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OPINION

Brussels, 22 December 2014
Opinion.08

CEEP VIEWS ON THE INVESTMENT PLAN PRESENTED BY THE EUROPEAN COMMISSION

President Jean-Claude Juncker presented on 26 November the guidelines of the European Commission’s Investment Plan to the European Parliament. The plan should be one of the key measures for the beginning of his five-year term and for the Commission new work programme. Now that it has been agreed upon by the European Council it should give a new impetus to Europe’s growth potential by focusing on well-targeted and efficient investments in key sectors of the European economy.

Context and priorities

CEEP believes that the instruments and governance tools of the Investment Plan are fit for purpose. Indeed public resources are scarce. Throughout Europe, public services were amongst the first to face difficult fiscal consolidation processes. It led them to finding new ways and means to accomplish their missions whilst demand rose among the European citizens for quality services. Investment in quality services, networks and social infrastructures has and will remain the key priority for public employers and such a plan was long awaited by CEEP.

In this difficult context for public finances, efficiency and return on investment were and remain key concepts for maximizing the impact of the plan. As such, CEEP believes its design and spirit is faithful to these imperatives as it favours the flow of private investments thanks to an initial impulse through public capital, in a context of large availability for private liquidities but low appetite for risk.
We share the Investments plan’s operational priorities. The EU will leave behind economic stagnation thanks to well-targeted investments in sectors such as energy, transport, broadband, healthcare and education.

Assessment of the Investment plan tools and Governance

It was necessary to improve the use of the European funding while maximizing the important expertise of the European Investment Bank (EIB) as a catalyst for co-financing the projects through the private sector.
CEEP has been calling for a long time for a ‘European Fund for Strategic Investments’. The EFSI, which will be created within the EIB, will have an initial endowment of EUR 5 billion and will be complemented by EUR 16 billion through European Commission guarantees.
We welcome the fact that the European Commission has had the courage to propose such a fund, and that the European Council has confirmed its creation. We hope that its efficiency will be high enough in order for it to become a permanent instrument in the European governance.

The tools of the Investment Plan should bring a real added value to our funding systems. Indeed the large quantities of liquidity in Europe have not been sufficiently targeted toward quality projects with a long-term horizon. The objective to create a new platform with specific expertise on investment targeting (EU Investment hub), as a one-stop-shop for the project promoters looking for funding and for the potential investors, could help bring them together with the appropriate European tools. The platform would fully benefit from the European Commission and the EIB's expertise.

The specific "projects reserve" which has been built over the last few months should be made public and transparent, and be regularly updated. This permanent update of the projects which could benefit from additional European funding is particularly welcome. Indeed CEEP wishes to highlight that a proper emphasis should also be put on local and regional projects and not only on European scale initiatives. CEEP highlighted in its answer to the Investment Plan the key sectors which could actually support the future growth of the European Economy while also addressing important societal challenges. CEEP insists on small scale projects because we assess that the local level serves the integration of the various European territories and creates the skeleton on which private businesses, especially SMEs, can flourish and develop.

We hope that the design of the new Fund will enable the mobilization of more than €300 billion in additional investment over the next three years. CEEP also encourages Member States to build on this by contributing their own national resources to the Fund in the form of capital or guarantees.
Indeed, President Jean-Claude Juncker intends to associate the European Member States through contributing to the EFSI capital on a voluntary basis. CEEP calls for the Member States to be ambitious in their contributions and particularly encourages them to optimize their use of the European funds by better targeting the projects with real added-value and by using more frequently innovative modes of financing instead of subventions.

Conclusion

We agree that the investment package should be part of a triangle encompassing also structural reforms and growth-friendly fiscal consolidation. Our economies need to adapt to change in order to face important economic and social challenges such as demographic ageing, raises in poverty levels and loss of competitiveness.

Growth-friendly fiscal consolidation imposes that we remain conscious of the need to support the recovery. The EU's fiscal framework provides flexibility to ensure that fiscal targets reflect economic conditions, particularly through their emphasis on the improvement in the structural budget balance.

