ROMANO PRODI

Illustre Presidente / Carissimo Jean-Claude,

As Chairman of the High-Level Task Force (HLTF) on Financing Social Instructure (promoted by the European Long-Term Investors Association and the EU Commission) I welcome the Commissions' proposal for the InvestEU Programme and the new social investment and skills window. In my view, it represents major progress in EU investment policy; the programme contains several innovations, some of which have been recommended in our Final Report ("Boosting social infrastructure in Europe")[1] which was presented jointly with Vice President Katainen on January 23rd in Brussels. Since then, the Report had been welcomed by many and it has been widely discussed across Europe. The support of the European Commission to the success of the initiative has been great and highly appreciated.

I am especially pleased to see that more attention and resources are given to social investments than in the past. So far, the EU and Member States have done way too little to support infrastructure in key sectors such as education, health and affordable housing. Now, when adopted, a dedicated window for social investments will help improve the highly needed social investments in many of the regions with the highest need. I strongly hope this window will become larger and ever more central in future social policy of the Union. I am convinced that we urgently need to address key societal issues and modernize our social infrastructure, invest in human capital and use new technologies to confront the challenges posed by the aging population and pressure on the public budgets. Our citizens expect to continue to benefit from the Welfare State in a modernized society.

If the above improvements are important steps ahead, I believe that more resources will be needed for the social window of InvestEU and that we need them sooner. I therefore also hope that the existing EFSI programme could urgently improve its investments in social infrastructure already under your Commissions' mandate. So I suggest that MSs start working rapidly on some more pilots now, with the existing instruments, to showcase that it is possible to accelerate the process even with EIB/ EFSI.

Investment in social infrastructure has been estimated by our experts at approximately 170 billion per year. The minimum 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 2,2 to 5 billion euros. This would trigger around 50 billion of public-private social infrastructure initiatives between 2021-2027. A goal, very distant from what is needed.

I understand that closing such a gap represents a daunting challenge in times of high public debts and relatively low growth rates. However, if we look at European demographic perspective and structural changes in the labor market in the next two-three decades, we have good reasons to be worried and thus we must act now and be ambitious. Today European aged +65 are around 19%; in 2060 they will be close to 30% (of whom one in three more than 80 years old). Today the ratio between those that work and those that do not is 4:1; by 2060 it could get down to 2:1.

I support InvestEU because I hope it will help to trigger a major boast of social infrastructure investment across the EU. Much is already happening at the level of public and private investors. Investment in social innovation is discussed at every corner of the Union. The financial industry, patient investors, no-profit and NGOs are already working together to plan and build new infrastructure in health, education and housing, with most innovative schemes. Social innovation and impact investing is the "new name of the game" among those who work in infrastructure finance.

While investing in health, long term care, education and affordable housing we also have an opportunity to transform those sectors and refocus on people and communities, using new technologies and innovations. We recognize that those social sectors need not only infrastructure and innovation investments, but human resources and services and

[1] https://ec.europa.eu/info/sites/info/files/economy-finance/dp074_en.pdf

Via Santo Stefano, 140 - 40125 Bologna - IT - Tel. +39 051 227609 - Fax +39 051 264813 - fondazione@fondazionepopoli.org

by crowding in private investors into the infrastructure part, more public resources for the services themselves can become available.

Although the volume of social infrastructure investments required is likely to amount to the greatest investment in the social area ever undertaken in European history, we must not be afraid to endorse this initiative. Indeed, only by catalyzing vast financial resources in innovative ways, can Europe maintain its global leadership in welfare. In a time of political disaffection and distrust, new and substantial investments in social infrastructure would also send citizens a strong message that European institutions and governments want to bring their people back to the center of the EU.

