FINANCING LONG-TERM EUROPE

A COMMON AGENDA FOR REFORMS, INVESTMENT AND GROWTH

PAOLO GARONNA (ed.)

LUISS

Banche Assicurazioni Finanza

Italian Banking Insurance and Finance Federation

Il momento della firma del Trattato che istituisce la Comunità economica europea (Roma, 25 marzo 1957).

LUISS ACADEMY

Financing Long-Term Europe

A Common Agenda For Reforms, Investment And Growth

Paolo Garonna (ed.)

LUISS
Academy

© 2016 LUISS University Press - Pola Srl
Proprietà letteraria riservata
ISBN 978-88-6856-080-5

LUISS University Press – Pola s.r.l.
Viale Pola, 12
00198 Roma
TEL. 06 85225485
FAX 06 85225236
www.luissuniversitypress.it
E-MAIL universitypress@luiss.it

Questo libro è stato composto in ITC Charter
e stampato presso Prontostampa
Via Praga 1, 24040 Verdellino Zingonia (BG)

Prima edizione novembre 2016

Le fotocopie per uso personale del lettore possono essere effettuate nei limiti del 15% di ciascun volume/fascicolo di periodico dietro pagamento alla SIAE del compenso previsto dall'art. 68, commi 4 e 5, della legge 22 aprile 1941 n. 633.

Le fotocopie effettuate per finalità di carattere professionale, economico o commerciale o comunque per uso diverso da quello personale possono essere effettuate a seguito di specifica autorizzazione rilasciata da CLEARedi, Centro Licenze e Autorizzazioni per le Riproduzioni Editoriali, Corso di Porta Romana 108, 20122 Milano, e-mail autorizzazioni@celaredi.org e sito web www.clearedi.org

Table of Contents

Preface
PAOLO GARONNA ....p. 11

Topics of this volume ....“. 19

CARDINAL PIETRO PAROLIN
Letter to the Rome Investment Forum ....“ 25

THE EUROPEAN REFORM AGENDA: INVESTMENT FOR GROWTH

PIER CARLO PADOAN
Finance for growth revisited ....“ 29

ANTONIO TAJANI
Investing in growth ....“ 33

MARIO NAVA
European reforms for growth:
Investment plan, Banking Union and Capital Markets Union ....“ 37

MARK GARVIN
The European reform agenda, a view from the City ....“ 41

CHRISTIAN BUCHMANN
Juncker Plan, a multifaceted approach to investment in Europe.......“ 49

EDOARDO REVIGLIO
Is there a problem of short-termism in the corporate world? ....“ 53

THE EUROPEAN INVESTMENT STRATEGY:
THE ROLE OF NATIONAL, REGIONAL AND SECTORAL POLICIES

Financing European investment
LUCA LAZZAROLI ....“ 59

The culture of long-term investing and the impact of the Juncker plan
LAURENT ZYLBERBERG ....“ 63

Boosting long-term investment to promote growth, jobs and social cohesion
FRANCO BASSANINI ....“ 65

Balancing recovery, between risks and long-term investments
MARCELLO MESSORI ....“ 71

SMES AND INFRASTRUCTURE FINANCING FOR STABILIZATION AND LONG-TERM GROWTH

Providing an investment-friendly regulatory framework
CARLOS MONTALVO REBUELTA...“ 79

Promoting a new approach to industrial policy
FABRIZIO PAGANI ....“ 83

FINANCE FOR GROWTH: THE CAPITAL MARKETS UNION

The Capital Markets Union and the elusive goal of a 'genuine' Economic and Monetary Union
RAINER MASERA ....“ 87

Expand funding opportunities for SMEs
ALBERTO BABAN ....“ 105

The role of banks in the infrastructure financing
FEDERICO CORNELLI ....“ 107

The effects of the current regulatory framework on Long-Term Investments
LONG TERM INVESTORS CLUB ....“ 109

Towards a Capital Markets Union for long-term financial stability
MAREK BELKA ....“ 125

Accelerate the process to create a pan-European CMU
SALVATORE ROSSI ....“ 127

The role of the Capital Markets Union, a view from the European Parliament
ROBERTO GUALTIERI ....“ 131

CMU between revamped ambitions and political economy constraints
JOHN LLEWELLYN ....“ 135

Insurance and CMU
DARIO FOCARELLI ....“ 139

Barriers to SMEs lending and CMU
ANGELO FEDERICO ARCELLI ....“ 147

Mobilize resources for Europe's growth
GIORDANO LOMBARDO.." 151

Reviving European investments: how to integrate national, sectoral and European investment strategies
NICKY EDWARDS..." 155

Capital Markets Union: Financial centers' intermediation and the political necessity to choose a financial model
EDOUARD-FRANÇOIS DE LENCQUESAING.." 157

The Capital Markets Union, a German perspective
JOCHEN BIEDERMANN..." 161

INVESTING IN SUSTAINABLE FINANCE AND SOCIAL INFRASTRUCTURE – PUBLIC PRIVATE PARTNERSHIP UNION

A role for solidarity in business decisions
DOMINGO SUGRANYES BICKEL..." 165

Challenging the foundations of the social contract: impact investment and social innovation
MIGUEL POIARES MADURO ...." 171

Ethics in finance: the experience of sustainable finance in Italy
DAVIDE DAL MASO ...." 177

Investing in sustainable finance and social infrastructure: co-producing creative solutions
JONATHAN WATSON..." 183

Reducing losses by building resilience to disasters
PAOLA ALBRITO..." 193

Toward a big challenge for financial operators
GIAN FRANCO GIANNINI GUAZZUGLI.." 197

Investing in sustainable finance and social infrastructure
VALERIA RONZITTI.." 199

INVESTMENT FOR POVERTY ERADICATION AND SUSTAINABLE DEVELOPMENT

Achieve the goals of sustainabile development and reducing risk
MARGARETA WAHLSTRÖM ...." 205

The mission of the World Bank in poverty eradication
SERGIO LUGARESI.." 211

The poverty cure: a market approach
KISHORE JAJABALAN ...." 217

Supporting growth: the key role of institutions
CLAUDIO DE VINCENTI ...." 219

List of authors ....". 225

PREFACE

Paolo Garonna*

When the Rome Investment Forum was established at the end of 2014, "finance for growth" emerged as the key concept of a new phase in economic policy making in Europe.

Two years on, after a tepid and murky recovery of the global, and the European, economy, tainted by fragility and growing uncertainty, "finance for growth" is an elusive concept. To a great extent, it looks a missed opportunity. An assessment is needed of what went wrong, what obstacles were found and why it is marked by perplexity and disappointment. The concept therefore must be reviewed, refocused and if necessary amended.

However, we claim, it can be argued that "finance for growth" remains a valuable objective for policy change and regeneration. Its original inspiration remains valid. Its emphasis on reforms and European integration has been corroborated. Its search for a better balance between innovation and stability, security and growth is justified. Its focus on investment and financing widely endorsed.

The papers collected in this volume, which draw essentially on contributions presented at or stimulated by the December 2015 edition of the Rome Investment Forum, aim at this reconsideration and renovation. From a variety of points of view and experience, national and international, European and global, they converge to indicate that both re-affirmation and re-calibration of the basic concepts are needed.

The challenge now is to translate an innovative concept into a common agenda: that is what the different contributions converge upon in pointing out. An agenda implies the specification of targets, intermediate output, expected results, the scale of operations, and above all a timetable that is appropriate stringent and credible. An agenda requires that it is clear who does what, at what level and with what partnerships. An agenda should pay attention to trial and error, learning by doing, and the need for systematic checks and recalibrations. An agenda should be carefully designed, but also discussed and agreed upon by the many players involved, and then swiftly implemented. It should carry the broad support not only of policy and business interlocutors, but above all of the public opinion and the citizens.

An agreed agenda: that is what the Rome Investment Forum strives for. The agenda for financing long-term Europe should centre more on investment and reforms:

* Professor of Political Economy at the LUISS Guido Carli University of Rome and Secretary General of the Italian Banking Insurance and Finance Federation.

both of them need being enhanced and boosted. Investment is the bridge between supply and demand, the short-term and the long-term, the cyclical and the structural components of economic policy, the present and the future. Private and public investment are still lagging behind, particularly in Europe. Reforms are the conditions for success, the only way we can create an environment conducive to innovation, confidence about the future, public private partnerships, the right mix of stability and growth. They have to be carried out at the domestic as well as at the European level. Reforms have recently slowed down their pace and become marred by contingent fears, lack of vision and low-level compromises.

The Rome Investment Forum intends to contribute to these renewed efforts. The present publication, we hope and trust, will give inputs and impetus to that goal. The Italian Presidency of the G-7 in 2017 provides an excellent opportunity for putting an improved formulation of "finance for growth" at the centerstage of the reform agenda, at the domestic and at the international level, starting from Europe and the EU member countries. A more determined and ambitious reform orientation should underpin a new agenda of "finance for growth".