CEEP will pay particular attention to the announcements in January concerning how that flexibility will be applied in a smarter and more effective way, while ensuring that our common fiscal rules are respected so that they remain an anchor of stability without impeding our long-term growth potential.

Brussels, 24 November 2014

CEEP'S CALL FOR INVESTING IN EUROPE

Europe is still suffering from a dull economic scene, growing unemployment levels, and many countries face a worrying slowdown in productivity growth.

The European Union faces a strong risk of secular stagnation. In its Autumn 2014 forecast the EC highlighted that GDP growth forecasts in the EU have been revised down to 1,3% in the EU and to only 0,8% in the Euro zone and insisted on the fact that investment had failed so far to emerge as a strong engine of growth.

In this difficult context CEEP has been calling since the very beginning of the crisis for a major investment initiative at EU level in social and physical infrastructures. CEEP welcomes to this effect the EU Commission's soon to come package for growth, jobs and competitiveness which will be translated into a major investment initiative at European level of more than €300 billion.

Indeed, Investments both public and private, have been suffering in the turmoil of the crisis. Overall, average EU gross fixed capital formation has come down to 19% of the GDP over the period 2008-2012, highlighting the need to reinforce all investments. These developments are in contrast to Canada, Japan and the United States, where public gross fixed capital formation has increased in recent years.

The reduction in public investment has been particularly damaging to Europe's long term growth potential. It is now necessary to restore a long-term horizon for the EU thanks to an ambitious investment strategy answering to the present challenges while securing our resources for the future.

STATE OF PLAY FOR PUBLIC AND PRIVATE INVESTMENTS IN EUROPE

The ECB Monetary policy will not by itself break the vicious circle of low growth, low investment and low credit

Despite the European Central Bank expansionist monetary policy, in many countries of the euro area, credit to the private sector is in negative territory.

In June 2014, the ECB cut its key monetary policy rates and took several measures to increase bank liquidity and encourage banks to lend to the real economy.

However, neither the measures taken in June 2014 by the ECB nor quantitative easing policies have proven effective until now in restoring growth or pushing up inflation in the euro zone. These ECB policies have to cope with an important effect of households and enterprises deleveraging, preventing banks from being able to lend more no matter the monetary policy, as the debt ratio and the weakness of investment remain too important.

Public Investment has been hampered by undifferentiated fiscal consolidation effort

As for Public investment, CEEP argues that, in the context of reinforced fiscal consolidation, Member States have attempted to rationalise public expenses also by cutting public investment. CEEP strongly shares the call from the European Commission for a differentiation of the fiscal consolidation effort and argues that high-quality capital stocks in key public services such as communications, transport or education can entail considerable positive spillover effects that might further stimulate investment by the private sector. Today EU public investment is less than 5% of overall public expenditure. In contrast, in the US, public investment is over 10% of public expenditure. In this context CEEP believes that there are wide margins for improving the quality of national public expenditure.

Several Member States are in a difficult position as a consequence of the economic crisis, increasing public debts and deficits in the national budget, they have had to focus on fiscal constraints and perform austerity policy. At the same time, there have been great needs to stimulate the economy and growth, i.e. public investments in infrastructure, education, R&D etc.

It is hard to underbalance the national budgets to stimulate growth-related investments, and, at the same time, to conduct a fiscal policy which will restore confidence among investors and lenders. A way to do this would be to exclude costs for public investments which are strongly linked to factors related to growth. This can have positive consequences and stimulate Member States with a tight fiscal position to start investing in infrastructure, education and R&D.

