Banche Assicurazioni Finanza

Italian Banking Insurance and Finance Federation

ROME INVESTMENT FORUM 2015

Financing Long-Term Europe

11 - 12 December 2015

Centro Congressi Palazzo Rospigliosi
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- Background -

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1. Issue Note

The Rome Investment Forum 2015 aims at discussing how investment can contribute to re-launching growth, jobs and prosperity in the European economy, and worldwide. Investment has many dimensions, pre-conditions and implications. It interacts with issues of economic and social policies, institutional reforms, business strategies, ethical foundations, access to financing, productivity and the quality of life, long-term vision and leadership capacity.

The Forum will review the key aspects and challenges to address, if we want to achieve an investment-led recovery and put it on a stable and sustained long-term development path.

A special attention will be devoted to financing conditions, the role of savings, financial intermediaries and capital markets, the new sources of funding, particularly those available to new entrepreneurs, local communities, infrastructure, households, innovation and basic social needs.

Long-term investment requires a strategic and partnership approach, where different business communities and social groups, different levels and sectors of government, policy makers and opinion leaders, cooperate with one another and look responsibly ahead of the curve in order to create better conditions for future generations.

<u>11th December</u>

Opening Session. The European Reform Agenda: Investment for Growth

In this session, the investment problematique is placed in the broader context of the European reform agenda and in the process of European economic social and political integration.

Europe in its 60 years of post-war history has achieved remarkable results, in terms of widespread prosperity, peace and cross-border dialogue, fruitful social and economic interactions. Nevertheless, the European project still remains by-and-large an unfinished business. The immediate and extraordinary benefits gained by abolishing frontiers and eliminating obstacles to the free circulation of products, capital, people and ideas have sometimes blurred the threat of increased vulnerabilities, instability and uncertainty that the European construction entails. In fact, “to reap the benefits of openness, markets need appropriate governance” (Mario Draghi at the Bank of England Open Forum, 11-11-2015).

The single market is unfinished business, particularly as far as the service sector is concerned, i.e. where most jobs and value added are created. The economic and monetary union is unfinished business. Schengen is unfinished business. Even more, the enlargement and neighbourhood policies and the common external and security policies, are unfinished business.

Finding itself in the middle of the pond, Europe therefore is much more exposed and vulnerable, vis-à-vis shocks and challenges, than other continents. Think for instance of the financial crisis, the sovereign debt crisis, the inflows of refugees and the terrorist attacks. Strengthening common governance requires risk sharing and the sharing of sovereignty, the transfer of national prerogatives to the supra-national level, institutional reforms.

However, on such reforms, Europe appears profoundly divided. Some political leaders, public opinions, business communities, seem prepared to move on up the integration ladder, provided adequate democratic safeguards and guarantees are given. Others do not feel ready, have doubts and fears. They do not see clearly the benefits, and do not accept being pushed onward. Above all, they are reluctant to pay the price of greater openness and freedoms.

Re-launching investment gets us at the heart of the European dilemma. In the letter of the British Prime Minister David Cameron to the President of the European Council Donald Tusk, the case for more flexibility is clearly spelled out and argued. Moreover, the letter seems to suggest that a concentric circles approach to integration, under certain conditions, is a positive sum game, a win-win situation. European reforms are then at the centre of the policy agenda. And investment is a critical dimension of reform.

QUESTIONS:

- ✓ **Under what conditions can investment boost competitiveness and growth?**
- ✓ **How can monetary and fiscal policies support an increase in public and private investment?**
- ✓ **What kind of policies and structural reforms are necessary at the national level to support the European investment Agenda?**
- ✓ **Do we need more "flexibility" in the rules of the Stability Pact and in the European Semester?**
- ✓ **What obstacles and burdens on business and markets need to be eliminated or cut to spur investment?**
- ✓ **What is the role of the private sector in the "Investment for Growth" Agenda?**
- ✓ **How can investment contribute to greater risk sharing and stabilization of the European economy? (e.g. in the 5 Presidents Report it is suggested that investment could play an anticyclical role, like an automatic stabilizer …)**

Session 1. The European Investment Strategy: The Role of National, Regional and Sectoral Policies

In November 2014, the European Commission, led by its new president Jean-Claude Juncker, announced an ambitious Investment Plan targeted at unlocking public and private investment on the way to economic recovery. The Investment Plan for Europe (or "Juncker Plan", as it was called) relies on an enhanced partnership between the EIB, the European Commission and others, supported by a newly created financial instrument, the European Fund for Strategic Investments (EFSI). The main goal of the Plan is to contribute to the improvement of EU competitiveness and boost the infrastructure and production capacity of the European economy.