Finally, I believe that a special fiscal treatment should be granted to social infrastructures. They represent only around 10% of all infrastructure investment in the EU, but they are urgent and most crucial for our citizens well-being. Under the best use of the flexibility, within the existing rules of the Stability and Growth Pact, expanding eligibility criteria of the investment clause to allow more co-financing for the local innovative projects should be highly desirable. The proposal reflects the current social and economic context in the Union and would provide a concrete response to the call from our citizens for a more social Europe and for strengthening the investment in people in the European Union.

Finally, I would like to reiterate the importance of appropriate technical assistance to prepare bankable projects in this field and urge you to take an initiative to consult to make this happen. The HLTF would be ready to create a sub-group to work, together with the Commission, to study this key issue possibly with a short time delivery.

Our report also pointed towards an urgent need to improve data collection on social infrastructure investments and I would like to see the EU take a leadership role in this area soon.

To adopt InvestEU quickly and work with EP and Member States will hopefully make this epochal change happen, with the great ambition required, to make sure that the future of the European Union is placed on a safe ground.

I attach a few further detailed recommendations for the proposal.

Con molta amicizia

Bologna, October 2nd , 2018

Mr. Jean-Claude Juncker
President European Commission
200, rue de la Loi
1049 Bruxelles

Annex

Suggested improvements to the Commission's proposal

1. In view of the existing lack of reliable data on infrastructure investment there is a need to create databases and elaborate on the creation of a scoreboard on the proposed financing and investment operations in the social sector;
2. Technical Assistance and Capacity Building need to be reinforced to make them more accessible "on the ground" at the level closest to the project promoter". The"InvestEU Advisory Hub's primary aim should be to help local partners to reinforce their Technical Assistance capacities or to build them). I consider this aspect as the most important "piece of the puzzle" in the creation of a public-private-institutional community based European market for social infrastructure. The growing sophistication of financial products for social infrastructure and the lack of technical skills by local public administrations across the EU must be addressed all together, rapidly and with great ambition. It represents, according to our Report, the Achille's heels of the European market for social infrastructure;
3. Bundling of projects into larger financial instruments should be made easier. Most social infrastructure are made of small-sized projects, which are currently strongly underfinanced. Bundling will increase their size and their attractiveness to private investors. InvestEU should more clearly support the idea of facilitating such schemes enabling the possibility of bundling projects through "investment programme or structure which have underlying sub-projects" (Art. 19);
4. The use of cohesion policy funds to finance social infrastructure and to reduce divergencies among European regions was one of the driving message of our Report. The new Plan contains novelties about the set-up and implementation of Financial Instruments under shared management in the national compartment. The fact that the Member State under InvestEU framework has the possibility to directly appoint NPBIs to implement Financial Instruments is a great in the right direction – procedures will result into a simplification which should be welcomed by both Managing Authorities and NPBIs. However, incentives currently build in it are still too reduced to convince the Regions to recentralize structural funds, instead of deploying them in the territory.
5. The quality of the guarantee, provided by the Union budget and with its high credit rating, is the key to support riskier investment and broader access to finance in the EU. I fully support ELTIa's recommendation that the guarantee "should be as broad as possible – meaning irrevocable, unconditional and on first demand – and its price should be based on the characteristics and risk profile of the underlying operations while taking in due account the achievement of the policy objectives targeted under InvestEU including the possible application of specific concessional terms as needed". [2]
6. Crucial, in my view, is a more "regional based" rather than "Member States based" approach in the interpretation of the concept of "additionality", to reduce divergence in social infrastructure needs, i.e. where greatest are the market failures or sub-optimal investment situations, including in vulnerable and remote areas. Additionality is defined as the avoidance of substitution effects and not based on the risk profile of the operations financed, constitutes an improvement with respect to EFSI's definition of additionality. However, assessing whether there is a risk of substitution is not easy, and the level of real additionality will depend, in the very end, on how exactly this principle is interpreted by the investEU governance bodies and integrated in the selection of procedures. Here, I believe, we have a real chance to make a change in the general philosophy and mechanisms of the concept of European "upward convergence".

---

[2] *Ibidem.*