

The constraints on non-bank lending to SMEs posed by both problems in relation to accessing relevant information and also the financial and administrative costs associated with this process were also raised by several different delegates. One contributor firmly stated he believed that accessing relevant and necessary credit information on SMEs is a pervasive problem across the whole of Europe. The fact that SMEs were traditionally so reliant on the banking sector ensures that there are clear structural information asymmetries with regards to credit information between the banks and non-traditional lenders. This ensures that for non-bank lenders undertaking credit assessments of potential borrowers is both costly and difficult. Consequently this was highlighted as a real barrier to the scaling up of alternative funding sources for SMEs. During this discussion it was highlighted that publicly funded centralised business databases have been established in several other states notably France, and that the existence of a similar centrally maintained, affordable and accessible business database in countries such as the UK and Ireland would assist investor decisions in relation to particular companies. The view from industry representatives was that establishing such a facility in the UK or Ireland would necessitate government intervention as they did not consider that such a venture was commercially viable.

Regulated Markets and Multilateral Trading Facilities (MTFs)

As was outlined in one of the keynote presentations, stock market access has become increasingly remote as an option for SMEs. Trade sales, at a relatively early stage in company life cycle have become more prevalent in certain Member States, with buyers usually emanating from outside the EU. It was noted at the workshop that although European regulated trading venues have launched specific SME markets or segments to address the needs of smaller companies many of these are struggling to attract companies, for a number of reasons:

- Equity investment remains risk adverse, and very concentrated on blue chips. There are few clearly identifiable SME capital pools, dedicated collective investment vehicles and risk diversification opportunities. There are often fiscal disincentives (and rarely incentives) for SME investment compared to other asset types.

- Outside of certain specific sectors, the size at which it is possible for a company to IPO has increased significantly when viewed historically. IPO is therefore increasingly less of an exit option for early stage funding. As bank and mezzanine debt has become less available, there is an increasing funding gap with the only remaining option being a sale process, as referred to above.

- The ecosystem that traditionally supported SMEs on public markets has been significantly eroded (particularly in the last decade), as markets (and players) have become more focussed on blue chips and non equity. Decreasing numbers of smaller banks, brokerages and trading venues has significantly reduced the incentive alignment to support SMEs whose scale is unattractive to larger players. Consequently SMEs find it difficult to attract brokers, road shows, analyst coverage with consequential impact on price, liquidity and investment.

- Many SMEs remain nationally, or narrowly geographically, dependent for investment and brokerage support. Differences in investment culture, accounting, language, company law, shareholder protections, and corporate governance norms present significant challenges to cross border investment. Some SMEs find the regulation and transparency of communication required by the market difficult, and views the cost, both direct and in terms of management time, as unattractive relative to the benefit. Although many EU exchanges have established enterprise markets which seek to reduce this impact, the perception remains.

This issue also impacts on the Venture Capital industry, as venture capital funds are reliant on well performing SME-orientated stock exchanges to translate their original investments into an initial public offering. In this context participants considered that the proposals under the MiFID II to create a new subcategory of markets known as SME growth markets was a positive initial step in helping growing companies access capital markets as it should raise the profile and visibility of these markets within the investor community. Representatives from the financial industry however contended that this measure needs to be built upon with a range of coordinated initiatives at the national and EU-level that are designed to facilitate and support SMEs in accessing regulated markets.

Venture Capital and SMEs

Since the financial crisis in 2008 the European venture capital has endured a sharp contraction of its investment capacity with the overall investment in venture capital declining sharply from €17bn to €3bn between 2006 and 2011. This development has severely affected innovative SMEs access to much needed finance, thus constraining their capacity to grow and generate employment. In was outlined that although governments have sought to address this market failure, providing 60% of venture capital fundraising in 2011 compared to just 19% in 2007, ongoing fiscal constraints ensures that this level of exchequer support is probably not viable into the future.

Aside from the fact that the broader economic and financial environment is challenging, it was clearly outlined that the development of the European Venture Capital industry also faces other longer standing barriers including:

- continued fragmentation along national borders with only very few pan-European VC funds;
- the small size of VC funds in Europe; and,
- the relatively low returns compared to other forms of private equity.