The most important issue is to facilitate access to financing for SMEs, households and local communities, particularly for long-term investment projects. Since January 2015, the European Investment Fund (EIF) has signed investment agreements in equity worth over € 1 bn. Moreover, the development of a Capital Markets Union, which is an integral part of the Plan, is expected to provide lower cost and different sources of funding, unlocking new opportunities for savers and investors.

However, in order to work, the plan requires significant structural reforms and adjustments in the member countries. Eliminating bureaucracy and red tape, removing obstacles and facilitating access to credit, improving the quality of investment projects, providing incentives and public guarantees, upgrading human capital and fighting corruption, promoting business innovation and technological change: the tasks of national policies are complex and wide-ranging. In this context, the National Promotional banks have a fundamental role to play, particularly in relation to national and sectorial "platforms".

Institutional capacity building is required at all levels of government, particularly at the regional and municipal level. A re-visitation of the operation of the European structural funds and their performance in relation to the European investment strategy would also be of paramount importance. Therefore, the reform effort should be consistent and well coordinated between the European, the national and the sectorial levels. The European “strategy” should be capable of mobilising and harmonising the many and different relevant players and stakeholders involved, both public and private.

QUESTIONS:

- ✓ **What is the role of the EIB in the EU investment strategy, and in particular in the decision making process?**
- ✓ **Will the European Fund for Strategic Investments (EFSI) be enough to make the difference, and guaranteeing additionality? Will it be sufficiently funded? Will the €315 billion target be finally achieved?**
- ✓ **How can Member States develop policies and institutional reforms to support the implementation of the EU Investment Plan? What kind of policies and reforms are needed?**
- ✓ **What progress has been made in setting up and operationalising investment platforms? How do they work?**
- ✓ **How are National Promotional Banks supporting the process?**
- ✓ **Do we need to reform or adjust the way European Structural Funds operate?**
- ✓ **How can an effective governance of this complex multilevel and multiplayer strategy be ensured?**

Session 2. SMEs and Infrastructure Financing for Stabilization and Long-Term Growth

The critical role of investments in SMEs and infrastructure - fixed, network and social – for stimulating growth and competitiveness has been widely recognised by the literature and policy discussion.

Investment in R&D, innovative infrastructure, the green economy, smart-grids and smart cities, the digital economy, broadband and energy networks, as well as transport infrastructure, education and energy efficiency, are key to consolidating the supply side of the European economy and bringing the EU on the right track of a stable and sustainable recovery.

In the SMEs sector, the implementation of both the Investment Plan and the CMU should reduce the obstacles to mobilising the resources necessary to the full expansion of potential income and productivity growth. It would be an example of how the financial sector can act in support of all types and sizes of companies and economic sectors.

Finally, there is now a new financial instrument, the ELTIF (i.e. the European Long Term Investment Funds), designed for investors willing to put their money behind projects and companies that need long-term finance, which should make it possible to increase the funding available for infrastructure, long-term projects and for SMEs across the EU. Other important questions that should be addressed are the following: the role of public guarantees; the regulatory and normative frameworks for infrastructure and investment; how to improve the quality of the infrastructure projects in the pipeline; how to standardise and disseminate information on SMEs; etc.

QUESTIONS:

- ✓ **How will the financing of long-term projects work? Who are the main players?**
- ✓ **How can the significant resources of institutional investors be mobilised? Insurance companies? Pension funds?**
- ✓ **Which kind of investment in infrastructure is important to prioritize? What sectors and business models? What obstacles are there to prevent a leap forward in achieving TENs and TERs.**
- ✓ **What division of labour between the private and the public sector? And what partnerships? How can best practise in PPPs be disseminated and replicated?**
- ✓ **How are the new ELTIFs working? Who will be the main ELTIF investors?**
- ✓ **How do we address market failures? and government failures?**
- ✓ **Do we need a Digital Union? And a single space for Trans-European infrastructure?**

Session 3. Finance for Growth: The Capital Markets Union

The Capital Markets Union is the new frontier in the realisation of Europe's single market. Its development is a key part of the investment strategy and Plan that the Commission Juncker announced in November 2014.

