Together we can do more

Next Generation EU

Factsheet: Infrastructure and territorial Development

16 September 2020

Very strong constraints weighing on local investment

The local public sector, and therefore the financing of municipal infrastructure, are experiencing, and should continue to experience in the coming months, significant difficulties that will hamper their capacity to invest in local development at a time when the crisis makes investment one of the most important mechanisms for recovery.

Strength and experience of NPBIs in this specific field

The stakes are such that all participants in the system, from the European level to the local one, need to join forces, starting with long-term investors and particularly national promotional banks and institutions (NPBIs). For the economic activity to be relaunched, the need of incentives is crucial. It is part of the mandate of public entities to accompany and initiate them.

As countercyclical entities, NPBIs already play an active role. With their scale (€1,700 billion of total assets for the 32 members of the European Long-Term Investors Association), their stable funding sources, their cautious management and the sectoral expertise and knowledge of their national/regional market, NPBIs can act effectively, as illustrated during the 2008 financial, economic and social crisis, as well as through the Juncker Plan. Many NPBIs are committed to investing in territorial infrastructure and to providing services to local authorities (regions and municipalities).

In this respect, 3 sectors are crucial:

- Within the EU, **social housing** has been sacrificed after 2008 because of budgetary constraints at European, national and local levels. Expenditure went down when long term needs were increasing. The current investment in social infrastructure has been estimated at EUR 170 billion euros per annum (2018). The gap is wide, between 100 and EUR 150 billion euros per annum.
- **The touristic sector** was hit on a very large scale. Some European Member States have lost up to one billion EUR per month in this specific sector, endangering millions of jobs. Emergency measures were necessary as a consequence of confinement, but long-term support is now crucial in a post-confinement period, when mobility will be long-lastingly reduced. It now seems crucial for long-term investors to support the sector's actors (be they local authorities or private promoters) and help them devising a new development model, more respectful of environmental and sanitary constraints.
- In **the health and medico-social sector**, huge investments are needed to foster digitalization, structuring equipment and telemedicine as well as home automation services.
- Investment in **green mobility** is also key, with major investments in infrastructure (including networks of electric charging points), but also through investment in cleaner mobile assets. All this is part of the financial effort to be made for smart cities and goes hand in hand with the increasing effort to fight against the urban sprawl (redevelopment of brownfield sites).

A cross-border investment boost is needed

Governments and financial institutions are currently very active in tackling the adverse effects of the COVID-19 crisis. While most efforts aim to help companies and shape investments in the local markets, it is crucial not to disregard the importance of cross-border investments within the EU. These investments are indispensable in developing a more robust and resistant EU single market in case another future financial crisis occurs. They may also have a highly positive impact on the economic recovery, as the needs in this area are extensive. In just ten CEE EU member states, there is a demand for 200 billion EUR worth of cross-border investment in trans-European networks by 2030 (transport, digital economy and energy). NPBIs are already responding to this demand by establishing the Three Seas Initiative Investment Fund in 2019. The Fund is open to other CEE NPBIs as well as international financial institutions and private investors.

What the European level can do to make a difference

- Incentives should be adopted such as providing funding so that debt repayments can be deferred in favour of investments that are riskier, either because they involve long-term projects or because, while remaining in the public interest, they do not necessarily generate immediate financial returns, particularly in the sphere of social infrastructure especially with regards to hospitals, social housing and schools.
- Moreover, restrictions on public-sector financing should be relaxed, making it more broadly possible to combine European subsidies with public investment.
- Thirdly, our experience has clearly shown that a “One-size-fits-all” approach cannot be the answer. There is a need to complement, reinforce and enlarge existing national, regional and local initiatives which are already in place.

The European intervention should follow two main principles when designing instruments:

i) to call out a multiplicity of implementing partners, beyond the EIB. Such an opening makes it possible to widen the field of intervention to small and medium size projects that the EU is not used to support even if they bring development perspectives. It also allows the EU to reinforce its relationship with NPBIs, which are agile and provide expertise in their domestic perimeter, and to benefit from their cooperation, as shown with the €10bn JICE initiative for circular economy (https://circulareconomy.europa.eu/platform/fr/node/2103).

ii) to promote the subsidy/ investment/guarantee combination. Technical assistance helps the project promotor to build up a bankable project, while the grant and the guarantee have an impact on the risk/return couple of the project and, by doing so, generate a leverage effect on investors. In this respect, alongside guarantee instruments such as InvestEU, blending facilities that make it possible to simply mix EU grants and national investment could also prove to be a very efficient instrument.

iii) Cross-border investments within the EU should be promoted with additional premiums as they are characterised with further risk and additional positive effects for the development of the EU single market.