A senior representative from the Venture Capital industry maintained that the regulatory proposals contained in Solvency 11 and the IORPD, in conjunction with various national requirements, in seeking to control and limit systemic risk were having a negative impact on investment activity including Venture Capital fundraising. While accepting that the debate between regulation and growth needs to deepen and intensify, this same individual made the case for productive investment such as venture capital to be treated more favourably under the emerging regulatory framework. Additionally it was suggested that there may be merit in facilitating the de-risking of venture capital assets as a means of proving some downside protection to the private sector. In terms of practical steps to strengthen the European VC industry, the potential developments in relation to a European Marketing Passport was considered to be positive initiative as allowing all managers of qualifying venture capital funds access to eligible investors across the EU should encourage the establishment of larger cross country funds.[12] In the same vein the work of the European Venture Fund Investors Network, which was established in 2011, was also highlighted.[13] This network of national venture capital and private equity provides a platform for dialogue that is designed to improve the efficiency of the EU Venture Capital market through the sharing of best practice, developing policy proposals and promoting the development of fund of funds collectively managed and co-financed by national operators.

[12] See http://europa.eu/rapid/press-release_IP-11-1513_en.htm
[13] http://www.caissedesdepots.fr/fileadmin/PDF/05._actualite/evfin_brochure_15_decembre.pdf

New EU Financial Instruments

As was outlined previously in relation to infrastructure investment, participants were of the view that new and enhanced EU financial instruments had a key role to play in both the financing of SMEs and strengthening the lending capacity of the European VC sector. In particular it was suggested that Structural funds are key to this as they can potentially be utilized to leverage in additional capital market or private sector investment. Some delegates however maintained that this potential role is being curtailed by overly restrictive regulations. Consequently they considered that it would be important for the proposed Common Provisions Regulation for Structural Funds to establish a more standardised, simplified framework to enable the faster delivery of funds and policy learning across the Union.

Action Steps and Possible Solutions - SMEs

Regulatory Framework

In the conclusion of the debate on non-bank funding of SMEs, representatives from the financial industry stressed the need for policy makers to proactively explore what are the gaps and barriers in relation to SMEs accessing equity and debt funding. In this context there was a certainly view that the manner in which the regulatory regime was evolving was generating potential market obstacles to enhanced non-bank financing of the SME sector.

Securitisation and Aggregation

It was proposed that existing EU policy on securitisation needs to be reconfigured to allow for regulatory treatment to differentiate accordingly between quality and performing products on one hand and more risky or speculative securitisation vehicles on the other. Additionally policymakers should, explore the potential of establishing some form of SME loan aggregation agency, which could lend directly to SMEs and/or pool SME loans to facilitate SME access to the public corporate bond markets.

Accessing Relevant Data

One innovative initiative that was suggested to begin to address this vexed issue of easily accessible and relevant credit information on SMEs was that any enterprise that avails of government backed financial supports would be statutorily required to provide annual business accounts including credit data to a government maintained database / website. Furthermore it was argued that attempts to attract additional institutional investment into the SME sector, would benefit from easier access to better quality information and data on a pan-European basis.

Fiscal and Legal Frameworks:

As was the case in relation to infrastructure, the view from the financial industry was that it was essential that at both the European and national level, the fiscal and legislative framework should incorporate a strong market orientation and in particular include measures that incentivize non bank investment in SMEs and Venture Capital. Equally it was suggested that improving the quality and quantum of non-bank, direct market funding available to European companies, including SMEs, would benefit from greater consistency in the tax and legal regimes across member states. One participant for example argued that a moving towards the harmonisation of bankruptcy regimes would in their opinion improve the environment for non-bank funding of SMEs. Indeed while it was accepted that such a move was highly ambitious, it was suggested that this should not prevent individual states actually exploring with other the potential for enhanced co-operation on such an issue.

Initial Public Offerings (IPOs):

Drawing on the example of the US, there is a need for co-ordinated and focused policies at the national and EU levels, that are designed to incentivise dynamic companies –both SMEs and larger corporations – to continue to grow and scale using the IPO route to raise development finance as opposed to a trade sale exit. Some initiatives suggested were:

- the establishment or encouragement (through incentive, fiscal or otherwise) of collective investment vehicles for pan EU investment in quoted SME's, possibly through UCITs regulations.

- a centralised EU information hub for EU SMEs, possibly publicly funded, that would facilitate better and more centralised information on quoted SMEs in the EU,

- an increased focus on standardising investor information, accounting and otherwise, for SMEs enabling easier analysis and cross sectoral comparison.