The original inspiration of "finance for growth" maintain its relevance and appeal, as we said. When introduced, the formula meant to represent a synonym for policy renaissance after the crisis, and overcoming the by-and-large disappointing outcomes of the response to the crisis. It was also a synonym for industrial recovery and restructuring in search of a more viable model of production and financing. In sum, it amounted to a kind of watershed.

Finance clearly figured, and still figures, as a crucial factor in those endeavours. In fact, the shift in the philosophy of intervention and the role of finance looks remarkable:

- from deleveraging and downsizing of the financial balance sheets to supporting recovery of aggregate demand and confidence building;
- from "austerity"in public finance to budget reforms enabling expansionary tax cuts and anticyclical flexibility;
- from redressing excess savings and excess costs to boosting profitability competitiveness and production capacity;
- from tightening of prudential rules and behaviour to better calibrated and customised risk assessment and risk management (particularly for long-term investment and securitisation).

At the heart of this strategy, there is not only the quantity, but also the quality of investment. Investment in the real economy should be turned towards the long-term, research & development and innovation. In the financial sector, the shift is from bank-centred lending to capital markets, from debt to equity financing. Institutional investors like insurance companies and pension funds should increase their role in funding the real economy, infrastructure and SMEs. Venture capital, private equity and private debt are to expand funding opportunities for start-ups, mergers and acquisitions, small mid-cups and the increase of firm size.

Overall, nothing of this programme looks obsolete, and has to be reversed or revised. The problem in the last few years has been one of implementation. It concerns the scale and reach of operations, the political will to create through reforms an enabling and supportive environment, and correspondingly the impact on public confidence, macroeconomic aggregates, incomes and jobs. The European economy has remained into the grips of a precarious sluggish and volatile recovery, while strong headwinds coming from different directions and different parts of the world have impaired the smooth navigation out of the crisis.

Monetary policy has responded in a forceful and unconventional manner; but central banks have not been accompanied and supported by other necessary and complementary policy tools. Overreliance on monetary policy has also implied a progressive loss of bite. Capital markets have not developed enough, and fast enough, due to lack of a supportive context, including norms, tax incentives and regulation. Public investment has not taken off, constrained by public finance and still quite fragmented along national borders. Private investment has been damaged by growing uncertainty, fragile demand prospects and the legacy of the crisis (the debt overhang).

The illusory, and demoralising impact of “finance for growth” has been particularly evident in Europe. Perhaps due also to excessive expectations, the Juncker Plan and the Capital Markets Union, heralded as the signposts and emblematic projects of the new era (new Commission, and new Parliament) did not have a significant impact on public perceptions, confidence and the economic cycle. This is not to deny that significant steps were made in the new directions. The launch of the Banking Union, the creation and first operation of the European Fund for Structural Investment, the regulatory framework for the European Long-Term Investment Funds or ELTIFs, the work plan for the Capital Market Union (CMU), and other concrete measures. The first impression for many commentators when the new policy was announced was that the Plan was utterly insufficient to mobilise the resources needed, and in the required time frame, for having its impact felt at the macro level. Unfortunately, this first impression has been substantiated.

More broadly, the ambitious goals of economic financial and monetary union in Europe, and the corresponding policy programmes that were decided upon and started, have more recently slowed down, revealing growingly a backlog of unfinished business and raising doubts on the ability of policy leaders to bring them home. Not that was unclear what to do and in what directions to move forward. There were several reports, such as the “5 Presidents Report” that unambiguously indicated the necessary steps to accomplish, and their implications. But the time table was modelled more on the political constraints of member countries and their electoral appointments, than on the urgency of completing the transitions underway. Europe then felt, and was felt, to be in the middle of the pond, exposed to unchartered currents, the whims of inadequate leaders, and sanguine and resentful public sentiments.

What stalled the European reform drive was exactly that: its growingly evident inability to react to the shocks that have hit the European exchequer powerfully repeatedly and cumulatively. Many of these shocks came from the outside, but quite a few originated from the inside. Think of emerging markets disequilibria and slow

downs, commodity prices volatility, migration pressures, terrorist attacks, and lately Brexit. Not only became the economics of reform more convoluted and costly, but the politics of reform added an extra dimension of unruliness. The threat of populism was then interpreted as a consequence of reforms, and their costs, above all social and political costs. In reality populism is gaining ground rather in response to the elusiveness of reforms, and their inability to have an impact on ordinary citizens. Moreover, often populism has become an alibi for hesitant, and sometimes unscrupulous leaders to postpone or emasculate the reform agenda. And the risk of populist drifts has now dangerously extended to several countries, from Greece to Brexit U.K.

Banks were hit specifically and directly by the different dips of the crisis and volatility, particularly in Europe and in peripheral countries. Concerns over long-term profitability, the legacy of the crisis (e.g. the issue of non-performing loans), the zero or negative interest rates environment, pressure from regulators on recapitalisation, competition challenges coming from new technologies and new players, increase of operational risks (like litigation costs), etc., all these and other factors conjured to expose the prospective or inherited vulnerabilities of the financial sector. This weakness was compounded by the perceived risk of reform failures in Europe, i.e. markets have started speculating on whether the Banking Union and other institutional reforms in the pipeline will break down or be postponed indefinitely, rather than moving on. Brexit naturally gave the *coup de grace* to this widespread uncertainty and political stalemate over European reforms and reform capacity. The result is that banks and capital markets that were indicated in "finance for growth" to represent a way out of the crisis, a solution to the sluggish recovery problem, are now often seen as being the cause of the problem, an obstacle to sustainable growth.

Undoubtedly, the problems that banks and other financial institutions are facing are real, and should be addressed with boldness and determination. But it is equally undoubted that banks' problems have been overblown, and reflect some misperception. In response to the crisis, in fact, and in line with a modernisation trend that started with the liberalisations of the 1980's and 1990's, banks have made considerable progress strengthening their resilience, organization and performance, in an environment that has become increasingly challenging for them. Consider for instance recapitalisations, adoption of new technologies and business models (fintech), more transparency in corporate governance and customers' relations, greater collaboration at the international level, improvements in the regulatory and supervisory frameworks, investment in business ethics, communication and financial education. In sum, now-a-days banks are more capitalised and risks more controlled, while international dialogue over financial services has never been more intense and constructive.

As far as Europe is concerned, the stress tests released in July 2016 acknowledged: *"the EU banking sector has significantly shored up its capital base in recent years leading to a starting point capital position for the stress test sample of 13.2% CET1 ratio at the end of 20156. This is 200 bps higher than the sample in 2014, and 400 bps higher than in 2011"*. Moreover, European reforms promoting financial integration, such

as the Banking Union, the Capital Markets Union and the Jucker Investment Plan, should strengthen further more financial institutions, by enlarging and deepening the credit and money markets, enhancing competitiveness and market discipline, facilitating cross-border activities, widening opportunities for savers investors and European citizens.

This impressive amount of work, and progress achieved, stands in sharp contrast with the sense of unease among market participants. The question then should be asked: why banks and finance are globally, and in Europe in particular, often perceived as being more vulnerable and exposed to shocks and volatility, more than other sectors? What are the reasons for market scepticism about banks, which is evident in low price-to-book value?

I believe that a few factors should be considered in this context:

1. Finance is characterized by a higher and growing interdependence with other sectors; which means that it is exposed to shocks and weaknesses coming from all other industries. Finance in other terms is more systemic than other service sector activities. For instance it is well known that recessions affect banks, and their severity is closely related to the issue of non-performing loans. That is why combating pro-cyclicality of financial performance is a necessary and complex policy challenge, and it is at the heart of the mission of monetary policy and its transmission mechanisms.
2. Finance is highly dependent on policy reform. More than other sectors. A change in business strategy requires and interacts with corresponding changes in the policy environment, including regulation, taxation and the normative environment. For instance, it has been recently appreciated how important is the non-financial corporation insolvency regime for dealing with non-performing loans. Tax incentives are critical for helping to shift from debt to equity, or from short term to long term financing.
3. In Europe, finance and banking are at forefront of the process leading to the integration of the EU member countries' economies and institutions. Any difficulty therefore in this process, due to political or social obstacles, or issues of independence and sovereignty, reflect itself on the projects of financial market integration at the European level. Banks become therefore the scapegoats of Euroscepticism and the rebellion against the European, and national elites, which feeds in many countries a dangerous drift towards populism and protectionism.