KEY PRIORITIES

1. **DEVELOP A PRECISE AND CLEAR FRAMEWORK TO EVALUATE AND SELECT THE KEY PROJECTS IN PHYSICAL AND SOCIAL INFRASTRUCTURE AT EUROPEAN AND NATIONAL LEVEL WHICH CAN EFFECTIVELY FOSTER A RENEWED GROWTH IN EUROPE**

The economic case

Infrastructures generate positive externalities to the private sector, contributing to the well-being of households and the productivity of firms. The IMF further demonstrated this link by studying public investment "shocks" in 17 "rich" countries between 1985 and 2013. On average, an unexpected increase in public investment equal to 1% of GDP boosted GDP by an underwhelming but still beneficial 0.4% in the same year and by a more impressive 1.5% four years later. The extra spending did not result in unsustainable debt. When analysing the impact of infrastructure it is also very important to take into account the infrastructure's efficiency: for instance, congestion costs are about 1% of EU GDP every year, logistics, such as transport and storage, account for 10-15% of the cost of a finished product, on average 13.2% of every household's budget is spent on average on transport goods and services and freight transport activity is expected to increase by around 40% in 2030 and by 80% by 2050.

The key challenges

It is important that the public investment in this phase of the economic cycle focuses on key areas and projects which stimulate growth in productivity, which can lead to increased GDP. This can be done through public investments in areas and fields where there are potentials for private companies. CEEP fully supports to this effect the Project Bond initiative which was designed by the Commission in the framework of the Europe 2020 strategy. It is essential to encourage public private partnerships (PPP) in order to attract additional private finance from institutional investors.

A key role for Public investment banks

CEEP considers the role of long-term financial public institutions as essential and asserts that their recognition could help reach a critical mass of funding and a better cost efficiency through the mutualisation of some resources.

In the past their cooperation at European level had the necessary impulse for the creation of equity funds such as the Marguerite equity fund which combines a market-based principle of return to investors with the pursuit of public policy objectives. Launched in 2010, with the backing of six major European financial institutions (namely the EIB, Caisse des Dépôts et Consignations, Cassa Depositi e Prestiti, Instituto de Crédito Oficial, Kreditanstalt für Wiederaufbau, PKO Bank Polski), it renders possible capital-intensive infrastructure investments. This kind of financing mechanism has the advantage of significantly lower uncertainties and consequently to mitigate the risks and risk's perception of other economic and financial agents. CEEP sees the development of such a pan-European fund for key investments in renewables, energy and transport as a Best-Practice which should keep on being encouraged.

RECOMMENDATIONS

- CEEP calls upon the EC to clarify its position in order to ensure that PPPs can deliver the desired investments for the EU budget to reach a maximum catalytic effect. This requires more consistent analysis of the scope for PPPs.

- CEEP deems important to have the broadest vision possible and to further expand the scope of application of European guarantees for project bonds to a wider range of investments such as healthcare, R&D, public utilities, urban development and resource efficiency, fostering future growth in those sectors as well as in the overall economy.

- CEEP considers as key the strengthening of European public-private cooperation to address network market failures and to ensure clear framework conditions, for example by developing joint public-private investment plans and timelines which specify what both sides will bring to the table.

- Facilitate additional investment in private assets which generate market returns in areas where networks need to shift from national to European provision.

- Put a renewed emphasis on the projects undertaken by National Public Investment banks and the EIB as i.e. they can give the necessary impetus for the creation of equity funds combining a market-based principle of return to investors with the pursuit of public policy objectives.

- A new emphasis should be placed to enhance Risk-Sharing Finance Facility (RSFF) to boost investment in research and technological development in Europe. The European Commission and the European Investment Bank (EIB) have joined forces on this innovative debt-based facility to keep Europe on the edge of new technological development.

- The objective in the long term could be to develop a European Sovereign Fund dedicated to infrastructure under the auspices and the guidance of EIB.

1.a. An ambitious European energy policy

In order to best realize an ambitious European energy policy, CEEP underlines that the objectives of competitiveness, security of energy supply and sustainability need to be kept in a stable balance. All three elements have to be considered when reshaping the European energy policy and adapting it to its current challenges.

In Europe, the European Commission has identified that only in the energy sector, EUR 1.1 trillion will be needed by 2020 to finance an infrastructure able to match future demand for energy, to ensure security of supply and to comply with the decarbonisation targets.

