Boosting Investment in Social Infrastructures

A proposal for a NEW DEAL for Europe

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First part of the presentation

1. Goals of HLTF and definition of social infrastructure;

2. Estimates of social infrastructure investments and gaps;

3. Changes to take into account for long-term social infrastructure investment: ageing, mobile populations, transformation of social models, digitalization and innovation.

Goals of the High Level Task Force

1. To assess how long- term investment in social infrastructure can be accelerated;

2. To make proposals and recommendations;

A critical contribution to **upward convergence and cohesion** between regions and countries in the EU.

Defining Social Infrastructure

A subset of the infrastructure sector broadly defined as long- term physical and intangible assets in the social sectors.

The report focuses on :

- education/life-long learning,
- health and long- term care and
- affordable, accessible and energy-efficient housing.

Assessing Current Investment in Social Infrastructure

Poor available data on public and private investments

- € 65 billion annually for education & lifelong learning.

  = 0.43% of GDP and 90% are public resources.

- € 75 billion annually for health and long-term care.

  = 0.5% of GDP.

- € 28 billion annually for affordable housing.

  = O.2 % of GDP.

- Grand total = **€ 170 Billion**

Investment Gap for Social Infrastructure (minimum)

Sector	Current investment €billion p.a.	Minimum Gap per sector €billion p.a.	Additional items €billion p.a.	Investment Gap €billion p.a.
Education & Lifelong Learning (0.43% of GDP)	65	15		15
Health & Long-Term Care (0.5% of GDP)	75	20	€50 billion p.a. for long-term care Unknown amount for disability and migrants	70 (20+50)
Affordable housing (0.4% of GDP)	28	7	€50 billion pa to address energy poverty	57
Totals	**168**	**42**	**100**	**142**

Current investment: € 170 bn per year (20% lower than 2009). Additional need of € 150 bn per year or € **1.5 trillion** for 2018-2030 or 3 times the amount of "Juncker plan".

Welfare systems need to be preserved and modernized

Projected changes in the number of people aged 65+ and 80+ in the EU28, 2016-2060, million

EU-28	2016	2020	2030	2040	2050	2060
65+	96	105	125	142	150	152
Of which 80+	27	30	37	48	58	63

Source: Eurostat

In 2016, 20 out of 100 people were over 65
In 2060, there will be 30 out of 100 people over 65 (40% of them over 80)

Life expectancy and **healthy** life expectancy at 65 in the EU-27 in 2015, by gender

At 65 years old ,men are expected to live healthy for another 9.4 years and beyond that they might become less independent and live another 8,5 years.

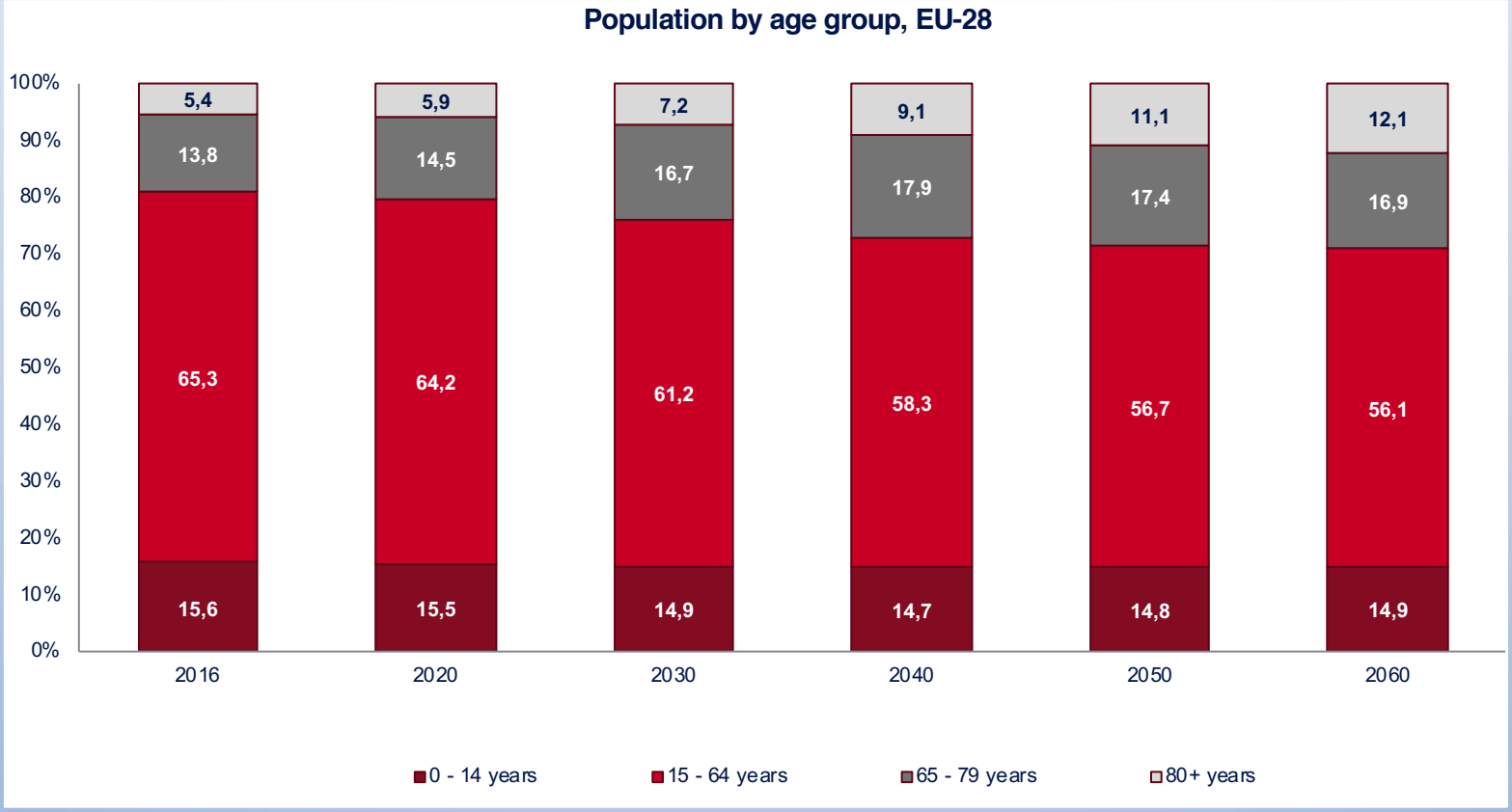
	Total years life expectancy at 65, men	Healthy years Life expectancy at 65, men	Percentage of healthy life years life expectancy at 65, men	Total years life expectancy at 65, women	Healthy years life expectancy at 65, women	Percentage of healthy life years' life expectancy at 65, women
EU-27	17.9	9.4	53%	21.2	9.4	44%