The latter factor is in my view the dominant one for Europe. Peter Praet, of the ECB, has argued recently in the same direction:

> *"… the Euro area continues to be exposed to a number of uncertainties. … Most important is the lack of clarity for firms and households over the future institutional architecture of EMU, which remains incomplete in core areas, especially banking union. Key to removing that uncertainty is a clear roadmap for com-*

pleting monetary union, which lays out both the end-point for the reform process and the sequence of steps that will lead to it."
(P. Prat, "Transmission channels of monetary policy in the current environment", Speech at the Financial Times Festival of Finance, London 1 July 2016, in ECB website)

Two years on after its launch, "finance for growth" appears ready to move forward to its next stage. This implies re-affirming its original intentions, reflecting on its accomplishments and misjudgements, and adjusting its orientation towards lessons learned and new challenges.

Drawing on the contributions to this volume, we may sketch out a few characteristics of the new phase:

1. It should focus more on the financial sector, its requirements and implications, the policy reforms required for creating an enabling context for more and better funding of investment and growth. The resilience and profitability of the financial sector should be a concern not only for the financial industry but for the economy as a whole;
2. It should revamp the reform process at 360 degrees. At the national level. But also at the European and the global level. This means accelerating the completion of the ambitious reforms underway, namely those concerning directly the financial sector, such as the Banking Union and Economic and Monetary Union. A rediscovered sense of urgency should push towards more and better leadership and concrete deliverables. The timeframe should be reassessed and made more stringent. Above all, political decisions should be taken showing commitment and determination. We need more "whatever it takes"! Markets should understand that there is no way backwards. And leaders should explain to the public opinion that backtracking from reforms is much more costly that finishing the job.
3. After Brexit, the idea of a concentric circles Europe, and different speeds and intensity of integration has become a reality. This new world should not be feared and a priori condemned. Actually, concentric circles may give to the European project more flexibility, and enable different countries and nations to proceed at their own pace and will. But this should not prevent those countries that want and need to move faster to do so. In particular, the economic and monetary union involving Euro countries should be completed faster than currently planned and expected. The way forward was already designed and explained in the 5 Presidents Report. Not everything that is in that Report should be taken to the letter. But the main direction cannot be too different from the one illustrated there. Only the timing should be accelerated, and the details of the Plan discussed in depth and agreed upon. In sum, the Eurozone should move much faster, and faster than the rest of the EU. Getting out of the pond will make the transition more effective and less costly. It is a necessity. The theorem of the bicycle applies here. If one stands still, she risks falling down.

4. What is the future of Europe outside the EU? What long-term strategy and what objectives? After Brexit this issue has become prominent. After Brexit, the relative size, and importance of the non-EU Europe will increase. This does not only concern small countries like Switzerland, Norway and Lichtenstein. This concerns vast European countries like Russia. And the whole Euro-Mediterranean region including Turkey, and Israel. We cannot continue treating these countries like foreign non-European countries, and deal with them on an opportunistic basis: a treaty on energy, one on gas, one on pipelines, one on migration. And taking them bilaterally, one by one. Leaving aside the more political aspects of social and political integration, an economic agenda for integrating the EU with these countries should be developed. The UK should obviously be part of this group of countries and this agenda. Exiting the EU for the UK does not mean getting out of Europe. EU policies vis-à-vis Europe, or we could say "Wider Europe" or "Great Europe", should be spelled out and discussed not only bilateral, but also multilaterally with all the countries concerned. Investment and "finance for growth" should be at the centre of an agenda for "Great Europe". A Juncker plan for the EuroMediterranean in particular should be designed and discussed on a priority basis.
5. Growth for what? Investment for what? "Finance for growth" has often appeared as a macroeconomic trick, a tool for policymaking and interested entrepreneurs. Distant from the ordinary citizens, and their immediate concerns. The Juncker Plan has suffered of a similar image and communication problem. This has to change. The real economy objectives of finance for growth should be spelled out. They should be put at the front and on top of the agenda. Making Shengen more effective in controlling the external frontiers. Defining automatic fiscal stabilizers linked to unemployment or public investment. Responding to the threat of terrorism with a common security and defence strategy. Creating a Europe-wide open space for energy, telecommunications and transport, a University and research network with cross border interactions and opportunities. These are all targets of great interest to the European citizens, particularly the young, which can only be reached by implementing the agenda of finance for growth. The Juncker Plan should be re-launched within this revamped agenda. It should be extended, expanded, endowed with more resources, better targeted and more clearly explained to the general public.

In such a renovated and refocused "finance for growth agenda", investment will remain the key target and tool. Investing in Europe-wide infrastructure not only will respond to the need to bridge the infrastructure gap with public and private funding, but it will also stimulate demand, fiscal expansion and innovation. Investing in research, Universities, R&D, new equipment, better quality housing, will provide cross-border opportunities for young people (e.g. "Erasmus for apprentices"), more jobs and a better skills' match. Investing in more defence intelligence and antiterrorism cooperation will make our cities and our lives more secure and protected. Investing in cooperation with Turkey, the Euro-Mediterranean countries and Russia will con-

tribute to prosperity, cohesion and contain emigration pressures. The Juncker Plan should be reformulated and boosted to become a European plan for prosperity and cohesion. A plan for making the European dream a reality.

"A common agenda for reforms" is the key concept for the revitalisation of "finance for growth". A bold and credible agenda that signals the willingness and determination of European leaders to complete economic and monetary union, "whatever it takes".

> *"Without a clear roadmap, there is a risk that … uncertainty will hold back the recovery in the euro area. And it has the potential to undermine the effectiveness of monetary policy as firms and households become less willing to engage in inter-temporal substitution by exploiting the favourable interest rate environment to frontload consumption and investment decisions. It weakens the capacity of the banking sector to act as a bridge between present and future spending decisions by intermediating between savers and borrowers …"* (Praet, ibidem).

In this ambitious and people-centred agenda, the financial sector will play a pivotal role. It will lead and guide the implementation of the agenda. It will be a protagonist, rather than simply a tool of policy. It will have to provide a vision of the future and exercise leadership.

We hope and trust that this vision and leadership will contribute to the ambition and the success of the Italian Presidency of the G7 in 2017.

We thank all the contributors to this volume, who provided texts or revised the transcription of their interventions at the Rome Investment Forum of December 2015. Special mention deserve the various institutions that contributed to the organisation of the Forum. Let me list them: Cassa depositi e Prestiti, the Long-term Investment and Reindustrialisation Intergroup of the European Parliament, Confindustria (Piccola Industria), the Long-term Investor Club, The City UK, Frankfurt Main Finance, Paris Europlace, il Consiglio Italiano del Movimento Europeo, il Forum per la Finanza Sostenibile, Integrate, the CEEP (the European Centre of Employers and Enterprises providing Public Services). Also thanks to the European Parliament (Rome Information Office) and the European Commission, under whose patronage the event took place, and to our media partners Data Stampa e EUNews. I also thank the Rome office of Febaf, and in particular Fabrizio Spaolonzi and Giovanna Marando for helping out in the collection of the essays, the preparation and the finalisation of the book.

Paolo Garonna
Rome, August 2016

TOPICS OF THIS VOLUME

The papers and contributions collected in this volume 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 volume 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 is 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.

THE EUROPEAN REFORM AGENDA: INVESTMENT FOR GROWTH

In this part of the volume, 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 speaking at the Bank of England Open Forum, 11-11-2015, ECB website).

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 former British Prime Minister David Cameron to the President of the European Council Donald Tusk, in February 2016, 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. After the Brexit referendum, and considering the many challenges ahead, European reforms are at the centre of the policy agenda. And investment is a critical dimension of reform.

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 European Investment Bank, 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 EU 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.

SMES AND INFRASTRUCTURE FINANCING FOR STABILIZATION AND LONG-TERM GROWTH

The critical role of investments in small and medium enterprises (SMEs) and infrastructure – fixed, network and social – for stimulating growth and competitiveness has been widely recognised by the literature and in policy discussions.

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 Capital Markets Union (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.

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 EU 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 in September 2015. 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 remains heavily reliant on banks, and that progress in opening up new sources of funding appears still patchy and uneven, the contributions in this part of the volume aim at discussing the key learnings options and suggestions that can be drawn from the publication of the Action Plan. They aim in particular at giving a new sense of urgency to implementation and reform efforts. 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.

INVESTING IN SUSTAINABLE FINANCE AND SOCIAL INFRASTRUCTURE – PUBLIC PRIVATE PARTNERSHIPS

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.

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 and 2016 have 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.

From December 2015 to December 2016, the Extraordinary Jubilee Year declared by Pope Francis has taken place. This major event brought to Rome pilgrims, initiatives, prayers, new ideas and good will. The "Holy Year of Mercy" intended 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.