A constantly improved legislative framework should allow the energy sector to orientate investment towards an even more competitive, secure and sustainable energy system. It is urgent to develop an economic mid- to long-term view that includes interconnectors and energy generation capacities. In an energy market partly dominated by renewables, not only the generation of electricity but also the provision of secure generation, which is supplied mainly by conventional power plants and hydro storage plants, has to be taken into consideration.

LIGER: How to provide energy at a sustainable cost

Status
Semi-public enterprise.

Scale:
Local level

Activity
Production of energy and heat from biomass waste:
10 300 MWh (circa the consummation of 16 500 inhabitants), 300 000 Liters of bio fuel, 96% of the resources used are coming from a distance less 20 km.

Investment
5 million Euros.

Added value
Represents a real alternative for energy providers that do not have any interest in investing in small scale projects in the country side. Positive impact on energy prices for the end-user. Sustainable development objectives at the core of its strategy: This project acts as a "carbon sinks" for local Community of Communes by offsetting CO_2 emissions of all its inhabitants, including: 96 440 t CO_2 per year.

Challenges
The French State put at the disposal of local authorities a 20 billion Euros additional budget to be used by 2017. This money can be borrowed by local authorities under the supervision of the *Caisse des Depots et Consignation* (CDC).
Liger asked for a 5 million Euros loan. 50 % of the financing was guaranteed by the local authority. 50 % had to be guaranteed by a private bank but the CDC refused at first the banking guarantee Crédit Agricole. With regard to competition law, the CDC also questioned the legal eligibility of LIGER for such a loan. Finally, the CDC accepted the banking guarantee and this project became eligible for a loan since no other operator was able or interested in carrying out a project in that area, but this delay of several months seriously puts the success of the project at risk.

1.b. A new impetus for the digital agenda

The EU needs new network infrastructure. In order to further advance the digital agenda, wide broadband coverage has to be better supported.

This requires an environment of restored confidence for investors. Therefore, the regulation applied to communication services should be further developed towards a common framework for services independently from their providers in order to ensure better consistency in customer protection and security as well as personal data and privacy protection. Ensuring a fair competition between players, thereby further encourages innovation.

Europe needs an industrial policy that gives innovation a central role, that recognizes the transformative power of technologies, and that leverages European digital businesses as partners for the digitalization of the economy and of the society. This means to further promote entrepreneurship and tech start-ups, for example through incubation hubs and other similar initiatives supported by EU funds. This also means to promote a European innovation model based on interoperability through standards, to restore EU ICT and communications' competitiveness thanks to a supportive competition policy.

Netcologne: On the utility to invest in broadband at a local level

Status
Local Public Enterprise (100% owned by the city of Cologne).

Scale:
Local level

Activity
Regional telecommunications provider with its own, highly efficient fibre-optic network.

Turnover 2013
241 million Euros

Investment 2013
30,4 millions Euros (over 400 million since its creation in 1994).

Length of its fiber optic network
23 000 km.

Clients
Circa 390 000.

Added value
This local public enterprise aims to deliver broadband to a wide area and to a wide range of clients (private, local authorities or industries), which means also to not so profitable ones.

Challenges
Netcologne is steadily extending its network to the suburbs of Cologne but also to the region of Aachen. Due to the important amount of financial resources that the implementation of a very high speed internet requires, Netcologne's financing resources cannot rely on its clients alone. Moreover, Netcologne is facing shortcuts in public authorities' budgets. Therefore, Netcologne dealt with the need to diversify its resources by developing a unique model of cooperation between energy providers, municipalities and private investors. Against that background, Netcologne see the following steps as necessary to promote incubation hubs and interoperability: Bring up incentives to make already existing infrastructures like empty ductwork accessible for telecommunication companies; further promote intercommunal cooperation as it is often very time-consuming for telecommunication companies if municipalities do not cooperate. Indeed in that case the company needs to build up a backbone for every single municipality and this is less effective and efficient than projects conceived within intercommunal cooperation.

