# Investing in Resilient Economies and Societies:

# New Public Private Partnerships in Europe


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REDUCING ECONOMIC LOSSES

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## Rising economic losses caused by disasters, and shrinking fiscal capacity require new approaches to prevention and resilience

- Every year disasters cost the global economy an estimated US$520 billion*, displacing millions of people and pushing many of them into poverty. Relying exclusively on public resources to finance both recovery and prevention is a cause of growing anxiety and dissatisfaction.
- Economic losses from disasters, especially in low and middle-income countries, absorb existing fiscal capacity, and therefore deprive governments of funds that could be spent on health, education, social protection and other important public needs.
- Growing public deficits and debts (global debt is 182 trillions, 60% more than 2007) give higher priority to emergency spending and ex-post factum intervention. Prevention and resilience are penalised. This in turn increases losses, costs and funding gaps.
- The paradox of excess (private) savings and shortfalls in investment.
- We need to mobilise private capital and better focus expenditure of tax-payers' money.

**Source United Nations Office for Disaster Risk Reduction (UNISDR)*

## Gaps in infrastructure and resilience investment

- Infrastructure-related spending - using the broadest definition that includes real estate, oil and gas, and mining - totalled $9.5 trillion in 2015, or 14 percent of global GDP*.
- It's not enough: looking more closely at the network infrastructure necessary to support economies - roads, railways, ports, airports, power, water, and telecoms - the world needs to invest an average of $3.7 trillion in these assets every year through 2035 in order to keep pace with projected GDP growth.
- The OECD estimates global infrastructure investment needs of 6.3 trillion US Dollar per year to be in line with the Paris Agreement. Moreover, according to the UN achieving the SDGs by 2030 will require a rough estimate of 5-7 trillion US Dollar of annual investment across sectors and industries. Those financing needs are too vast to be met by public investment alone.
- With an estimated volume of more than 100 trillion dollars, the global fixed income market bears huge potential for facilitating the transition to resilience and sustainability.
- Building resilient economies and societies requires a huge effort in investment spending for physical intangible and network infrastructure.

**source: McKinsey Global Institute analysis*

## A new approach to relaunching investment and resilience in Europe

- Europe has been trying to get out of the savings/investment paradox through a new approach to public private partnerships.
- The Investment Plan for Europe, the so-called **Juncker Plan**, has three objectives: to remove obstacles to investment; to provide visibility and technical assistance to investment projects; and to make smarter use of financial resources.
- The basic idea and innovation of the plan is that **public and private investment should complement rather than substitute for each other**. The public sector should create the **conditions** for private savings to be channelled towards investment, particularly infrastructure and SMEs (a new social contract).

The European Fund for Strategic Investments (EFSI) provides an EU budget for public guarantees to mobilise private investment. The European Commission works together with its strategic partners, the European Investment Bank (EIB) and National Promotional Banks and Institutions (NPBIs). The goal is to create a common space for investment and infrastructure financing, both public and private, and make the European capital market work for resilience and risk reduction (Capital Markets Union).

The Plan started in January 2015. With an initial public allocation of 21 billion Euro, the plan mobilised 335 billion in additional investment across EU Member States in July 2018*

*source EIB

## EU External Investment Plan

- The EIP supports more inclusive and sustainable development in Africa and the European Neighbourhood. It goes beyond classical development assistance to support sustainable investments in an integrated way.
- It attracts private investors where viable business proposals meet sustainable development needs, and where limited public funds can attract private money. It bridges blending, technical assistance and strategic policy and political dialogue in order to improve investment climate and business environment. With a contribution of €4.1 billion from the European Commission, the EIP is expected to leverage more than €44 billion of investments by 2020.

## The InvestEU Programme (proposed by European Commission in the MFF 2021-2027)

The InvestEU Programme proposal aims to bring together under one roof the multitude of EU financial instruments currently available to support investment in the EU, making EU funding for investment projects in Europe simpler, more efficient and more flexible. The budget guarantee (38 billion) is divided between the policy areas as follows:

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| Sustainable infrastructure: | €11.5 billion |
| Research, innovation and digitisation: | €11.25 billion |
| SMEs: | €11.25 billion |
| Social investment and skills: | €4 billion |

## Sustainable Finance: new tools for resilience investment

- A key pillar of the Juncker Plan is the **Capital Markets Union project (CMU)** and its Action Plan to help build **a true single market for capital** across the EU and relaunch investment. In the Action Plan sustainable financing (or **green finance**) figures prominently, together with long term finance and patient capital.

In May 2018 the EC presented a package of measures as a follow-up to its action plan on **financing sustainable growth and green finance**. The package includes 3 proposals aimed at:

1. establishing a unified **classification system** of sustainable economic activities ('*taxonomy*')
2. improving **disclosure requirements** on how institutional investors integrate environmental, social and governance (ESG) factors in their risk processes (so-called **non-financial disclosure**)
3. creating a new category of **benchmarks** that help investors compare the carbon footprint of their investments.

## Conditions for more sustainable financing

- Adjusting the regulatory framework (new asset classes, procyclicality, etc.)
- Introducing tax incentives (e.g. the Italian experience of Personal Savings Plans PIR)
- Improving risk management tools and practises
- Use big data to better measure and monitor risks, particularly new risks (eg cyber-risks)
- Develop securitisation markets to share risks (simple standardised transparent securitisation)
- Support the development of a «green bonds», social bonds and sustainable bonds. Since 2014 Social Bonds issuance has grown more than 17x. The green bonds market has also expanded at exponential figures. Idem for catbonds and social impact investment.
- Promote new sustainability- or resilience- linked financial products (eg mortgages or loans)
- Invest in research and technology (mapping risk, remote sensing, internet of things, robotics, fintech, etc.)
- Develop public private schemes of **compulsory, or semicompulsory insurance** (eg for disaster risks)

## Mainstreaming social and economic resilience into private and public investment

- Financing is key to achieving more resilient economies and societies because without sound (public and private) financing investment is either an empty promise or a waste of resources.
- Public financing, if acting alone vis-à-vis growing risks and losses, has reached its limits. A new social contract is needed, whereby the public sector should do what only the public sector can do (e.g. basic research, financial inclusion and education, public goods), and the private sector should play its role of efficient allocator of scarse savings resources.
- A modern advanced deep and liquid banking and capital market is required as a pre-condition of sustainable development. It should be able to work both at national regional and international level. Financial and economic integration can increase opportunities for funding and investment. Efficient markets require effective regulation and support for equal opportunities and inclusion into resilient economies and societies.
- Europe is engaged in a path of innovation and experimentation for public private partnerships, involving insurance, banking and capital markets, aimed at investment for resilience and disaster risk reduction