Source: Eurostat

Impact on independent living, accessible housing, health care for chronic co- morbidities /close to home

Financing the welfare systems

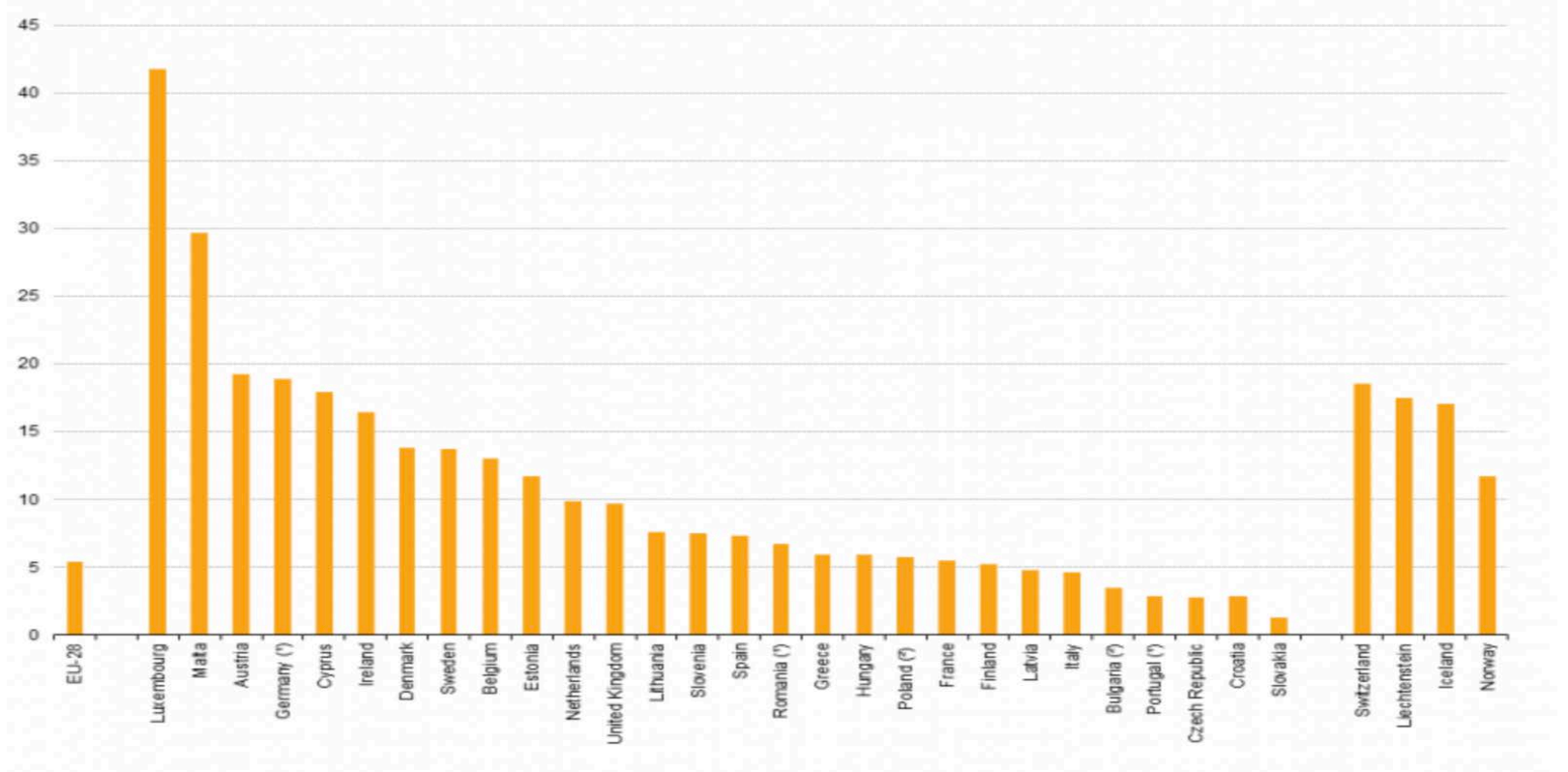
(Re)productive age population group becomes relatively smaller