The CMU, a single market project for all 28 Member States, aims at deepening and widening financial integration in the EU, thereby increasing growth potential and competitiveness, and strengthening the stability of the EU financial system.

The challenges ahead have been widely analysed and discussed in the last few months, leading to the Commission's Action Plan issued last September. The time is now ripe for moving on from planning to concrete actions, and deliverables that can produce measurable outcomes. Considering that investment in Europe remain heavily reliant on banks, and that progress in opening up new sources of funding appears still patchy and uneven, this session aims at discussing the key learnings options and suggestions that can be drawn from the publication of the Action Plan. It aims in particular at giving a new sense of urgency for implementation and reform. This does not mean denying the ambition and long-term nature of the project, but rather responding to the pressing needs of the market players, and ultimately savers and job seekers.

QUESTIONS:

- ✓ **What is the relationship between CMU and the Banking Union? What role do Euro-members and non-Euro members play in CMU?**
- ✓ **What key learnings can be drawn from the CMU Action Plan?**
- ✓ **What kind of supervision will be required for the CMU to be effective? How a "single rulebook" can be realistically achieved?**
- ✓ **What role the CMU will play in the Transatlantic Partnership and in the relationship with emerging market economies?**
- ✓ **Is a bottom up process, based on market competition, benchmarking and the dismantling of obstacles to cross-border activities, going to work? Under what conditions?**
- ✓ **Do we need a "big bang" in Europe, of the kind that in Margareth Thatcher's UK, and in the US, created the conditions for the success of the City of London and Wall Street capital markets?**
- ✓ **How the CMU can contribute to the completion of the monetary union for the Euro-countries?**

<u>12th December</u>

Session 4. Investing in Sustainable Finance and Social Infrastructure

The operation of the financial services markets has been impaired by a fall in public confidence and reputation and a perception of widespread opportunism greed and irresponsibility. The crisis has taken on an ethical and deontological dimension, which has profoundly shaken the public opinion and the policy world. As a reaction, emphasis has been placed on more, and more stringent, regulation and supervision, more controls and better compliance. The “ethical foundations” of business in general, and finance in particular, gave rise to new approaches to financing, capital markets and public-private partnerships.

In that context, the importance of social infrastructure, and of investment in social infrastructure, has gained a central place. Social infrastructure is a necessary complement to fixed, network and intangible infrastructure. Human and social capital need also to be strengthened and invested upon. Social infrastructure typically includes assets that accommodate social services, such as schools, universities, hospitals, prisons and community housing.

More broadly, pressure on finance is growing to deliver equitable products and services. Many initiatives have underlined the need to invest in sustainable finance, in responsible patient capital with a long-term orientation. International organisations, such as the United Nations and the OECD, and religious leaders have attracted attention to the need to invest in “ethical capital”, as a foundation for regaining public trust and credibility in the pursuit of the common good.

QUESTIONS:

- ✓ **What does it mean to invest in sustainable responsible finance? What are the trade-offs and the synergies between delivering equitable products and services and pursuing adequate returns to savings? Why sustainable finance is so needed?**
- ✓ **What are the advantages and risks of a PPP approach to social infrastructure investment?**
- ✓ **Do sustainable finance and social investment have points in common?**
- ✓ **What adjustments are required in the legal, regulatory and tax frameworks to create incentives to long-term savings and investment?**
- ✓ **What role do institutional investors play, in particular pension funds?**
- ✓ **How do we invest in “ethical capital” and consolidate the “ethical foundations of finance”?**
- ✓ **What new communication and outreach tools are needed to regain the trust of the policy world and the public opinion?**

Session 5. Investment for Poverty Eradication and Sustainable Development

Data show that the current crisis has not always, nor necessarily, been a "world crisis". During and after the crisis, growth rates have been sustained in Asia, North America, Latin America and in several African countries. Europe has been struggling with its governance gaps and incomplete integration processes. And now emerging market economies are facing restructuring and a slow down in growth and accumulation. They do not seem to be able anymore to be the locomotives of global trade and prosperity. Moreover, world growth has been sustained by accumulating increasing trade productivity and financial imbalances.