CARDINAL PIETRO PAROLIN*

Letter to the Rome Investment Forum

SECRETARIAT OF STATE

TO PARTICIPANTS OF THE *ROME INVESTMENT FORUM 2015*

I AM PLEASED TO GREET ALL OF YOU GATHERED FOR THE *ROME INVESTMENT FORUM 2015*, AS YOU REFLECT ON "FINANCING LONG-TERM EUROPE". I REGRET THAT MY SCHEDULE DOES NOT PERMIT ME TO JOIN YOU FOR THIS IMPORTANT CONFERENCE, YET I ASSURE YOU OF MY GOOD WISHES THAT YOUR DISCUSSIONS MAY BEAR FRUIT FOR THE WHOLE OF SOCIETY. AS YOU REFLECT ON INVESTMENT AND ITS IMPACT ON ONGOING REFORMS IN EUROPE, I INVITE YOU TO KEEP THE HUMAN PERSON AT THE FOREFRONT OF YOUR DELIBERATIONS, AND TO STRIVE FOR AN ECONOMIC SYSTEM WHICH IS TRULY AT THE SERVICE OF HUMANITY. IN THIS WAY, YOUR CONTRIBUTION WILL NOT ONLY PROMOTE FISCALLY SOUND POLICIES, BUT ALSO ECONOMIC STRATEGIES WHICH SERVE THE NEEDS OF ALL PEOPLE, ESPECIALLY THOSE ON THE PERIPHERIES OF SOCIETY (CF. *EVANGELII GAUDIUM*, 53-58). ASSURING YOU OF MY PRAYERS FOR YOUR WORK, I HAVE THE HONOUR AND PLEASURE TO CONVEY THE GREETINGS OF HIS HOLINESS POPE FRANCIS, WHO INVOKES UPON ALL OF YOU THE DIVINE BLESSINGS OF WISDOM AND STRENGTH.

FROM THE VATICAN, 11 DECEMBER 2015

* H. E. Secretary of State, Cardinal of the Catholic Church.

THE EUROPEAN REFORM AGENDA: INVESTMENT FOR GROWTH

PIER CARLO PADOAN*

Finance for growth revisited

Europe's challenges – Europe's growth and employment creation remains unsatisfactory. The ECB effort is very welcome; however, it must be complemented by action by member states and at the EU level. The European growth strategy continues to rest on three pillars. A growth friendly fiscal consolidation; structural reforms and investment support. In this contribute, I will concentrate on this last point. I think we can all agree on one fact: that investment is insufficient. That it is insufficient one may be aware in a number of ways. It is useful to interpret the large current account surplus of the euro area as a clear evidence of lack of investment in the euro area itself. Investment is slow in spite of very low interest rates, so this to me, signals that the search for profits and for risk-taking remains below what is required. Investment expenditure collapse in Europe, as we all know, in the aftermath of the global financial crisis, while gross domestic product and private consumption were in the second quarter of 2014 roughly at the same level as in 2007, total investment was about 15% below 2007 figures and 5 member states, France, Uk, Greece, Italy and Spain account for around 75% of this gap. There are of course also huge infrastructure investment needs in the EU. Two trillion euros until 2020 on transport, energy, telecommunication, water, waste and other utilities. But since the 1970s, public investment has been declining in Europe, while the development of new financing instruments has been increasing. So mobilizing private capital on capital markets is key, particularly in today's environment. In addition, as we all know, compared with the United States, European SMEs receive 5 times less funding from capital markets. If our venture capital markets were as deep as in the Unites States, more than 90 billion euros of funds would have been available to finance companies between 2009 and 2014. If EU securitization could be revived safely, to pre-crisis average-[ish?] level, banks would be able to provide an additional amount of credit for the private sector of more than 100 billion euros. Promoting young firms is also a strategic goal because as we all know they are the two engines of future job creation. According to OECD research, for instance, young firms create about half of all the new jobs. In addition, these firms have always been new net job creators throughout the business cycle. Even during the financial crises. The financing and development of such young high growth firms is therefore an essential challenge for the EU. Also, the larger are the more productive firms, the greater the extent to which their good performance gets reflected in the

* Italian Minister of Economy and Finance.

overall economic growth. Unfortunately, the most productive and dynamic firms do not always attract the necessary capital and labor to grow to optimal scale. In some economies, including Italy, the most advanced firms have productivity levels close to the global technology frontier; but they are undersized relatively to their peers in other countries. Italy has a problem of firms size and access to appropriate financing sources, that the government is addressing with the Finance for Growth program on which I will return in a minute. And with deep reform of the banking sector. On the other hand, a so-called made in Italy, Italy's comparative advantage, is changing its identity. In recent years, an increasing number of Italian companies in mechanics, nanotechnology, healthcare, aerospace, acquired a global role becoming crucial parts of the international value chain.

So, Italy needs and healthy and efficient financial system to allow firms of all sizes to fully express their economic potential. And of course we cannot rely uniquely on the banking sector to address all financing needs of all firms. The EU business environment funding is dominated, not just in Italy, by the banking system and it is largely organized along national lines. While banking will certainly continue to play a key role; a better equity culture, a better culture of corporate governance and deeper and more accessible capital markets would benefit investment, growth and jobs. The government has introduced the Finance for Growth program, addressing the constraints on credit to business via the diversification of financing sources. Insurance companies and credit funds can now lend directly to firms while the EU base investors no more pay a withholding tax. The Central Guarantee Fund program was extended to include mini-bonds, which are issued by SMEs meeting criteria. Therefore, the system is now better at fueling long-term risk capital financing also to small and medium enterprises. The Finance for Growth program also provides incentives for SMEs to expand their operations favoring stock market listing "cutting red tape" offering shares with multiple votes and increasing votes. Also enhancing capitalization to the allowance for corporate equity instrument.

Finance for Growth is also finance for innovation. Today we are in an extraordinary innovation hub and I am confident that Italy can be a key player in today's global race to innovation. We support innovation through a tax credit strategy on R&D to the patent box, but to the introduction of so-called innovative SMEs; which are for us the building blocks of the new Italian economy. However, action at the national level must be complemented with action at the EU level. And here is where Capital Markets Union comes in. The commission unveiled in September 13th this year its action plan for the Capital Markets Union.

A first set of measures aims at strengthening the link between savings and growth, improving access to finance for companies, particularly SMEs. And mobilizing private capital to support needed infrastructure investment. On November the 30th of this year, the commission has proposed, as part of its Capital Markets Union action plan, an overall of the prospectus directive. We strongly share the main objectives of this revamp, by making easier and cheaper for smaller companies to access capital markets by introducing simplifications and flexibility for all types of issuers and especially for secondary and frequent issuers which are already know to capital markets

by improving prospectuses for investors by introducing a retail friendly investor key information. Therefore, in our view, Capital Markets Union should be designed and thought of as a structural reform and as a transformation of the relationship between finance and growth in the EU's business environment. So, an intrinsic part of European growth strategy. The Capital Markets Union of course is consistent with Italy's flagship initiative Finance for Growth. Indeed, let me remind it, Italy supported vigorously the Capital Markets Union during its presidency of the council of the EU and we are deeply aware of the close relationship between national programs and EU-wide initiatives

To conclude, let me summarize by noting that when discussing about finance and financial markets and banks in Europe there are at least three dots, which should be connected: Capital Markets Union, which I just mentioned, Banking Union and the Juncker Plan. In Europe the completion of the Banking Union and the establishment of Capital Markets Union and the Juncker Plan are all progressing in parallel. However, in my view, more needs to be done to unleash the interconnections and synergies between these three programs in ways, which of course require an overall unified strategy. The Banking Union aims at restoring financial stability in the Eurozone and in the EU. Thus providing stronger banks to interact better in broader capital markets. Of course, the Banking Union was established with the main purpose of separating banks' balance sheets from sovereign debt risk.

This important goal continues to be, of course, very relevant. It must be achieved in an orderly and not mechanic fashion to avoid undesired consequences. Completion of the Banking Union in addition requires, as you all know, the introduction of a third pillar. A common deposit guarantee scheme which has been now addressed but the commission and I hope that there will be an agreement on a gradual and flexible and mutualized introduction of this third pillar. Capital markets Unions aims at tackling investments shortages by increasing and diversifying the funding source of Europe's business and long-term projects. Therefore, Capital Markets Union helps to provide more market based risk sharing which is one of the key features of a strong monetary union and this is an example of how EU wide measures can complement and support euro area measures and I think that more needs to be understood and done in identifying synergies here. Finally, the Juncker Plan mobilizes investment of at least 300 and 15 billion euros in three years; supporting investment in the real economy and fostering an investment conducive business environment. So it aims at providing more risk taking long-term. Throughout all this tools, we need to build a real union for financing and investment and to reach out to our companies; explaining them that we are providing real opportunities for their international growth and for employment. To conclude; in building this investment union and connecting the dots between the three components; Capital Markets Union, Banking Union and the Juncker initiative, we must take a unified view about risks.

There are some risks that need to be reduced and mitigated. Other risk like long-term real investment in infrastructure based risk must be enhance because we need more risk taking, as I just said. But also for the strong and and feasible Monetary Union going forward we need, and we all know that from economics 101, more risk sha-

ring. I am mentioning these issues because as many of you are aware this is a new emerging ground for confrontation in Europe and I hope that we can reach a unified view so that we can really put to the benefit of growth and especially jobs the European economic machine. That is the ultimate goal.