Source: Eurostat

Welfare Systems' need to integrate migrant populations.

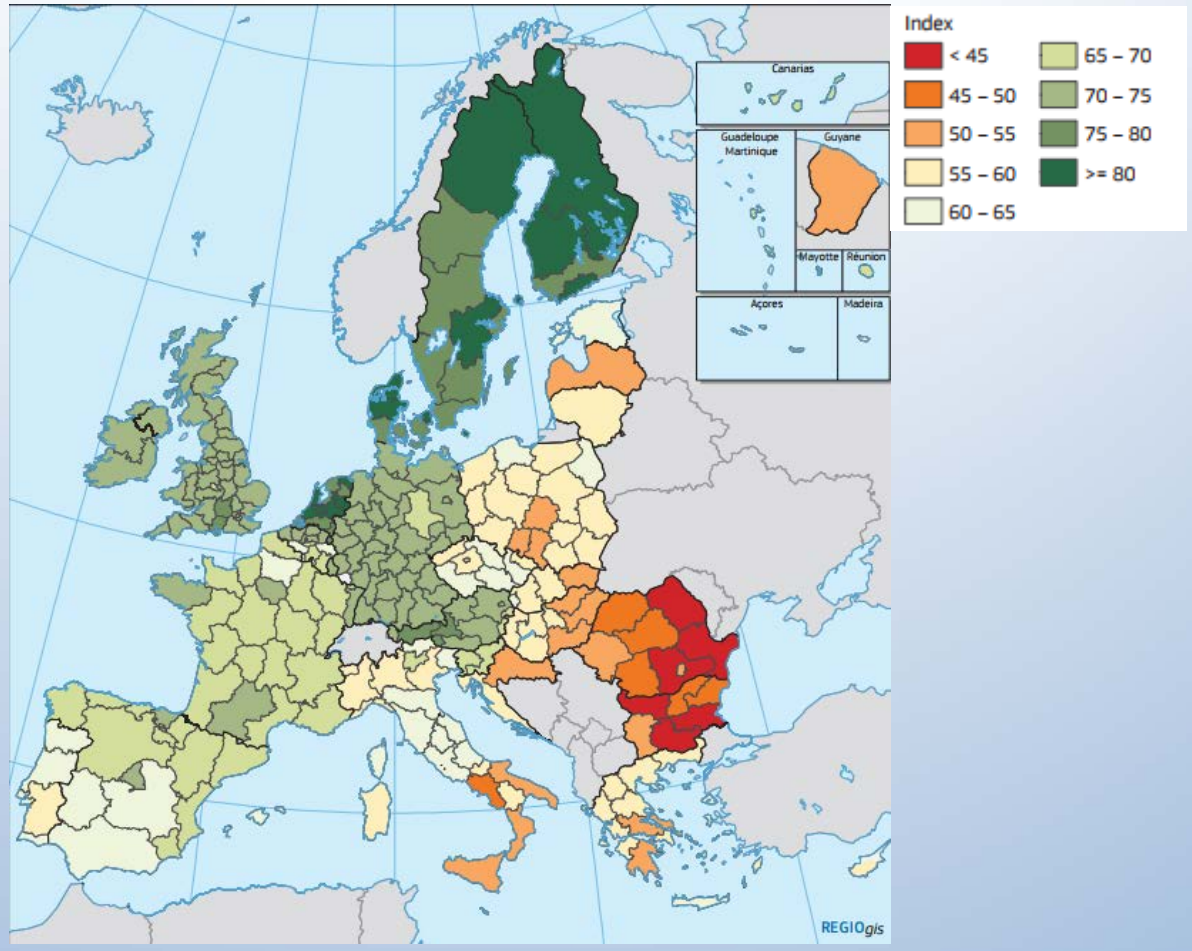
Immigrants, 2015 (per 1,000 inhabitants)



