Boosting Investment in Social Infrastructure

A proposal for a NEW DEAL for Europe

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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**

EUROPEAN ASSOCIATION ELTI LONG-TERM INVESTORS

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 to be preserved and modernized

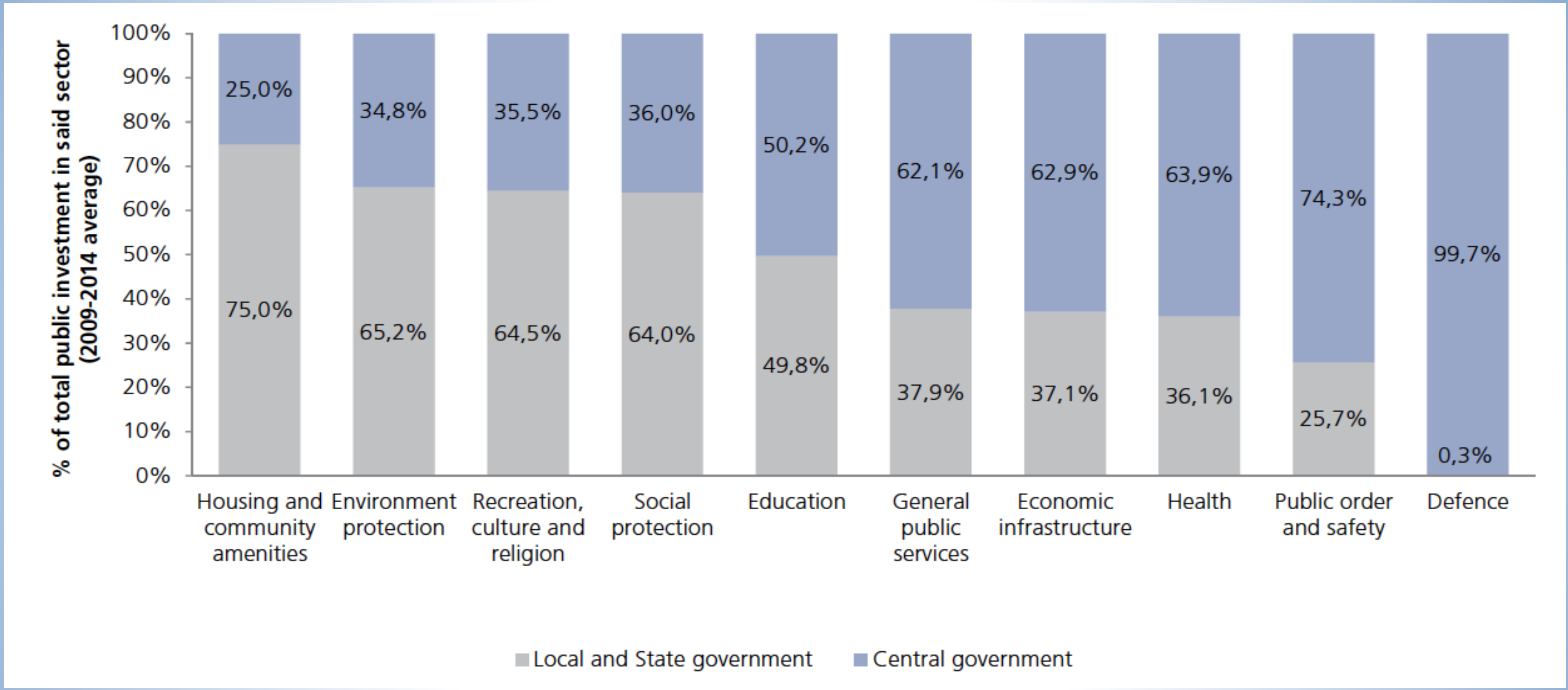
Projected changes in the number of people aged 65+ and 80+ in the EU28, 2016-2060, million

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)

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

Recommendations 1

- Role **of local governments** essential.
- Avoid that **fiscal consolidation** weights too much on local authorities is critical.
- Regional differences in wellbeing and investments are large , further **diverging and need to be addressed.**
- Long term investments need large scale innovative projects and financing. **Bundling** of projects is key.
- Opportunity to **blend resources** and finance infrastructure and services .Improving the feasibility for public and private sector. Decreases risk!