1.c. Energy efficiency and housing policy

Higher energy efficiency in the construction sector is a key to reaching Europe's goals for energy security, climate change and economic growth. Indeed, buildings provide the second largest untapped and cost-effective potential for energy savings after the energy sector itself and are a major potential contributor for job creation. However, the majority of profit-led energy service providers, private banks or investment funds have not identified energy efficiency in housing as an attractive business model. In order to create a change of perception and stimulate private investor's appetite, already existing success stories need significantly better promotion. With 45% of the energy consumption in Europe the construction sector's needs in terms of investments are major. Public buildings (schools, offices hospitals...) require major renovations. At European level, the investments necessary reach 200 billion Euros. This potential is under-exploited as the accounting constraints weigh on the renovation projects and their funding as it would aggravate public debts.

Social Housing in Europe

Status
Depend on the Member States but often semi-public enterprises.

Scale
Macro level

Activity
Construction and management of social housing

Investment
Huge amount of investments needed. Those needs for financing are estimated at 17 billion Euros/year for France alone.

Added value
Aims at offering affordable housing in areas where prices on the market are very high. It also aims at building or restoring buildings in line with highly energy efficient and environmental norms.
In addition, social housing contributes to social inclusion, local employment and professional mobility.

Challenges
Social housing faces a broad range of challenges, such as access to land or administrative barriers. In addition, important players in the area need to diversify their financing sources and therefore deal with a wide scope of institutions, such as local authorities or the European Investment Bank.
The amount of funding social housing players can dedicate to investment also relies on the VAT legislation on public bodies or on the economic governance of the European Union as well as country specific recommendations within the European Semester. EU funding may also be needed in order to help unlock a significant amount of private investments.

1.d. Investing in the Transport sector

Better financing of the transport sector can play a major role when aiming at giving fresh impetus to the European economy. It has the potential to contribute to the sustainable development of all sectors of the European economy. The transport sector indeed contributes to meeting Europe's environmental objectives by being vital for the limitation of greenhouse gases, and is also a key for Europe's economic and social development by guaranteeing the free flow of goods and people. Over recent decades, with the development of a modern knowledge economy, like at the heart of dynamic city regions, it became even clearer that good transport systems can generate greater density and higher wages, both for the labour market and business-to-business access. In remote regions, reliable transport connections both for passengers and freight are crucial for their further development.

When assessing investment decisions, one must acknowledge that the development of the economy as a whole is closely interlinked with the development of the transport system. Therefore, sustainable financing schemes for key infrastructure projects and their maintenance have to be prioritized and guaranteed as investment in public transport can be identified as essential for cross-sectoral economic growth and job creation. A particular focus should be put on rail infrastructures in order to provide the European internal market with a skeleton that can effectively support sustainable gains of competitiveness. The extension of even small lines, for example for better cross-border connections, or the electrification of existing lines, often has a huge impact on the whole network. The transport sector is indeed crucial for the recovery of Europe's economy as a whole.

To this, it must be added the investment needs in other areas, mainly at local and regional level such a water, sewerage and waste management.

Investing in UK City Regions:
The case for long-term investment in transport

Status
Cooperation between Transport for Greater Manchester, Centro, Transport for London, Sheffield City Region and West Yorkshire

Scale
Regional

Activity
The project aims at emphasizing the capital role of transport in the creation of growth and jobs. It specifically focuses on the importance of local and regional authorities, as decentralised power delivers maximum returns for city economies.

Added value
No figures have been reported on the direct potential economic outcome of the project. However, it is estimated that an increased decentralised management of investments will lead to better transport, land use planning and devolution. The integration of land use planning and development of transport investment is central to economic growth and to future welfare. Also, a fresh approach is needed to give a strategic focus on how investment is to be paid back; whether by fares, taxes on increased activity, or developer contributions.

Challenges
- Britain's cities are among the least devolved in the world, with very little control over services, funding, or borrowing, constraining their ability to give a clear focus across policies at the local level to promote sources of competitive advantage in the interests of local and national productivity.
- Centralised decision-making means transport decisions are currently evaluated independently of their impact on the economy or interaction with other policies, something which astonishes non-economists and even some politicians.
- In order to achieve and implement this project, an agreement will have to be reached with the UK government to agree on the decentralisation process.