Source: Eurostat

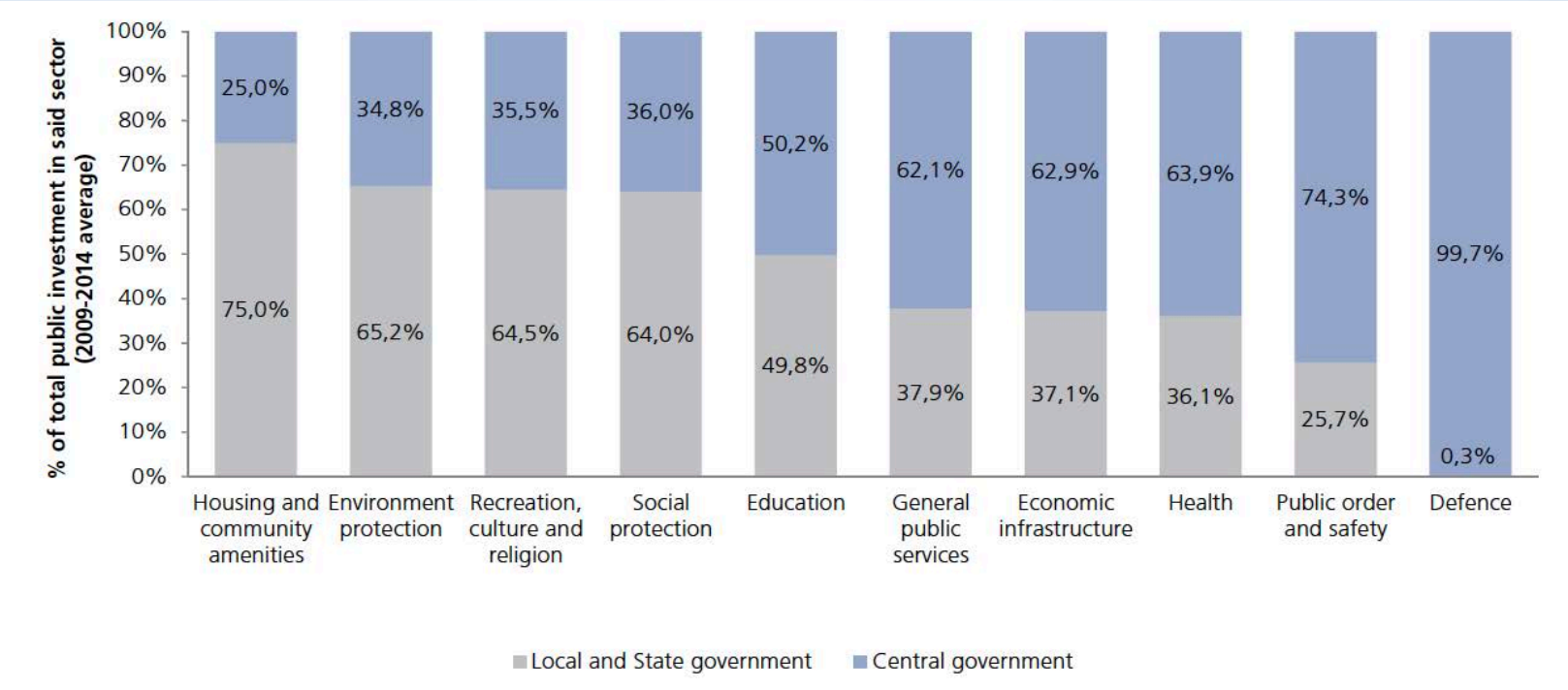
EU Social Progress Index, 2016

The index scores the various aspects covered on a scale from 0 to 100, where 0 represents the lowest possible level of social progress and 100 the highest.