ANTONIO TAJANI*

Investing in growth

Investing in growth. This is nowadays the priority of those who govern Europe and each single European State.

Europe must enable its enterprises to contrast American and Asian competitors. It must defend European products. It must counter unfair competition. Perhaps, avoiding recognising prematurely the Market Economy Status of countries such as China.

It must relaunch growth by relaunching investments. Europe does not lack liquidity but flexibility: it lacks the will to finance risk, to help enterprises, especially SMEs. I will now make an example.

In the United States, it has been possible to counter the recession also thanks to the use of risk capital. If Europe had acted in the same way, between 2008 and 2013, SMEs could have been provided with a further financing in the amount of 90 billion euro. And if bureaucracy had equipped itself in order to help enterprises, instead of blocking and slowing them down, setting itself flexibly at the service of growth, the European economy would have suffered less the effects of the crisis.

Unfortunately, the crisis has rendered us a great deal poorer: there has been a loss of 300 billion in foreign investment; up to 4 million jobs have been lost; and the manufacturing sector represents now just 15% of GDP.

For this reason, as European commissioner for industry, in 2012, I resolved that the manufacturing sector should represent up to the 20% of GDP by 2020. The plan was, and remains, to invert European industrial decline and industrialize Europe again. An ambitious project that developed further in January 2014, when we assigned to the industrial sector 150 billion euros, which equals to one sixth of the total EU budget.

The Juncker Plan proceeds along the same way. This project must, however, be implemented rapidly and efficiently. I would like to quote, as a good example of providing incentives to investments, the second invitation of the European Commission, last month, to submit proposals for the Mechanism to connect Europe (CEF), a plan which involves key transport projects worth more than 7 billion euros

Therefore, the CEF supports the Juncker Plan, which should generate investments worth over 300 billion all over Europe. But the multiplier effect of the Plan can be realised only under specific conditions, i.e. only if we will be able to solve certain problems as above all with regard to:

* Vice-President of the European Parliament.

- cutting red tape
- rapprochement between the public and private sector (in order for the former to be at the service of the latter)
- easy access to credit for enterprises
- shortening the time for payments by public administrations
- an harmonised fiscal policy, that really encourages enterprises
- the completion of the bank sector reform, in order to permit an economic integration

I would like to underline that is necessary a mind change within national public administrations. I am referring above all to Italy. European institutions are living a phase of awakening, that shows they understood how necessary it is a political economy able to face the crisis and the global competition.

It is important to go beyond the goal of stability and aim at flexibility and growth. We cannot lose opportunities, we have to be ready to exploit these new opportunities. We have to be able to exploit European funds establishing a collaboration between private and public administrations.

We must shorten, while ensuring transparency, the length of processes to assign public contracts, locate quickly and with efficacy the financial resources necessary to realise public works and be able to rely upon certain laws Then, we need Europe to solve problems such as those that are affecting many Italian depositors, involved in the resolution of four banks. Others EU States, such as Germany, have been able to protect their depositors thanks to a strong intervention in Brussels.

I would like to quote three fundamental elements for the renewal of Europe.

The first one is the Capital Union action plan, presented this last September to the European Commission. It is one of the Juncker's commission investment plan pillars, and it aims to diversify the funding sources for enterprises and long-term projects.

Then, there are other complementary sources to bank loans, such as pension funds, venture capital, crowdfunding and wealth management that are not used enough in Europe. Those are useful for SMEs and Start-Ups, and will give stability to the whole financial system. This action plan is necessary to encourage growth and to create jobs. This is our goal and to achieve this we need the collaboration between Commission, Parliament and national governments.

The second point regards the banking system and the fiscal policy.

To relaunch our enterprises, we need to protect SMEs supporting factor and strengthen the stability of our system. During the last years, we set new capital requirements, liquidity requirements and governance requirements through over forty legislative acts. We created three agencies to supervise banks, insurances and pension funds. We introduced criminal sanctions against those who take advantages in the financial sector.

We have also modified transparency rules and information duties for investment advisors. But we cannot stop here. The fiscal Union is as important as the banking union in order to benefit enterprises and growth. We need a more equitable fiscal policy. As president, Patuelli wrote in his last book, referring to Italy:

> "How is it possible to think to be an attractive destination for investors, or also just a country with growth and employment prospects, if the very same entrepreneurial activity is taxed 60% less in Mentone compared to Ventimiglia!"

The third point regards the future of European economic and monetary governance. This point will be discussed next week at the European Parliament in Strasburg.

The report of the presidents of the five most important European institution is going in the right direction. It underlines some important goals, such as creating 'a euro zone treasure'. But this report represents just the first step towards a more integrated EU political economy. In the long-term, we need a unified governance system with strong European institution and common rules. In this contest, we have to empower the role of the euro in the global scenario. How is it possible that the euro zone – having the second most important currency in the world – cannot speak with a single voice about economic issues within international finance institution? We have to grow and put our common interests before our national interests.

The euro-group president has to be the spokesman of the eurozone within international finance institutions such as the IMF. We have to work to give trust to the system again. Growing again is possible.

To help this recovery is a duty, first of all for European institutions that have to be more helpful to enterprises. My commitment, as European Parliament Vice-president, will be strong to support the growth of investments in Europe and the Renaissance of our Industrial sector.

MARIO NAVA*

European reforms for growth: Investment plan, Banking Union and Capital Markets Union

This is the second time that the European Commission takes part in this event. I would like to start from our takeaway from last year: with no financial stability, no economic growth is possible, but also the opposite is true, as the absence of economic growth can indeed jeopardise financial stability. The important thing nowadays is to link the three issues, i.e. make sure that the we reap the benefits that can be created by the joint implementation of the Banking Union, EFSI, also known as the Juncker Plan, and the Capital Markets Union.

The Banking Union created the financial stability which was so much needed to come out of the financial crisis and it also contributed to reducing sovereign spreads, cutting the so-called doom loop between banks and sovereigns. On its positive effects, the 2015 EBA Transparency exercise report confirms an overall continuous improvement in the resilience of the EU banking sector, with stronger capital positions and higher leverage ratios. In fact, the majority of banks present a CET to RWA capital ratio between 10% and 14%. Leverage ratios, represented by the ratio of Tier 1 capital over total leverage exposures, with no weighting for risk, have also increased ranging between 3% and 6%. It is important to notice that while for the CET to RWA capital ratio there is a binding regulatory prescription, nothing but a general indication that a requirement might be introduced in the future exists for the leverage ratio. Asset quality remains an issue of concern. Non-Performing-Loans (NPL) remain worryingly high compared to historical standards even if the majority of banks are in a position to cover their NPL exposure with adequate provisions.

While the Banking Union clearly succeeded in making banks stronger and more resilient, something is – we believe – still needed to complement it, and make sure that the amount of funds going to the core credit of the economy are sufficient to generate a solid level of economic growth in the EU. And this is where the Juncker Plan and the Capital Markets Union come into play.

In relation to the Juncker Plan, let me recall that the 2007 financial crisis deeply affected the European economy, and in particular its investments. Annual investment in the EU has fallen by about EUR 430 billion since its peak in 2007, with re-

* Director of the Regulation and Prudential Supervision of Financial Institutions, DG FISMA, European Commission.
The views expressed in the text are the private views of the author and may not, under any circumstances, be interpreted as stating an official position of the European Commission.

ductions concentrated in countries like Italy and Spain. At the moment, investment remains approximately EUR 230 – 370 billion below sustainable trends. The low level of investment is one of the main reasons why Europe's economic recovery remains weak, as rightly recalled by President Abete.

After only three weeks into office, the Juncker Commission in November 2014 announced an Investment Plan aimed at reducing the EU investment gap that originated during the crisis and widened since then. Being the budget of the EU limited and in any case unsuitable for traditional demand policy, non-conventional ideas had to be put in place in order to ensure that investors can close an investment gap of some €300 billion required to boost growth.

The European Investment Plan is an innovative example of a "leveraged demand" policy, i.e. a demand policy which uses public money as a lever for private investment. To do so, the European Investment Bank (EIB) and the European Union will provide guarantees for €21 billion, channelled into the European Fund for Strategic Investments (EFSI). By leveraging 15 times on the EFSI, the European Commission expects to trigger around €240 billion of long-term investments and €75 billion of investments in small and medium enterprises and mid-cap firms between 2015 and 2017.

The truly innovative and creative nature of the Juncker plan depends on its structure that allows first losses on public money, so as to change the overall risk perception of long-term investments by private investors. Of course, the strong screening process of investment projects that can be financed, or be in the "pipeline" as sometimes jargonly said, is key to the success of the initiative.