1.e. Efficient investment in Healthcare services

Investment in the care sector is rapidly reducing in Europe, as a consequence of budgetary policies. However, as a result of the growing need for better targeted and integrated health care services, as well as better use of the EU funds, it appears fundamental to decide where and how to invest to answer Europe's societal challenges. These societal challenges include the ageing of the population, as well as the increase in chronic diseases, the growing demand for healthcare, and the increasing costs of technological progress.

In this framework, it is essential to redirect investment of public resources towards services that are cost effective, following "social return on investment" reasoning. In the same perspective, health inequalities must be eradicated as poor health contributes to poverty and exclusion. Moreover, investment aiming to reduce these disparities must be encouraged.

The improvement in social care services does not always correspond to the expenditure, and this is discouraging investments in the sector: money spent in healthcare does not always produce a corresponding amelioration of health status and, generally speaking, health outcomes. A more efficient cost-effective use of health and care services should be guaranteed through financial incentives. Moreover, more disease prevention and health promotion is needed to ensure an improvement in the sustainability of the whole social care system.

Creation of a service of telemedicine to follow remotely 24 autistic patients

Status
Partnership between FEGAPEI (French federation for associations managing services to disable persons), the association 'A Tire d'Aile', the nursing home for disabled persons 'La Maison des Oiseaux' and the teaching hospital of Tours

Scale
Local

Activity
The project consists in the creation of a service of telemedicine to follow remotely 24 autistic patients from "La Maison des Oiseaux", and more specifically the department of neurology and psychiatry of the CHRU of Tours.
The use of telemedicine in nursing homes for disabled persons can lead to improvement in the quality and equity for the benefit of the patients, as it:

- Avoids complicated travels and waiting time for the patients;
- Allows more efficient consultations, as they are made where the patient lives, when and where those are the most needed.

Investment
Over 106 000 euros from Malakoff Mederic, the leading provider of social insurance cover in France

Added value

- Realization of better consultations, made immediately when they are needed;
- Creation of connections between the doctors in the hospitals and the nurses of the nursing home;
- Increase in the quality of the follow-up of the patients, reducing the pressure put on the patients and their families;
- Cut down the time spent between the hospital and the nursing home, therefore increasing the efficient management of the resources.

Challenges

- Commitment of all actors to developing a real ownership of the telemedicine tool
- Setting up a legal framework involving equally all the partners
- Develop and provide a specific training related to the new tool

Social care is a high potential sector likely to be source of better health outcomes if targeted investments, aiming to foster cost-effective innovation, are carried out in the long term.

Programme of Development on Social Inclusion and Equality through the promotion of Universal Accessibility

Status
Public-private partnership between Spanish Ministry of Health, Social Affairs and Equality, ONCE Foundation and local authorities from 800 municipalities.

Scale
National & local

Activity
Several agreements for the development of Universal accessibility projects have been performed since 1990 with the Spanish public administration and ONCE Foundation. The programme covers various areas affecting the daily lives of all citizens: the local planning accessible areas, the execution of works to improve the accessibility of buildings and urban environments, the implementation of an accessible transport through Taxi service or the improvement of accessibility to Information and Communication Technologies (ICT).

Investment
Over 167 million Euros (about 217 million Euros taking in account the input from third parties)

Added value
The investment of approximately 217 million Euros has been a transformation in the way we understand accessibility in Spain; with figures of approximately 1,700 agreements and 800 beneficiary municipalities, and a potential impact on 70% of the Spanish population.
In each of the projects, measurable improvements were generated. This was possible due to the existence of technical evaluation reports (prepared by the ONCE Foundation). These reports included supporting documentation from the beneficiary, and consist in economic and technical reports; in the case of constructions, a visit by a technician from ONCE Foundation evaluated the proper execution.
The ONCE Foundation has become a benchmark in accessibility; this programme has led to its inclusion in working groups to review and optimize policies and legislative frameworks in this area.
Lastly, the projects carried out have served as a paradigm, allowing all local public administrations, not just those who participated in these agreements, to continue with future actions connected with the needs of all people, especially those with disabilities