Very different realities and divergence increasing

Local and state share of social infrastructure investment in EU



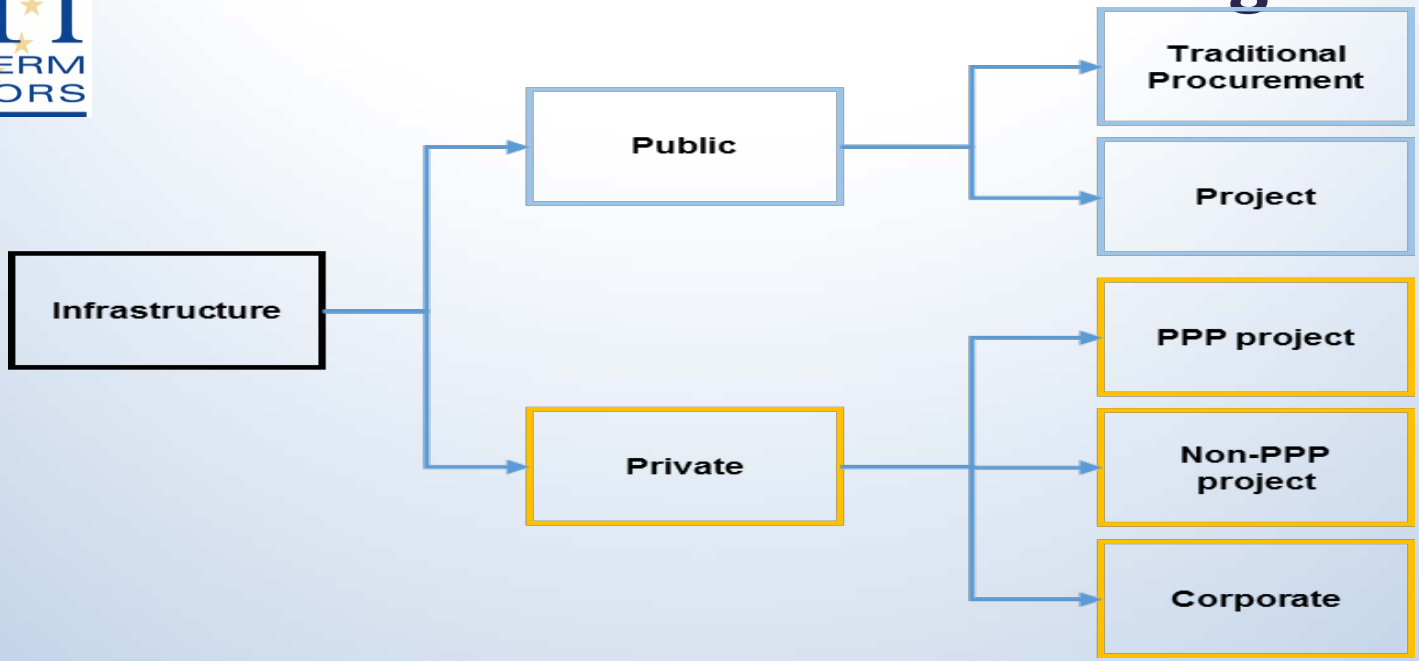
Generally small projects :only 1/100 more than 30 million Euro. BUNDLING

Source: CEB 2017 p12 – Eurostat and CEB staff calculations

Conclusions of the first part

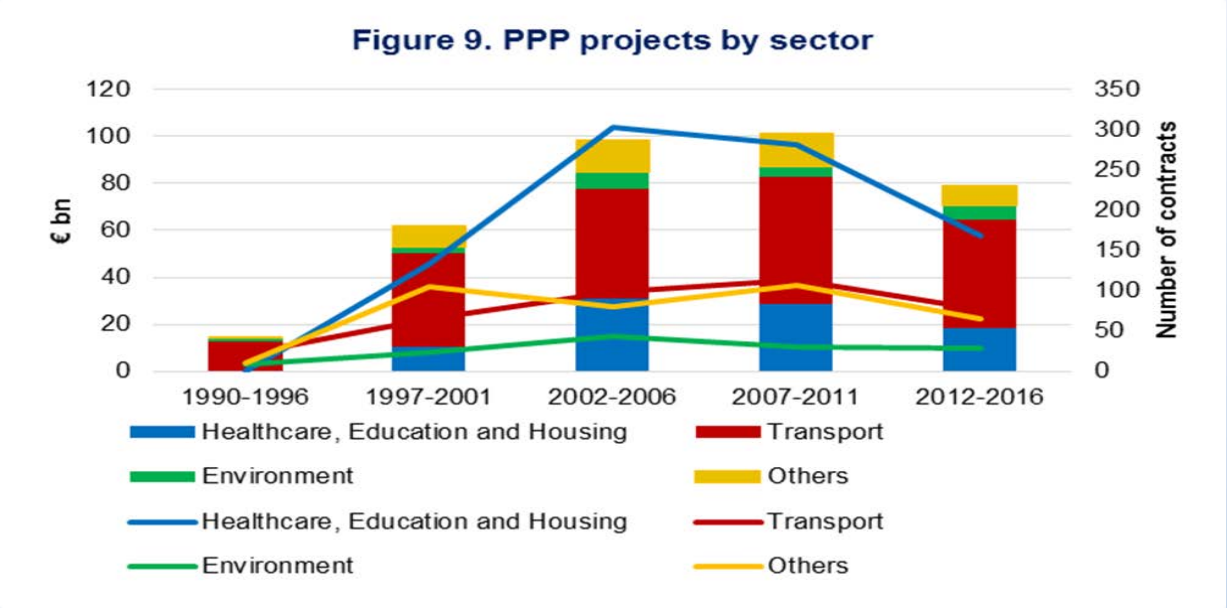
- Data needed on social infrastructure investment.
- Role of local governments essential. Avoiding that fiscal consolidation weights too much on local authorities is critical.
- Regional differences in wellbeing and investments are large and further diverging.
- Long term investments need large scale innovative projects and financing. Bundling of projects is key.
- Need to move to smart capacitating investments focusing on people and communities.