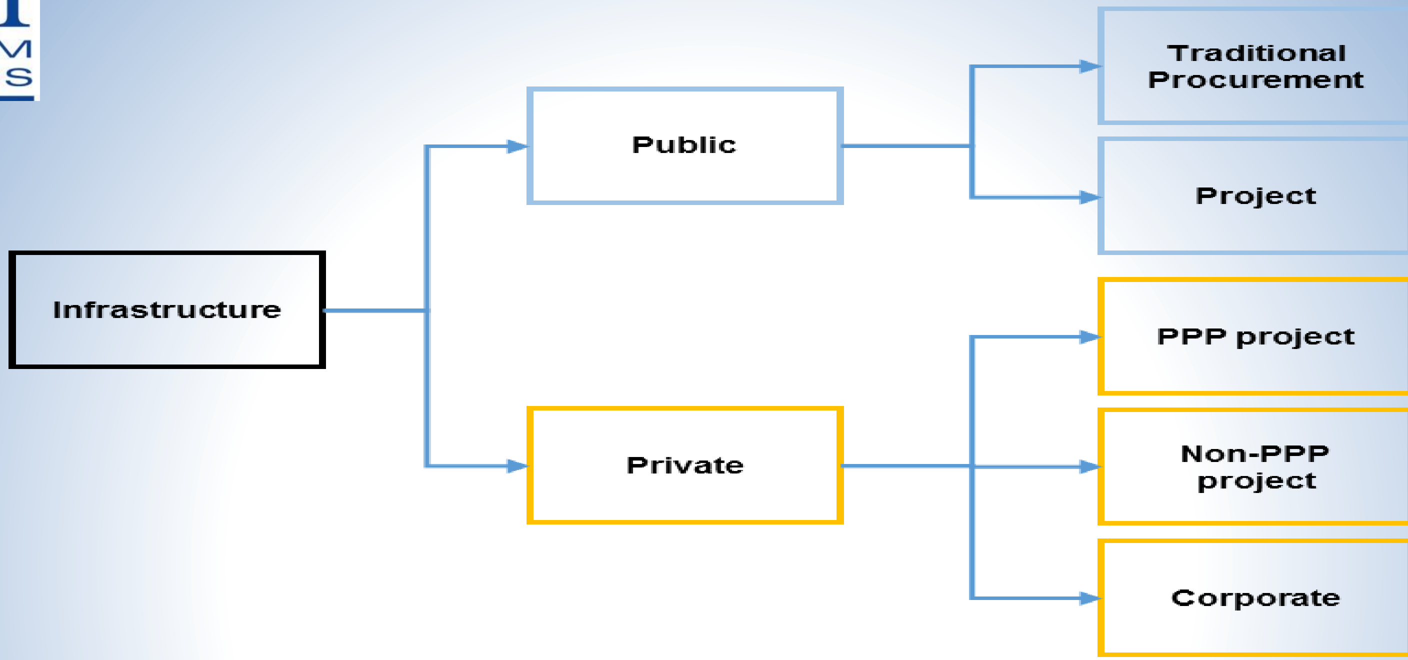
Recommendations 2

- Increase **pipeline of large scale bankable projects for SII**
- **Improve capacity building and technical support**
- 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**