Investment is called upon to redress such large structural imbalances and development gaps in the world economy. In some countries excess capacity, demand shortages and environmental concerns require a new approach to investment, based on reliance on domestic demand, social services and support for rural communities.

The world risk scenario presents new and formidable challenges: population aging, urbanisation and changes in social and family structures, natural and man-made disasters, climate change and environmental degradation, inequalities, conflicts, discrimination, abuse of human rights and insecurity, the knowledge economy and the new wave of digital innovation. Above all, poverty hunger and social exclusion still plague a vast area of the globe, in spite of the significant progress achieved since the turn of the Millennium.

There are encouraging signs that a new awareness is taking shape that these challenges have to be addressed with determination. They require bold policy action and business commitment, more and better international cooperation. They require vision and leadership.

2015 has seen an unprecedented clustering of summits, international Conferences, official pledges and statements, commitments on goals and targets. Disaster risk reduction, sustainable development, financing for development, climate change, have been at the centre of intergovernmental discussions and agreements, and of private sector initiatives mobilising business leaders, non-governmental organisations, civil society activists.

Investment in all these new global frameworks figures prominently and can play a crucial role. However, it is time for action now. The focus has to be on how to translate commitments and a new spirit of cooperation into concrete outcomes and real life improvements, particularly for the most vulnerable and the poor.

On December the 8th 2015, the Extraordinary Jubilee Year declared by Pope Francis will start. This major event will bring to Rome pilgrims, initiatives, prayers, new ideas and good will. The "Holy Year of Mercy" intends to focus attention - from believers and non-believers alike - on the need for a "spiritual conversion", i.e. a deep change of minds and hearts that is required also for social economic and institutional change to take root and bring benefit.

QUESTIONS:

- ✓ **How can the financial sector contribute to redress global imbalances, promote stability and prosperity?**
- ✓ **What role can investment play to alleviate poverty and achieve the ambitious sustainable development goals that have been agreed upon at the international level?**
- ✓ **What is the respective role of national governments, business communities and international organizations?**
- ✓ **What role religious leaders can play in strengthening the "ethical capital" of business finance and investment?**

2. Topics of the Rome Investment Forum 2015

Main Topics to be addressed
▪ The European Reform Agenda: euro and non-euro, broader and deeper, fairer and more competitive ▪ Investment for economic recovery, jobs and stabilization ▪ Investment for the sustainable development of the world economy ▪ Responsible investment and the ethical foundations of finance ▪ New approaches to public-private partnerships ▪ Unlocking infrastructure and SMEs financing ▪ The European Fund for Strategic Investment and the Juncker Plan ▪ Banking Union and Capital Markets Union ▪ Public guarantees and securitisation ▪ National, regional, and sectoral “platforms” in support of public and private investment ▪ Social infrastructures

3. Long-Term Investment for Growth in Europe

Re-launching investment is the key driver for striking a better balance between sustainable growth and fiscal consolidation in post-crisis Europe.

Long-Term Sustainable Investment in the real economy (LTSI) is essential for bridging both visible and emerging gaps in European infrastructure (from Trans-European Networks to the digital divide). LTSI is also required for enhancing competitiveness and innovation, particularly in the SME sector. Finally LTSI is the only way to face up to the long-term challenges confronting our societies: ageing populations, stressed health and social welfare provisions, climate change, environmental degradation, social cohesion and the quality of life that has remained stagnant for many people in our communities for too many years.

Risk in long-term investing comes from many sources and safe investment involves a range of players. Managing such risk requires new parameters that will shape the behaviour of - and options available to - institutional investors, regulators, intermediaries and capital market players.

Post-crisis, we are at a tipping point in facing new challenges and opportunities. The President of the European Commission, Jean-Claude Juncker, launched in 2014 the ambitious Investment Plan, considering it as the main priority for the new Commission.

The Juncker Plan implementation aims to mobilize more than 300 billion euro in additional investment in the real economy over the next three years. Such a program will only succeed if policymakers and the private sector work seriously and in partnership to create the right conditions for bankable pipelines of projects to be designed and processed effectively in different sizes and sectors, at the European level, and if an integrated investment market functions properly, and more broadly, on a global scale.