Infrastructure Financing



- Traditionally, infrastructure financing can rely on the public sector, the private sector, or both. Social Infrastructures (SI), entailing a major public component, mainly rely on **public financing.**
- The proportion of **SI publicly financed varies between sectors** (roughly 90% in education; between 32% and over 50% in healthcare respectively in the EU15 and in the EU13).

PPP & Infrastructure Financing

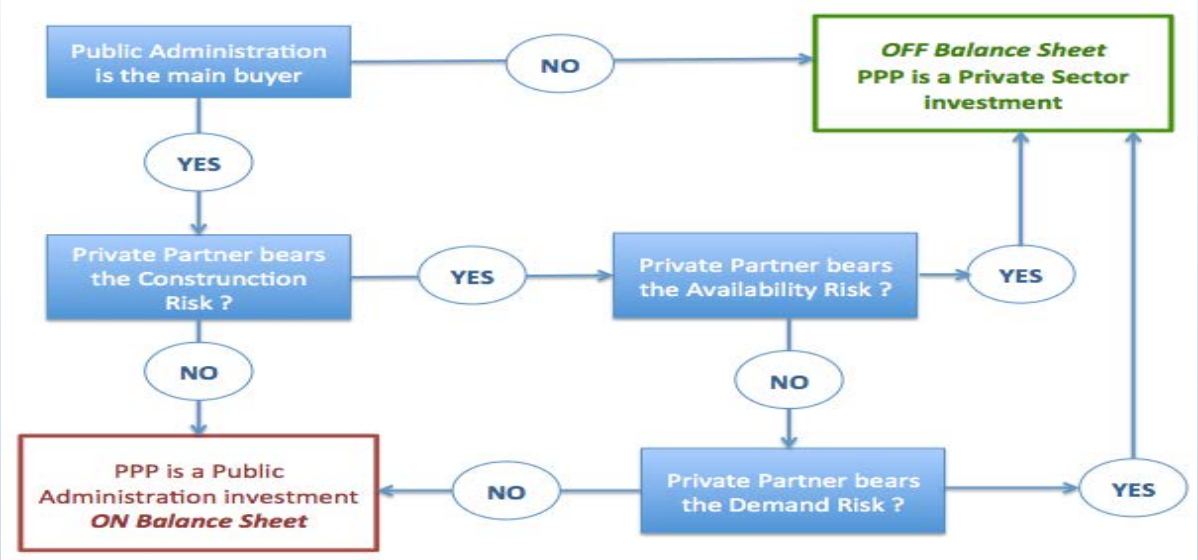


Source: EPEC

- Although still quite marginal, PPP represents an alternative to more traditional contractual arrangements. In the period 1990-2016, the largest number of PPP deals took place in the **UK** (58%).

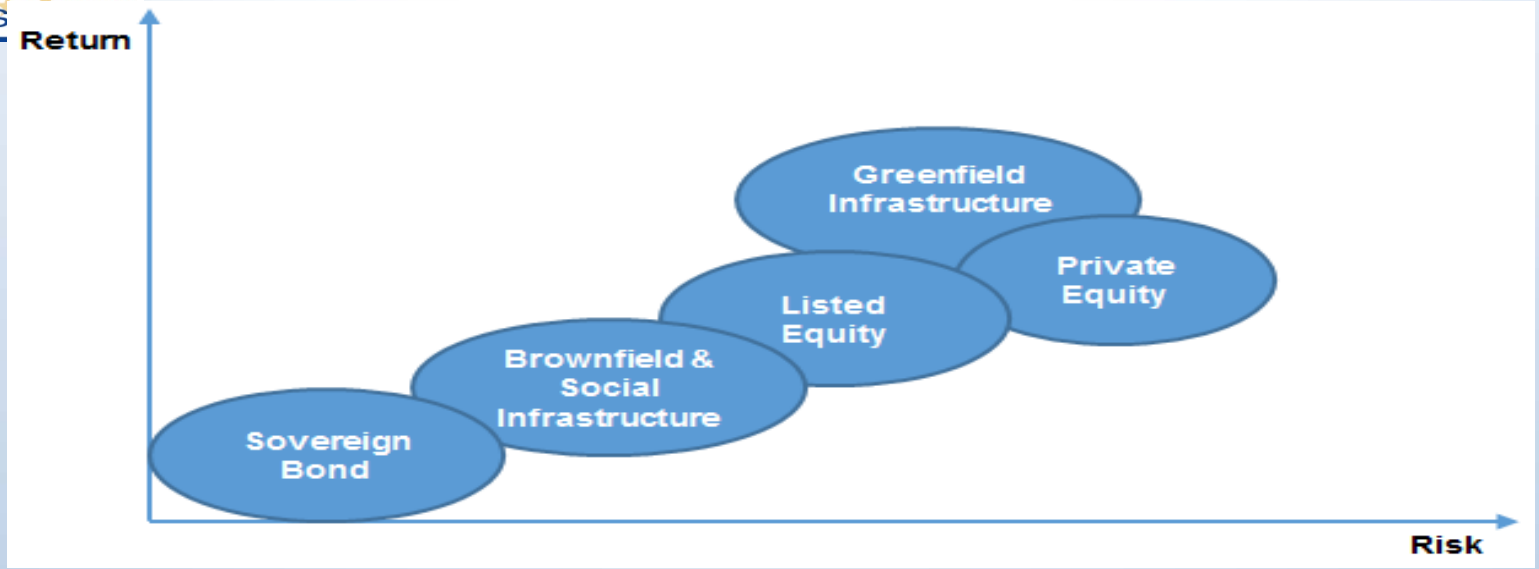
- **Social Infrastructure PPP projects represent only 3% - 4%** of total PPP contracts.