Challenges
- A great commitment of policy makers of the public bodies is needed to provide solutions to the identified problems.
- It will help to get better results if, through the agreements with local corporations, specific strategies and action policies on Universal Accessibility and "design for all" are established.
- Training performances with the concept of Universal Accessibility should be incorporated, involving technicians from local corporations or entities with which the cooperation takes place, as a reinforcing element that gives further security on the benefit of future performances.
- The local authorities with which the agreements are made, shall be bound to develop specific standards and management systems, assuming their responsibilities, collecting other agents with whom they must cooperate for the purchase criteria, execution, maintenance, etc. (Contracts for building, planning, staffing, transportation management, taxi, etc.) that may contribute to accessibility.

2. **URGENTLY FOCUS ON CREATING THE LEGAL AND REGULATORY FRAMEWORK FOR A GENUINE SINGLE MARKET IN CAPITAL IN EUROPE AS EMERGING INSTITUTIONAL INVESTORS INCLUDING INSURANCE FUNDS AND INSTITUTIONS FOR OCCUPATIONAL RETIREMENT PROVISION (IORPS) ARE OR RISK BEING PLACED UNDER REINFORCED MINIMUM SOLVENCY RATIO RULES.**

The economic case

Insurance funds

Insurers are major institutional investors in Europe, with €8.5trn of assets under management as of 31 December 2012. In 2011, 64% of these assets were government or high-rated corporate bonds and 15% were equities.

The volume of infrastructure investments on insurers' balance sheets is currently limited and it varies between countries and companies. Thanks to the positive characteristics of infrastructure investments there is, however, a strong interest in the industry to increase investments in infrastructure significantly.

IORPs

Thanks to the long-term nature of the liabilities and business model, pension funds are able to take on the risks of illiquid assets. This is possible as long as the risk and return profile of the investment is in line with the objectives of the institutional investor. As the Commission highlighted in its roadmap for long-term investment, Occupational pension funds have an immense potential for investing on the long-term in order to create growth. They have over €2.5 trillion of assets under management with a long-term horizon, and 75 million Europeans depend largely on them for their retirement pension.

The key challenges

Non-traditional project finance investors (such as institutional investors in comparison to banking institutions) face difficulties in entering the infrastructure market. Pensions and insurance funds cannot threaten their ability to meet their obligations in the long run. Any project which contains unquantifiable risks, such as those posed by traffic, construction or regulation, are not feasible for non aggressive investors such as pensions and insurance investors. Therefore, the risk is that prudential regulation and financial market regulation are counter-productive to long-term investment.

RECOMMENDATIONS

- CEEP considers essential the guarantee that more institutional investors can participate in the infrastructure market (by reducing capital charges, giving tax incentives, providing fixed rate products). These changes should always be made taking into account the social, environmental and economic aspects of infrastructure investments.

- Against this background CEEP wishes to recall the great diversity of pension funds at the EU level and the necessity to focus the EU level regulation on qualitative principles that should be concretized by and within the Member States in line with existing social and labour law. Therefore, the target should be to promote a framework in which long-term investments are made attractive.

- To support long-term investment strategies by institutional investors it is essential that taxation rules, valuation rules and any risk-based capital requirements are designed appropriately. Prudential rules should not make the investment process so costly or unrewarding, that the investment action in itself becomes frustrated. This means that there should not be any provisions which discourage long term investments in a direct way, such as imposing Solvency II-like rules on pension funds.

3. IMPROVE THE QUALITY OF THE EXPENDITURE IN THE EDUCATION SYSTEMS AT ALL LEVELS IN ORDER TO ACHIEVE QUALITY OUTCOMES, DEVELOP SKILLS IN LINE WITH MODERN LABOUR MARKET NEEDS AND MODERNISE EDUCATION INFRASTRUCTURES

The economic case

Investment and innovation are the key factors for fostering and sustaining a long-term growth in Europe. However, they directly depend on the average level and on the quality of initial qualifications and on the skill set of the workforce. Innovations diffusion is more efficient when the average level of skills and qualifications is high in the economy. Competitiveness is therefore directly depending on these factors. Furthermore, modern knowledge-based economies highly reward skills. This puts the focus on policies for skill development at all levels from the education provided before and in school to lifelong learning opportunities on and off the job – and on policies that ensure that skills are effectively retained and used.