- rebuilding a supportive SME ecosystem, aligning incentives to encourage new players, considering the capital and regulatory requirements of existing players.
- an economic assessment of the value of IPO's listing in Europe that would include a better understanding of the economic mulitiplier effects of such companies retaining their headquarters in the EU.

EU Financial Instruments

As in the area of infrastructure, participants highlighted the potential of developing innovative EU financial instrument with sufficient capacity to leverage and enhance private sector investment in SMEs in particular. In this context it was proposed that the development of an EU branded or labelled State Guarantee Scheme for SME lending, based on aggregating existing supports, would be a more effective conduit for attracting additional institutional investment into SMEs as it would permit a pooling of risk and securitisation.

Collaboration and Visibility

Notwithstanding the challenges that are associated with increasing SME access to non-bank funding, there was a consensus that framing possible solutions to this problem requires deep and intensive deliberation between all the relevant stakeholders. Indeed as one participant remarked a discernible lack of visibility on progress or credible solutions was clearly having a negative impact on confidence. Consequently increased collaboration, a greater commitment to seeking possible solutions and a willingness to experiment could actually serve as the catalyst for the emergence of appropriate, viable and innovative solutions to the challenges facing the SME sector.

Section IV

Progressing This Issue

The decision by the Department of Finance to host a high level Workshop on Non-Bank Funding of Growth and Jobs in December 2012 reflected their view that is critical for policy makers and other stakeholders to proactively explore how they can more effectively harness non-bank funding in a manner that drives sustainable economic growth and employment across the EU. There was also a sense that, notwithstanding the important work that the EU Commission is undertaking in relation to the forthcoming Green Paper on Long Term Financing, there was a need to take lead role in contributing to the ongoing the debate between the various stakeholders on this critical issue. Furthermore the Department of Finance viewed engagement with this issue an integral part of the Government's planning for the forthcoming EU Presidency in 2013.

It is important to note that at the ECOFIN on the 22nd of January it was agreed that the issue of options for long-term financing of economic growth and jobs would be further discussed at the Informal ECOFIN in Dublin (April 12th – 13th). Ireland's commitment as Chair of the European Council is to facilitate and encourage the development of an appropriate set of policy options that will support the long-term financing of growth and employment across Europe. The Department of Finance considers that this Summary Report of the High Level Workshop in conjunction with its ongoing work on the issue of non-bank funding of long term investment can make a valuable contribution to the debate at the European level. Seeking to progress the issue of long term financing also supports and reinforces the Growth, Stability and Jobs agenda which is the central theme of the Irish Presidency for 2013.

Significantly, a clear outcome of the Workshop discussions was that there is strong consensus across national administrations, the financial industry and European institutions that attracting increased flows of capital from institutional investors and effectively channelling it towards long term investment in both necessary infrastructure projects and the SME sector is now a core policy priority for Europe. While it is understandable that dealing with the legacy issues from the financial crisis has captured most of the attention at the political level, it was highlighted at the Workshop that delivering the EU's growth strategy, is in part dependent on the enhancing the capacity of the financial system — markets, institutions and products — to complement the contribution of the public sector towards achieving high levels of innovation, productivity, employment and social cohesion.

The representatives of the financial industry who participated in the workshop were strongly of the view that there is an overwhelming need to ensure that the regulatory, legal and fiscal regimes at both the national and supra-national level embrace a stronger market orientation. Notwithstanding the factors that underpinned the financial crisis in 2008, these individuals maintained that attracting higher levels of institutional investment in both infrastructure and the SME sector is dependent on developing a regulatory and fiscal architecture that clearly incentivizes such activity. Conversely they argued that the evolving prudential and regulatory framework is having the unintended consequence of penalizing or constraining the capacity of financial institutions to provide capital for long term investment in growth.

This perspective on the negative impact of the evolving prudential and regulatory framework was challenged by senior policy makers who drew attention to the fact that the objective of regulations such as Basel III and Solvency II was to secure greater stability in the financial sector, and in so doing reduce the economic and societal costs of any future crisis.

It is evident that in essence the European Commission is seeking to achieve an appropriate balance between these two objectives of growth and regulation. At one level it recognises that regulatory systems like prudential supervision need to be strengthened to avoid a repeat of the financial crisis. On the other hand it is aware of the need to ensure that for example capital requirements should meet their prudential goals without unduly affecting growth-enhancing long-term capital formation.