Statistical Treatment of PPP



- If the **private** bears the **construction risk**, then the financing should be classified off the government's balance sheet unless the government bears both demand and availability risks.
- The process of classification of a PPP implies a very **long time** and the classification itself is often subject to change during the lifetime of the PPP contract, thus **increasing uncertainties**.

Risk-return profile of Social Infrastructure

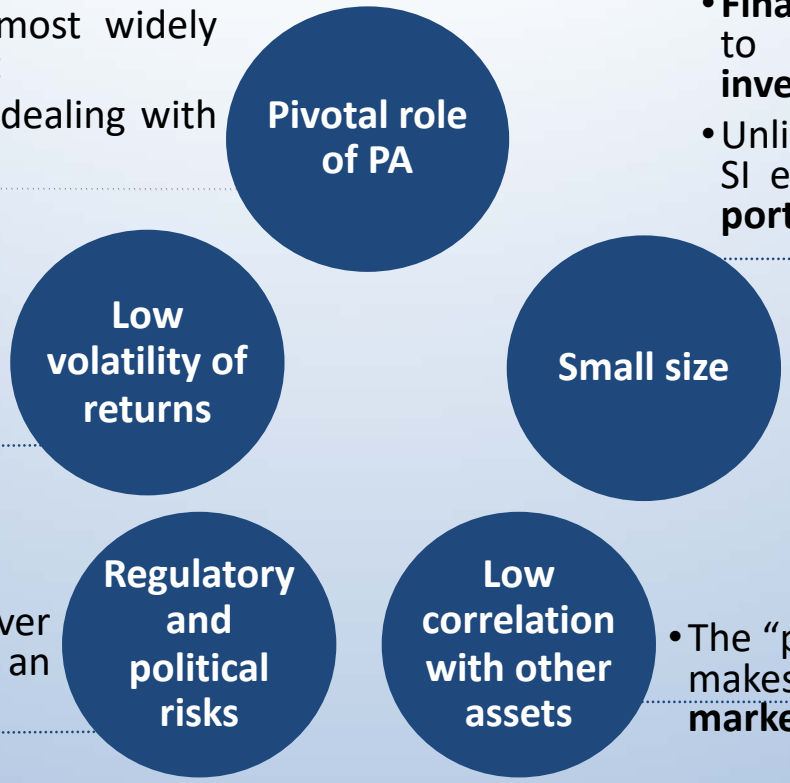


- SI projects deliver public infrastructure assets in exchange for a revenue stream **mostly paid directly by the public sector.** As such, **risk associated to SI is just slightly higher than that for sovereign bonds** and it is similar to the risk of **brownfield infrastructure.**
- On the other hand, **returns are usually lower** than those of other asset classes. They have however **characteristics of their own** which make them attractive to long-term investors.

Attracting Private Capital:
Financial Characteristics of SI

- Most capital investments **< € 30 mln**
- **Financial intermediaries** are key to channel **institutional investors'** money towards SI
- Unlike economic infrastructure, SI entail great opportunities for **portfolio diversification**

- **Public procurement** is the most widely used contractual arrangement
- The **public sector** is the one dealing with the **majority of risks**