The Capital Markets Union builds on the new regulatory framework of the banking sector and extends its credit-supplying potentialities. It has three main motivations:

1) the European capital market activity increased significantly over the last two decades. Nevertheless, market financing is still quite in need of development in many member States;
2) revamping the interaction between banks and financial markets (for example safely restarting securitisation markets) can materially increase funding for EU non-financial corporations;
3) the cross-border integration of the EU financial system is still limited. Retail banking has remained national, while wholesale banking cross-border activities suffered from the crisis.

The CMU will address these issues by facilitating the creation of European well-integrated and deep capital markets, by freeing resources for the real sector, by spreading country– and region-specific risk and thus smoothing the impact of recessions on consumption, investments and banking sector activity.

The CMU Action Plan sets out a whole range of actions to increase funding options for Europe's businesses, to increase investment, and to break down cross-border barriers to the free movement of capital. To improve the conveyer belt for funding of SMEs, as touched upon both by Minister Padoan and President Tajani, the

Commission intends to remove barriers to small firms raising money from capital markets, and to better connect information on investment opportunities in SMEs to investors the world over.

EU financial markets will ultimately become, in this way, deeper and more liquid and therefore a credible alternative for any investment. Banking Union asks for more equity investment in the banking sector; CMU makes sure that this equity investment is properly priced and that the credit multiplier originating from more stable banks is effective.

All this is already taking shape, more quickly than one might think. Already on 30 November, the European Commission has proposed a revision of the Prospectus Directive, with an overhaul of the rules that allow companies to raise money on public markets or by means of a public offer with potential investors. The newly proposed prospectus rules will enable investors to make informed investment decisions, simplify the rules for companies that wish to issue shares or debt and foster cross-border investments in the Single Market.

We are also already acting to effectively relaunch European securitisation markets, as asked in a truly European spirit by both the Bank of England and the European Central Bank in a joint paper presented at the Ecofin Council of April 2013. This initiative is not to encourage a return to the bad old way which discredited securitisation in the past. On the contrary, the Commission aims at creating a new framework to encourage the take-up of simple, transparent and standardised securitisation – STS. This will define when a securitisation counts as STS and set lower capital requirements that will apply when it meets those criteria. If we rebuild the securitisation market to just half of the pre-crisis levels, it could amount to an extra EUR 100 billion of investment for the economy. It would help diversify funding sources and free up bank lending for the wider economy.

The Commission Securitisation initiative was adopted on 30 September 2015 with a package of two legislative proposals. First, a Securitisation Regulation that will apply to all securitisations and include due diligence, risk retention and transparency rules together with the criteria for Simple, Transparent and Standardised ("STS") Securitisations. And second, a proposal to amend the Bank Capital Requirements Regulation to make the capital treatment of securitisations for banks and investment firms more risk-sensitive and able to reflect properly the specific features of STS securitisations.

Already on 2 December 2015, the Council of the European Union agreed on Commission proposal, which constitutes a good basis for speedy further discussions with the European Parliament. The Capital Markets Union is indeed already taking shape now, as we speak.

Finally, as part of the Capital Markets Union, Solvency II implementing measures have been amended in September to better allow investments from insurers in infrastructures. This amendment will grant insurers a special predisposition to take part in the Investment Plan for Europe, and therefore to invest in long-term assets.

To conclude, a more resilient economic EU can be obtained, in my view, by the appropriate combination of mutually supporting initiatives that, while maintaining

financial stability thru initiatives like the Banking Union (and it completion as necessary), also ensure the activation of a sufficient volumes of public-private investments like EFSI and finally also create the financial market infrastructure needed for a real diversification of the sources of funding/smoothening of the funding flows to European enterprises, including SMEs, which is the main objective of the CMU.

This will need necessary time but – quoting a saying of a former President of the European Commission – if a century is needed to grow an oak, then one better plant its seed today rather than tomorrow.

MARK GARVIN*

The European reform agenda, a view from the City

INTRODUCTION

The European Reform Agenda is such an important and timely issue for the City and the EU, especially in the context of the UK's reform agenda for the EU.

It's important that the UK is at the table when rules are written in Brussels, and even though it gets its way more often than not, sometimes we end up with rules that don't make sense, and don't work in the sophisticated financial centre that is London. We all know the various examples: the bonus cap, the FTT, the first draft of the AIFMD, MiFID liquidity rules, Bank Structural rules. So, there are things that can be improved and reformed at the EU-level. Here, I would like to highlight three areas for reform; Job and Growth, the European Pensions space and EU Governance, especially regarding the UK's reform priorities.

JOBS AND GROWTH

It is true that we have now created a more stable financial system in Europe. However, we must remember that the objective of stability is to allow for growth. In that regard, we believe measures to enhance the EU Single Market are vital. We need better impact assessments, and cost-benefit analyses and they should be at the heart of the rule-making process. No legislation should go through the Brussels and Strasbourg machine without the right impact assessment having been undertaken and published beforehand.

So, we also whole-heatedly support the UK's push for better regulation, and better processes for creating that regulation, (which, by the way, has been top of President Juncker's agenda from the week he started in the job). In that context, we welcome the European Commission's cumulative impact assessment in he context of the Capital Markets Union, which is now underway. This gives policymakers the opportunity to take stock of the impact to-date of the post-crisis regulatory agenda and gives the industry an opportunity to provide evidence to support these effects. And there should also be a greater focus on enforcement and implementation of the ru-

* Vice Chairman for the Corporate & Investment Bank at J.P. Morgan.

les. The financial crisis showed that some of the regulation that was already in place wasn't being implemented evenly across the union. Now, with 45 or so new rules from the last Commission either in place or being finalised, it is even more important that these measures are properly adopted and enforced. Both to ensure safe markets but also to re-inforce a proper level playing field.

PENSION REFORMS

Another area of focus should be how Europe deals with pensions. We have pulled down barriers at national borders to allow for the free movement of peoples. In times of economic divergence, such as that which we are living through now, we can see patterns of mobility from South to North and from East to West. But if we allow for this free movement of peoples, it only makes sense that we allow them to easily bring their pensions along with them. This could be achieved through European-level cross-border pensions

I welcome the attempts at addressing cross-border pensions in the IORP II Directive, which is currently being debated in the European Parliament. We are also supportive of the consultation from the European Insurance and Occupational Pensions Authority (EIOPA) on the creation of a standardized Pan-European Personal Pension product (PEPP). In continental Europe specifically, there is a real need to increase the amount of private pension investment available. If pursued by the European Commission, this measure has the potential to encourage EU citizens to engage with long-term retirement savings. The long-term nature of this funding could make it investable into infrastructure projects. While we understand the challenges and that driving this agenda will take time, we believe it is necessary.

However, we favour the inclusion of life-cycling as these funds are more amenable to the type of long-term multi-asset allocation that will support the objectives of the CMU than guarantee products would allow. Furthermore, consumers may prefer to have the option of growing their pension pot rather than solely protecting against the downside. By contrast, limiting to guaranteed products could have negative macro-economic consequences with respect to interest rates and consumption. Also, from a balance sheet perspective, Solvency requirements would likely make it challenging for insurers to manage the volume of assets PEPPs may produce.

EU GOVERNANCE

We trust the current review of the ESA's will be an opportunity to reinforce their authority. As regards Prime Minister David Cameron's reform asks, it is reasonable and important that the UK asks for further safeguards for the countries that are not in the Euro vis-à-vis those who are in. When Banking Union was being created, the Chancellor successfully negotiated powers of euro 'outs' for decision-making on the Single rulebook (for example, voting rights within the European Banking Authority are

set in such a way as the UK regulator can't be outvoted in a discriminatory way by members who look to the ECB for their supervision.); and we do need to ensure that this model is set in stone.

So, the City would support the government in reinforcing the role of the Commission as the guardian of the Single Market and the Treaties. And that we need clear provisions, or a new Single Market Protocol, that ensures that any future "Eurozone-only" measures cannot impinge on the operation of the Single Market or non-Euro Member States. And that includes recognition of the principle of non-discrimination on the grounds of location. So all that means that we need equal treatment between the euro "in's" and "out's". So I've listed some of the things we think need improving, and some of the safeguards that make sense, but it is also important to send some positive messages in the renegotiation process about what the UK supports and needs the EU to continue to push for.

The most obvious is one of the most important initiatives to have come from the Commission in decades, namely the Capital Markets Union project, with which many in this room will already be familiar. This is a major effort further to integrate European Capital Markets and foster the contribution of market-based financing to the real economy. I.e. a project that plays directly to the strengths of the UK, home to the world's leading international centre for Capital Markets, and a way of ensuring that finance helps support better the European economy and the livelihoods of its citizens.