The discussions at the Workshop reaffirmed the view that the financing of long term investment is dependent on a range of factors including framework conditions — the regulatory environment, accounting rules, corporate governance, taxation and state supports regimes — and also saver/investor outlook and behaviour which incorporates issues such as risk appetite, competencies and capabilities and the agency relationship between investors and asset managers. Addressing this situation therefore will require a range of actions that will both contribute to addressing the barriers to long-term investment and also encourage a shift from excessive short-termism towards investor behaviour that is more conducive to the long-term financing of productive activity.

A number of delegates strongly articulated the view that overcoming the current funding gap necessitates both the creation of credible roadmaps and a greater commitment to formulating innovative solutions as these will allow investors to engage resources in the market with the confidence that their efforts will generate sufficient momentum and lead to investible opportunities.

There are clearly lessons to be learnt from good practice in other jurisdictions such as the USA, Australia and Canada where there is a more developed and robust capital market for both project finance and the SME sector. It is recognised that new instruments, products and initiatives will have to be developed to attract the supply of funding for long term investment. As the Workshop debates revealed, however, both public and private actors are already pursuing innovative initiatives that are designed to attract and channel pools of fixed income towards productive investment in Europe. In relation to this latter activity the challenge would appear to be achieving sufficient scale so as to drive economic growth across the European region. It is important to recognise that any new or recalibrated instruments and products will have to be consistent with the evolving post crisis regulatory norms.

Although there were clearly differing positions articulated at the Workshop particularly in relation to role of regulation and associated prudential requirements all participants stressed the need for more intensive dialogue and interaction between the policy community and the financial industry. Indeed there was a real sense at the Workshop that given the importance of this issue to future economic and employment growth there is an onus on senior decision makers to collectively engage with the challenge of framing possible solutions to this issue of long term financing in Europe.

This will necessitate all of the stakeholders committing to a more intensive process of problem solving deliberation that is designed to generate practical and innovative solutions to the challenges that lie ahead. Without underestimating the complexities of the various issues that will have to be addressed it is suggested that the process of formulating appropriate policy solutions could be assisted by rethinking the relationship between financial stability and growth. Rather that viewing these as polar opposites or even objectives that need to be traded off against each other, they should actually be recognised as being fundamentally interdependent.

> "*The persistence of the crisis obliges us all to acknowledge that in a modern economy, financial stability, growth and social cohesion are inextricably linked, and that investment is a key factor not just for growth and competitiveness but also for the stability of the financial institutions and for rebalancing the public finances." (Bassani and Reviglio, forthcoming)*[14]

The overall objective of the evolving regulatory framework in Europe is to secure greater stability in the financial sector and as argued above ensuring a steady flow of long term

[14] Franco Bassanini and Edoardo Reviglio, *European Institutions and the Crisis: Investing to Grow and Compete*, in /www.astrid-online.it/rassegna/06-02-2013/Bassanini_Reviglio_en.pdf

investment will contribute to this. Similarly building institutional investors' confidence to the extent that they are willing to make the types of long term investment that will drive growth necessitates greater financial stability. It is suggested therefore that fostering a more robust shared understanding of the interdependencies between financial stability, growth and social cohesion and ensuring that the relevant policies and strategies are formulated in a manner that respects this deep interrelationship, could provide a strong foundation for delivering tangible solutions to the challenge of securing the long term financing of growth and employment in Europe.

Post Script

As was noted above there was a clear consensus articulated at the Workshop that that attracting increased flows of capital from institutional investors and effectively channelling it towards long term investment in both necessary infrastructure projects and the SME sector is now a core policy priority for Europe. Equally there was a strong view that now was the time to focus attention on developing a suite of policies and initiatives that would progress this issue.

Significantly the Irish Presidency proposed that the issue of options for the long-term financing of economic growth and employment in Europe would be discussed at the Informal ECOFIN in April, 2013. The publication of this Summary Report of the High-Level Workshop complements and supports the EU Commission's ongoing work on this issue and in particular it's recently published Green Paper on the *Long-Term Financing of the European Economy*. Furthermore both publications will support the aforementioned discussion on the financing of long term investment at the Informal ECOFIN.

In preparing for Informal ECOFIN officials from the Department of Finance have continued the process of intensive dialogue with senior decision makers from the public and private sectors that was initiated at the High Level Workshop in December. The Department considers that this commitment to ongoing engagement with key stakeholders allied to the adoption of strong problem-solving approach has the potential to make a positive contribution to progressing what is a critical issue for Europe.