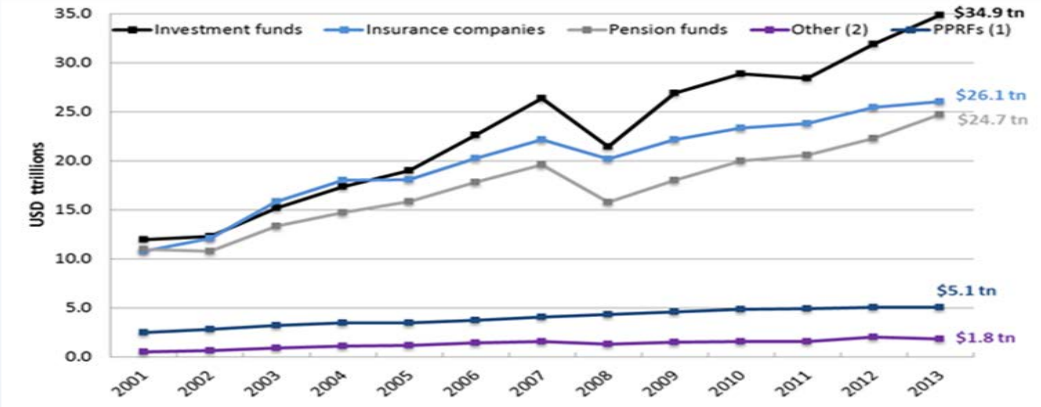


- **Availability payments** represent **predictable and steady real returns**

- **Public policies might change** over the extended time that defines an infrastructure asset

- The "public" nature of SI often makes the latter **less exposed to market risk**

Attracting Private Capital:
Global Institutional Investors' AuM



- Great opportunities of portfolio diversification, low correlation with other assets and low volatility of returns make **investments in SI particularly appealing to large long-term investors** (LTIs)**.**

- Institutional investors with **more than € 100 tn of AuM at global level** may significantly boost the SI by investing a relatively small percentage in SI.

European Structural Funds & Blending

- EU funds are mainly delivered by means of grants. Grants can be used to fund projects in their entirety or they can be employed as a part of the funding package (blending).

- **The rationale of blending is to improve the bankability of a project by reducing exposure to the risk of potential financiers.** This is to attract investors in projects considered of strategic importance (as it can be the case for social infrastructure).

- At the same time, **blending can significantly lower the amount of resources that the public authority needs to pay** to the private counterpart in terms of availability fees, thus improving the affordability of the project.

Challenges to attracting private capital

1. **Discouraging prudential and accounting standards**

   After a long normative process, infrastructure projects and infrastructure corporates now have **lower risk calibrations** than those of other investments, both for equity and debt investments. **More can be done on Social Infrastructure**.

2. **Lack of projects pipeline**

   A **widespread system of Technical Assistance** is strongly needed. Furthermore, it is important that the system follows a one-to-one approach **– "on the ground"** – with the PAs, **rather than a "desktop approach".**

3. **Lack of debt instruments**

   There is a need to **create new and innovative financial instruments especially dedicated to SI** and appealing for Long-term Institutional Investors.

RECOMMENDATIONS
&
PROPOSALS

Boosting long-term investments
Bundling of projects
Blending of finances instruments
Building capacity and technical know how

Main Areas of Intervention:

From underinvestment towards smart capacitating investment

- Increase the **pipeline of large scale bankable projects for SI;**
- Enhance the role of **national promotional banks and institutions (NPBIs);**
- Prioritise social infrastructure finance for the **regions with the highest needs;**
- Improve **Evidence-based Standard Settings for impact investing;**
- Establish a stable and **more investment friendly environment**.

How?

- Setting up **geographic and/or thematic investment platforms for social sector investments (projects' bundling);**
- Better **data collection for SI;**
- Create **new financial instruments** especially dedicated to SI
  - social bonds,
  - social outcome contracts;
- Facilitate and simplify **blending of resources** in the EU28;
- Develop far-reaching system of **Technical Assistance** at local, national and EU level.

Timeline for action

Short-term:

- In the next MFF consider a single investment scheme and **creating a specific policy window for social investment**, including investment in social infrastructure;
- Cohesion policy should strengthen its focus on social investments and infrastructure **to attract private capital** through **blending of financial resources;**
- **In the European semester, assessing MSs' investments in SI and make country-specific recommendations.**

Timeline for action

Medium-term:

- **Comprehensively assess the functioning of pilot investment platforms** including an evaluation of the underlying portfolio of projects;
- Building on the assessment, **setting up of a public-private fund dedicated to social investment** also by opening up the equity capital structure to long-term investors.

Long-term:

- **The Fund becomes one of the main European instruments for financing social investment in infrastructure**.

Public-Private Fund for Social Investment

- **Creation**, in the medium to long-term, of a new innovative financial instrument for financing social infrastructure, **a new public-private Fund for social investment.**
- The Fund would be mostly **backed by public funds** (countries and EU institutions, at a different level) and **open to private capital.**
- In addition to providing local institutions with **technical and financial support**, the Fund could help **lower interest rates by issuing high rating social bonds**, appealing to long-term investors such as pension and insurance funds as well as to responsible small investors.

Final conclusion

- Boosting Social Infrastructure Investment can be a major catalyst directly impacting peoples lives, creating employment , bringing wellbeing and care closer to where people live , prepare the children for the jobs that we can not even imagine today and provide accessible, energy efficient and affordable housing to all.