And we need the EU to continue to push for a Transatlantic Trade deal that will benefit the whole of Europe, but clearly is of particular interest to the UK, given its role in the transatlantic economy. The EU continues to push for financial services to be included in the regulatory chapter of the deal, while the US refuses. Clearly this is of particular relevance to the UK, and we are more likely to make progress on this as part of the EU than on our own.

CONCLUSION

So, in summary, the City wants the EU to:

- enhance the single market, for example by creating a truly European pensions space,
- improve the rule-making process with better impact assessments; better implementation and enforcement of the rules; and robustly independent European Supervisory Authorities;
- Ensure safeguards for the Euro "outs"
- Continue to focus on projects such as CMU, TTIP, Digital Single Market.

With those things achieved, the European Reform Agenda would be significantly furthered. Furthermore, the majority of the City would be even more supportive of the UK's continued membership of the EU.

Regarding the Capital Markets Union, it has to be said that we have been a participant and supporter of a single European Financial Market for over two decades and remain as committed as ever to its success. We therefore fully support the objectives of Capital Markets Union, and the recently published Action Plan in particular. We agree with the areas which the Commission has identified for immediate action, especially the recently-published Prospectus Directive, which looks to reduce barriers for accessing financial markets. Securitization, the cumulative impact assessment, infrastructure finance and covered bonds are also areas where the Commission has alreadt taken action. We appreciate the focus of the Commission on market-led solutions, where possible.

We note with interest the focus on the Giovannini barriers of Europe's post trading landscape, including a new attempt to look at securities law legislation by end-2017. Indeed, a Capital Markets Union could bring down the costs of capital formation and investment by removing material barriers in the post-trade environment. However, we also think it is wise of the Commission to use the next 15 months to consult with various stakeholders on how to translate the other elements of the action plan into concrete policy actions. This extra time is necessary to tackle the many practical and legal challenges related to the completion of the single market in financial services. It also fits within its overall aim to increase the overall quality (rather than the quantity) of financial services legislation.

With that in mind, I would like to concentrate on the development of CMU over the next two years, specifically from a practioner's viewpoint. J.P. Morgan is a major player in the investment bank and asset management space. As such, I would like to use our experience of the market to think about some of the more practical realities of CMU, from a sell-side, buy-side and systemic perspective. In particular, I will focus on infrastructure finance, asset management viewpoints and market liquidity.

CONCRETE IMPLEMENTATION

We remain very supportive of the continued attention within the European Commission for infrastructure finance. The creation of the European Fund for Strategic Investments (EFSI) and legislative proposals to improve the prudential treatment of the asset class were important milestones.

This is an area of growing importance for J.P. Morgan. In November, we announced the creation of a new global J.P. Morgan infrastructure team, significantly increasing our focus on this market. We are looking forward to working with policymakers, sharing innovative ideas to spur the development of this market. Other firms have also created dedicated infrastructure debt teams (e.g. Allianz, AXA) or infrastructure debt funds (e.g. Macquarie, Hastings) that are seeking to target this area.

In that context, we are very happy with the work on infrastructure finance that is part of the Action Plan. The European Commission has called for the recalibration of capital requirements for infrastructure investment under Solvency II. We are very

supportive of this measure and believe it has the potential create new business opportunities and to boost infrastructure financing in Europe by making it more attractive. However, in terms of good policy, the qualification criteria may not be well defined and may even be considered too lenient: It does not specify a time limit on contracts, and does not differentiate between regulatory jurisdictions in the OECD. For instance, two assets, one with a 2-year contract and the other with a 15-year contract can both qualify, but they present very different risk profiles.

We are also supportive of the consultation from the European Insurance and Occupational Pensions Authority (EIOPA) on the creation of a standardized Pan-European Personal Pension product (PEPP). In continental Europe specifically, there is a real need to increase the amount of private pension investment available. If pursued by the European Commission, this measure has the potential to encourage EU citizens to engage with long-term retirement savings. The long-term nature of this funding could make it investable into infrastructure projects.

However, we favour the inclusion of life-cycling as these funds are more amenable to the type of long-term multi-asset allocation that will support the objectives of the CMU than guarantee products would allow. Furthermore, consumers may prefer to have the option of growing their pension pot rather than solely protecting against the downside. By contrast, limiting to guaranteed products could have negative macro-economic consequences with respect to interest rates and consumption. Also, from a balance sheet perspective, Solvency requirements would likely make it challenging for insurers to manage the volume of assets PEPPs may produce.

Asset managers are already playing a key role as important alternatives to traditional bank financing in Europe and globally. They serve as the crucial link between savers and pensioners seeking steady returns, and the companies and projects across Europe and the globe that need a stable source of funding to go about their business of creating jobs, producing goods and providing services.

This is happening already but there is an opportunity for asset management to play a stronger role in funding the EU economy. The CMU initiative can help. This will require a combination of smaller 'quick fixes' to existing rules and more ambitious longer term commitments to resolving complex issues, all to help enhance and complete the EU Single Market.

The Single Market in financial services is beneficial to investors but incomplete. There is a great deal of fragmentation across the EU's Member States, which create hurdles to pooling of investments and the marketing and distribution of funds across Europe.

UCITS are a global success story. UCITS are the most trusted investment vehicles on a global, cross-border basis. Transparency, diversification and stability that UCITS provide have earned the trust of investors and regulators not just in Europe but also in Asia and Latin America. Still there are barriers which make it difficult to distribute funds across borders even within the EU itself. Marketing restrictions imposed by host countries at national level. Local marketing documentation requirements lead to delays in distribution. As a 'quick fix', CMU could seek to allow home regulators to approve marketing materials when approving UCITS funds themsel-

ves, or at the very least, impose stricter deadlines for Member States to give consent to marketing materials for funds.

Retirement income is a significant source of under-utilized capital in Europe and pensions are an area where national markets in Europe are still very disjointed. Pooling retirement saving across the EU bloc and channelling this investment into infrastructure projects, loans to small and medium-sized businesses and other long-term growth and job creating initiatives should be a focus of CMU. This is complex and would need a great deal of thought and consultation but we believe such a regime is worthy pursuing as a longer term CMU goal. It would strengthen the Single Market for pension provision whilst providing investors and savers with greater choice across a more competitive and cheaper (due to economies of scale) funds range.

SYSTEMIC VIEWPOINT – MARKET LIQUIDITY

We are encouraged by the Commission's review of liquidity in the corporate bond markets (with the potential of voluntary rather than mandatory standardization of offer documentation). We believe that the role of market makers, which intermediate between buyers and sellers by trading from their balance sheet, is of particular importance for the provision of liquidity. Going forward, we will further develop our ideas on the topic and share these with policymakers ahead of the publication of the EC report in 2017.While noting that regulation is not the only cause of changes in liquidity, there are several things that policymakers can do.

Policymakers should be ambitious. There is no a trade-off between prudential safety/soundness and market liquidity. If carefully calibrated, policymakers can have both. Policymakers should take pause and assess the cumulative impact of regulatory reform. Therefore, we applaud the launch of the important 'call for evidence' on the cumulative impact of current financial rules, to which we will respond. However, we also note that many pieces of legislation will still have to come into (full) effect and their interplay and impact on market liquidity are therefore yet unknown.

Policy should aim to create a diverse market for greater resilience. In a diverse environment, issuers can raise funds via their channel of choice (be that bank funding or market funding) and their instrument of choice (be that equity, a private placement or a bond). Furthermore, investors and dealers should be able to able to trade using the execution method and venue which they find the most suitable. This creative process will lead to the most optimal results for market participants, in the form of low borrowing costs and transaction costs.

Policymakers should ensure that bank intermediation will remain a powerful tool for effective capital allocation in vigorous public capital markets. Legislation should enable market makers to provide liquidity. Collaboration between markets regulators and prudential regulators should be increased. It is important for macroprudential regulators to engage with markets regulators and practitioners alike.

CONCLUSION

In conclusion, we are very supportive of the Capital Markets Union initiative and congratulate the European Commission on their work so far. As we move from the planning to the action phase, we must thinking about how we translate good ideas into positive policy outcomes. For our perspective, being mindful of how the market works from the sell-side, from the buy-side and from a systemic perspective will be important in achieving these goals. The devil will be in the details and we are glad the Commission has given 15 months to gather evidence from industry to hit the "sweet spot" between market-led solutions and financial stability.

CHRISTIAN BUCHMANN*

Juncker Plan, a multifaceted approach to investment in Europe

A little over a year after the launch of the Investment Plan for Europe, EU Commission President President Juncker has seen this as an important time not to talk about results or to draw conclusion, of course. It is still far too early for that. But it's an important time nonetheless to take a moment, to stop and look at what has been done and what remains to do and most important to check that we are heading in the right direction. I want to be cautious here, but I believe we are.

Before the Investment Plan, it had become clear that Europe was starting to emerge from one of its worst economic downturns in recent history. A crisis that had social, economic and above all human consequences for many Europeans. But it was becoming clear as well that this recovery was, and in too many places still is, much too slow and much too weak. Boosting investment was seen rightly as one of the solutions and as soon as the investment plan was launched, the cities and regions of Europe expressed their support for this initiative.