Invest EU
a step in the right direction

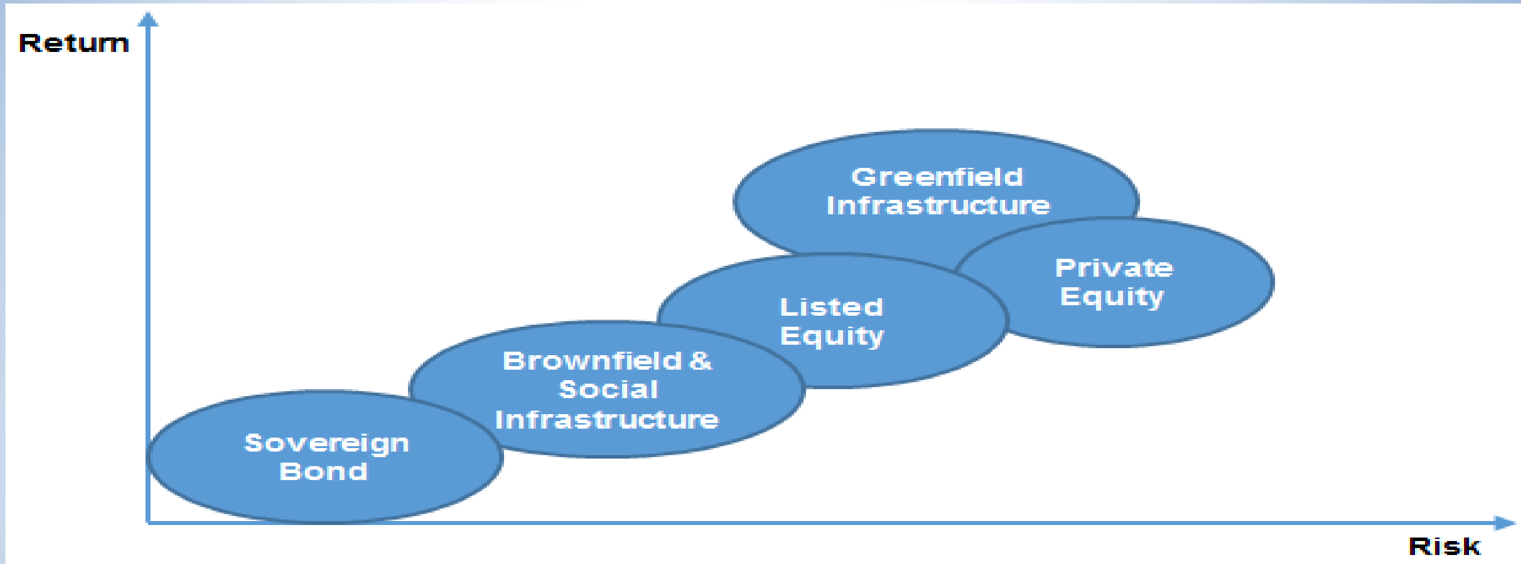
- Many recommendations of the report included.
- Social window :4/5 Billion Euro Guarantee ,will finance 50 Billion of social initiatives in 2022-2027.

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).

Risk-return profile of Social Infrastructure



- SI projects deliver public infrastructure assets in exchange for a revenue stream **mostly paid 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

Pivotal role of PA

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

Low volatility of returns

- **Availability payments** represent p**redictable and steady real returns**

Regulatory and political risks

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

Small size

- 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**

Low correlation with other assets

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

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.

InvestEU and Social Infrastructure

- The HLTF SI highly welcomes the InvestEU Plan.
- As we have seen in the two previous slides (Recommendations 1 and 2) several Recommendations of our final Report have been taken on board by the InvestEU programme;
- Finally, the **minimum p.a. infrastructure investment gap** in these sectors is estimated at **100-150 billion** representing a total gap of at least **1.5 trillion euros** for the period **between 2018 and 2030**;
- InvestEU increases the funds for guarantees from 2 to 4 billion euros. This would trigger around **50 billion of public-private social infrastructure initiatives between 2021-2027**;
- A **goal** which is **still distant** from what is needed, according to existing investment gap in these sectors;
- We ask the Commission and the MSs a **greater effort** both in **size** and in the **timing** . We need to do more and to do it now.