The key Challenges

Undifferentiated cuts in public expenditure for education - in too many Member States this category of spending was not treated as a long-term investment. In total, in 2011 and/or 2012, cuts in education budget were made in twenty countries/regions for which data are available. Cuts of more than 5 % were observed in Greece, Italy, Cyprus, Latvia, Lithuania, Hungary, Portugal, Romania, the United Kingdom (Wales) and Croatia, whereas decreases between 1 and 5 % were seen in the French Community of Belgium, Bulgaria, the Czech Republic, Estonia, Ireland, Spain, France, Poland, Slovenia, Slovakia, the United Kingdom (Scotland).
Capitalize on early childhood policies - The less a child is motivated to learn and engage early on in life, the more likely it is that when the child becomes an adult, he or she will fail in social and economic life. The longer society waits to intervene in the life cycle of a disadvantaged child, the more costly it is to remediate. Programmes that target adolescents with high cognitive and non cognitive abilities have high returns. But in order to harvest such benefits it is necessary to build the skill base.
Skills Mismatch - a new ILO study revealed on 29 October 2014 that between 25-45 per cent of workers in Europe are either over or under-qualified for their job, leading to a substantial mismatch between supply and demand in the labour market. Skills mismatches is typically one of the issues which require a coordinated answer and targeted support for the development of curricula adapted to the modern labour market needs in terms of skills.
Efficient and Effective investment in education - It is essential to assess the impact of Education policies as we would need to have a clear vision on the input/output relation between the money invested in the system and the outcome for employability and social

life. Resources, whether public or private, are always scarce. Ensuring efficient and effective use of resources is thus an important issue of public policies, including the area of schooling and education.

Matching education with services in complete transformation - There is an increased complexity of the public services' delivery, partly resulting from reduced sourcing but also from new needs. Associated requirements are more integrated service offers, introducing new services and delivering them in cooperation with partner institutions, i.e. social assistance is more and more often paired with professional rehabilitation. These changes imply a need for advanced managerial skills: thinking 'outside the box', ability to form alliances and seek synergies. Partnerships can serve multiple purposes. Amongst them one can find attracting new investment, protecting employment, accessing new skills, changing service culture, accessing EU funds or accessing partner networks.

RECOMMENDATIONS

- CEEP believes that EU Member States should more often and more carefully use Cost-Benefit Analysis to ascertain that public and private resources devoted to education address real problems and societal needs in the best way. Presently, there are no international quality standards for conducting Cost-Benefits Analysis in the field of Education policy. CEEP believes that guidance should be developed at EU level.

- Constantly develop ICT skills. Europe needs visionary and active leadership around skills development,

- through education systems but also through reskilling and lifelong employability initiatives.

- A major refocus of public investment is required to capitalize on the crucial importance of the early years in creating inequality and in producing skills for the workforce. Early childhood programmes targeted at the disadvantaged have particularly high returns.

- The recent round of results on the PISA international student achievement test made policymakers in many European countries wonder how to best improve their students' learning outcomes. A large body of research indicates that one way for a country to improve its educational performance is to attract and retain excellent teachers.

CONCLUSION

We hope for these key priorities and recommendations to be taken on board by the EU's institutions. The long-term should stay our main focus for investing in the real economy.

The renovation of the European internal market, the creation of effective policies to reinvest in our industrial potential and in our education systems, the complementarity of the role of the public and private sectors, must bring new answers while sharing the risks and opportunities. We still lack an economical Union which would be both inclusive and competitive. We have to forge a common understanding on the public choices which will attract and give a new impetus to private investments. The investment package put forward by the EC should therefore strengthen the key sectors which will create a long-term growth potential for the European Union.