Briefing note for Session 4: Investing in Sustainable Finance and Social Infrastructure

Context

There are too few public resources now available to address the social infrastructure[1] gap within the EU. This is due, in part, to an amalgam of ongoing Government caution following 2007-09, lazy policy making focused on politically expedient short-term gains and, in some ways, a longer less visible retreat from social compacts between governments and their citizens.

This is compounded by major shifts in how societies are challenged by - and government's deal with - macro-trends (ageing populations, stressed health and social welfare provision, climate change, environmental degradation, migration, social cohesion and stagnant quality of life) combined with the changing nature of power and wealth within society. In all of this, infrastructure is a major determinant of quality of life, sustainable economic growth and thriving communities; and long-term sustainable investment is the only way to face up to the long-term challenges confronting us.

In this context, infrastructure in general will be an important asset class for channeling private capital to public purpose if it is to be done well. There are conventional challenges here but it also requires: (i) overcoming the uncertainty among public authorities and services about whether, when and how private investment is the right path to take (ii) rethinking how private capital is used to reduce the social infrastructure gap in ways that meet investor needs while delivering sustainable return on investment (iii) reinventing what public authorities and public services can do to generate pipelines of investable propositions with enhanced public value. These need addressing together if the launch of a new phase of LTSI in Europe is not simply to be shaped by market/supply-side interests that in turn limit the public value of investments.

Fundamentally, social infrastructure has to gain the same central role given to transport, energy, water and telecommunications if our economies and societies are to become more capable and resilient.

Objectives:

1. Identifying what new thinking exists to help us find innovative solutions for closing the social infrastructure gap in the EU
2. Identifying what needs putting in place to generate pipelines of investable social infrastructure projects?
3. Suggesting what needs to happen to ensure that the launch of a new phase of long-term investment (LTI) in Europe is not simply shaped by market/supply-side interests that in turn limit the public value of investments.

Discussion points:

- The idea of "social" infrastructure entails a problem of definition and measurement: *So, what makes a given initiative "social"? When can a specific project be categorised as more social than another one? Is it a matter of purpose or impact – and how can both be assessed? Are current methodologies sufficiently robust*?
- The key for developing investable social infrastructure is the ability to know when private investment is the path to go down, and right now we don't have the best ways to sort that out with the public interest in mind. *Do you agree with this statement and if yes, then how do we deal with this gap in understanding?*

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[1] Social infrastructure is a sub-sector of infrastructure that consists of the social connections and the organisations & services that build them in a community. Strong social infrastructures create strong communities with resilience and the foundations for growth in both economic capital and social justice.

- It takes lots of political/cultural work to shape how money moves, and right now that work is done by the people who make money off the moving. The usual targets for infrastructure investment are asset-rich transport, energy, environment and telecommunications. *What needs to happen for service-rich social infrastructure to gain the same central role?*
- Looking at the supply side of the capital market, only large institutional investors are those that can provide the amount of money, which is needed to launch an articulate system of social infrastructure. Some of them (namely, pension funds) might be prevented by a strict interpretation of the fiduciary duty concept. *How can we shape a regulatory framework that allows investors to allocate [part of] their assets in this new asset class? Is a [tax] incentive scheme desirable and compatible with the state aid discipline?*
- The size of typical social infrastructure projects is a problem as the expense of project financing is preclusive until project bundling can be used to reach minimum financing thresholds. *How can regions/cities/municipalities/sectors deal with this problem?*
- Globally, there is renewed interest in and understanding of the value of social infrastructures in our economies. For example, in North America, Singapore, Australia and New Zealand, social infrastructure investments are also seen as more than just catalysts for new business opportunities that enhance economies and internal markets. *What other benefits does/should social infrastructure deliver?*
- In a 100% public system, it is clear who sets the rules of the game. But when private [although socially oriented] investors join the fray, this raises the question of how governance should be designed. *How can we guarantee that the role of private actors doesn't undermine the public good orientation of the system and assure the equal access to all citizens, regardless their level of income?*