4. Why Rome?

"Rome wasn't built in a day" the old motto says, which highlights a key concept of the debate on long-term Investments that we intend to stimulate at the **Rome Investment Forum 2015: we need a long-term vision and commitment, and long-term solutions to bridge the gaps inherited from the past and build the future.**

Rome has played a significant role in the construction of Europe, all along its millenary history. The Treaty of Rome led to the founding of the European Economic Community (EEC) on 1 January 1958. It was signed by Italy, Germany, France, Belgium, Luxembourg, and the Netherlands. Rome has therefore been one of the pillars on which layer by layer, floor by floor, the building of the Union, in all its relevant dimensions, has advanced.

In December 2014 FeBAF, in collaboration with Cassa Depositi e Prestiti, OECD, Long-Term Investors Club, European Association of Long-Term Investors, Official Monetary and Financial Institution Forum, Integrate, Italian Council of the European Movement, and in association with the Italian EU Presidency, organised the first international conference on *"Investing in long-term Europe: re-launching fixed, network and social infrastructure"*.

Luigi Abete, Chairman of the Italian Banking Insurance and Finance Federation

Rintaro Tamaki, Deputy Secretary General - OECD

This event focused on the fundamental role of finance in the recovery of investment, growth and job creation ("Finance for Growth"). It was able to convene high level participants from the global business community, institutions and policy makers for the purpose of debating long-term investments and the future of Europe.

The 2015 Rome Investment Forum builds on last year's achievements and recommendations. One year on, it is intended to take stock of accomplishments, assess progress made and look forward to upcoming challenges and opportunities.

Jonathan Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union

Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation and Customs

Considering therefore the interest raised by the Commission and the outcome of the discussions of the 2014 Conference, the aim of the Italian Banking Insurance and Finance Federation is to review the progress made and lessons learned on the issue of long-term Investment and propose a "Permanent Forum" on LTI in Europe, aiming at maintaining focus and momentum on top of the European Policy Agenda.

More specifically, Rome Investment Forum 2015 is intended to implement the idea of involving policy action of the different stakeholders, exchanging views and experiences and identifying best practices related to long-term investment projects.

Pier Carlo Padoan, Italian Minister of Economy and Finance

Michel Sapin, French Minister of Economy and Finance

5. The Italian Banking Insurance and Finance Federation

The Italian Banking, Insurance and Finance Federation - FeBAF is the common house of saving and finance in Italy, bringing together the major financial associations. It was established in 2008 by the Italian Banking Association (Abi) and the National Association of Insurance Companies (Ania). Assogestioni – the Italian Association of Asset management – joined in 2011 and Aifi - the Italian Association of Private Equity and Venture Capital – in 2013. Assofiduciaria, Assoimmobiliare, Assoprevidenza, and Assosim, representing funds and other intermediaries, recently entered the Federation.

The Federation fosters the role of banking, insurance and financial intermediaries, while promoting the general interests of the country: a modern and efficient financial sector is an important condition for the advancement and sustainable growth of society and the economy. The Federation aims to present in a coherent and systematic way its member associations' views on economic and social policies, and have a dialogue with institutions, political and monetary authorities, trade associations and public opinion. It promotes business values, seeking to spread the culture of competition, and focusing on the enhancement of banking, insurance and finance in terms of transparency and responsiveness towards consumers and savers.

Since its establishment, FeBAF has focused on relevant themes of common interest for both the financial industry, and national, social and economic development. Due to the international profile of FEBAF, its member associations have decided to concentrate their liaison offices with the European Community in its Brussels headquarters. Thanks to such common presence and lobbying, the Italian financial industry aims to strengthen dialogue with other organizations in Europe.

The focus on re-launching long-term investments is widely shared by the financial industry and public policy across both Europe and Italy. In 2013 the Italian Banking Insurance and Finance Federation (FeBAF), responded on behalf of the whole financial sector to the Green Paper's aim of ensuring sustainable and adequate long-term financing in the European Union.

Since the onset of the economic crisis, intermediaries' long-term financial support to European companies has inevitably suffered from the increasing regulatory and capital burdens (Basel standards and Solvency). The proposed ELTIF (European Long term Investment Funds) has the potential to facilitate long-term accumulation, to satisfy the needs of ultimate recipients, notably SMEs and infrastructure projects.