One of the plan strengths that we saw in the European Committee of the Regions was its twin focus based on long-term infrastructure investment on the one hand and development funding for SMEs and mid-caps companies on the other. Indeed, at a local level these are the two sides of the same coin; what is the point of financing fast growth or improve transport infrastructure, if not to allow well financed companies to take advantage of them to create jobs.

I am convinced that the topic of investment continues to be one of the defining questions for Europe's economy. Furthermore in my capacity as the chair of the European Committee of the Regions Commission for Economic policy, with one foot in Brussels and the other in my region of Styria in Austria, I see that local and regional authorities throughout Europe have a key role to play in answering that defining question. In fact, the members of the commission for economic policy and myself agreed that the promotion of long-term investment at regional and local level have to be one of our key priorities for the coming year.

The deep integration of Europe's economies, debates of its many benefits should not let us forget the differences that exist at national level and even more at the regional and local level. We need European level strategies and coordination, cooperation exchange and much more but we must remember that in spite of everything that we

* Committee of the Regions, Chair of the ECON Committee.

do share not two European regions not two European cities are the same. This local and regional diversity and richness need to be taken account at the level of the EU in order for so necessary European strategies to make sense and eventually to succeed.

This is true for many policy areas, for example, economic government which we were discussing yesterday at the Committee of the Regions and it is true also for investment. It's true for both public investment – 60% of which is done by cities and regions in the European Union – and private investment, which is heavily determined by local and regional factors as well as constraints.

In Brussels, we discussed promotional banks for investment and growth and what was very clear to me in the discussion with my colleagues of the committee of the regions was that great diversity of situations. Firstly in terms of challenges and starting points: if you look at gross fixed capital formation as a share of GDP – which is a useful measure of investment – the differences between countries are important, but the differences at the regional level are even more startling. In some regions the figure is below 10% while in others it is nearly three times as much. For example 27% in Valle d'Aosta in Italy.

At the same time the differences between regions and their capacity to tackle these challenges is as striking as well. In some regions and cities there is very high-level expertise, there is experience in working with services at the European Investment Bank. There is knowledge of how to use financial instruments and some regions have their own promotional banks for instance. In others, however we have seen none of that. As a result, this question of capacity and that of capacity building for local and regional authorities including in relation to investment has been highlighted as an important concern for European investors in past years. It is an important issue for the committee of the regions and indeed, I believe it is absolutely fundamental to work on it if we really want to make investment work for Europe.

But what I really would like to emphasise, however, is how important it is not to have a narrow view of the subject. If investment is really going to be the key to unlock a full return to growth, it must be tackled from the different angles of and integrated within an overarching investment strategy.

In this respect, I am very happy to see this multifaceted approach to investment in some of the latest work done at the EU level. In the Annual Growth Survey, which it published just two weeks ago, the European Commission not only put relaunching investment at the heart of its analysis, but it also looked much deeper into the challenges to investment in each member state. To do this it had to look at public procurement, the insolvency framework, employment rules, taxation, education and much more because all of these factors come in to play

I really welcome this excellent work and I want to point out that the European Committee of the Regions is playing its part too. Earlier this year we worked with the OECD on a joint consultation on sub-national governments challenges to investment in infrastructure which I think is fully complementary to the work done by the European Commission.

Another piece in the puzzle of this overarching investment strategy is the Capital Market Union, for example, and that is true both from the perspective of business

investment and infrastructure investment. Once completed the CMU will allow companies to benefit from more liquid and more integrated capital markets, meaning more opportunities for access to funding and more attractive conditions. At the same time, thanks to the new Solvency II rules, insurances and pension funds will have much better incentives to provide long-term finance to infrastructure and investment projects, which was a real challenge up until now.

One more piece of the investment puzzle and one that is is particularly important for local and regional authorities, is that of economic governance. The rules that are now in place to coordinate economic and fiscal policy are of course necessary in our economic and monetary union but we must look at the impact they have upon Member States' and also Regions' and Cities' capacity to invest, especially at a difficult time like this one.

At the level of the Committee of the Regions, we have welcomed the flexibility that has been recognised in the rules of stability and growth, backed as something necessary. The commitment made by President Juncker for example, that contributions to the European Fund for Strategic Investment would be excluded from the calculation of deficit under the pact was a step in the right direction. However, some protagonists think flexibility should even go further. It has been discussed if the same logic should be extended to all national and regional co-financing in the context of the European Structural Investment Fund. In any case, these are worthwhile investments; that's why it is being discussed how this extra flexibility would allow Member States but also Cities and regions to make the investments which is so badly needed to boost economic growth and job creation.

I know that the debate will be lively, well informed and constructive and as a result, I am hopeful it can represent a real step forward. The challenge is far from an easy one, but with the involvement of all players and of all levels of governance working together, I am confident that we can achieve our common goal to enable Europe to make today the investment that will deliver growth tomorrow.

EDOARDO REVIGLIO*

Is there a problem of short-termism in the corporate world?

The question I would like to discuss in this brief note is the following: A good corporate governance system can affect "medium long-term value creation"? Is there a problem of short-termism in the corporate world? Moreover, if there is one – how can corporate governance eventually mitigate it?

Since the introduction of the "shareholders' value" corporate model in the last 2-3 decades – not only in America, but also in many other jurisdictions of the world – the question of short vs long-term has been widely discussed. After the crisis, it has been placed even more at the center of the debate, especially in America and in Europe.

In America, where there is a large and well developed capital market and a smaller banking system, the question has been focused on the role of investors (and speculation) and the role of corporate governance in fostering short or long-term behavior in the management of public companies'.

In Europe, where the banking system is dominant, the question was addressed more on the capacity of the financial system to finance long-term investment – i.e. to provide "finance for growth". The effects of deleveraging, balance sheet repairs and Basel III have strongly reduced the capacity of European banks to finance long-term. This is why the long vs short-term issue has become so important for EU policymaking – and rightly so[1].

For companies listed on the stock markets the short-term question is less dramatic. Recently it has been raised at the high political level with Hilary Clinton saying, "We should end quarterly capitalism" making of it a focal point of her tax reform platform. Nevertheless, is there a real problem? On the issue, there is no consensus. Some claim that the Short Term Argument is a false problem. Others believe that managers of public companies are under constant pressure to meet quarterly guidance and maximize profits, often at the expense of future profitability. However, even empirical evidence is not clear on the matter – depending on who is producing the evidence; it may support one or the other view.

However, what do short-term and long-term refer to?

* Chief Economist, Cassa Depositi e Prestiti.

1. See, Paolo Garonna and Edoardo Reviglio (eds), Investing in Long-term Europe. Re-launching Fixed, Network and Social Infrastructure, LUISS University Press Rome 2015, and references therein.

- Investor behavior (short-term traders versus long-term holders);
- Investor objectives (increases in portfolio value in the short-term at the cost of foregoing better long-term fund performance);
- Corporate behavior (focusing on short-term profitability to meet or better quarterly performance goals to the detriment of greater long-term profitability); or
- Corporate objectives and strategy (engaging in financial engineering to generate short-term value creation, thereby precluding long-term investment in building the business)[2].

Moreover, what – according to the supporter of the Long-term Argument – is driving short-term behavior?

- Activist hedge funds that agitate for immediate shareholder value. This is only partially true: in fact, their holding period, for any given equity portfolio, may range from days to years;
- "Quarterly capitalism" preoccupied with the next earnings report;
- Executive compensation design that does not encourage a "buy and hold" mentality;
- Changes in capital markets in which trading has supplanted investment;
- Fund managers with a primary focus on short-term trading gains have little reason to care about long-term corporate performance or externalities[3].

According to supporter of the Long-term Argument, much can be done to avoid excessive short termism.

- Abandon quarterly bottom-line earnings guidance and focus on communicating metrics that are material to long-term value creation;
- Revamp executive compensation to reward longer-term thinking;
- Offer extra dividends or enhanced voting rights to reward longer-term investors (additional voting rights, tax incentives, loyalty dividends, or loyalty shares);
- Adopt capital allocation policies to ensure the long-term interests of the company are not sacrificed to the pressures of daily business activity;
- Develop a capital allocation policy which takes into account excessive stock buybacks and timing of stock buybacks purchase to enhance capital efficiency;
- Adjust the capital gains tax rate to reward longer-term investments[4].

2. Nathan, C., Observations on Short-Termism and Long-Termism, in Harvard Law School Forum of Corporate Governance and Financial regulation. October 12, 2015.
3. Martin, Wachtell, Lipton, Rosen & Katz, Dealing with Activist Hedge Funds, in Harvard Law School Forum of Corporate Governance and Financial regulation, June 2, 2015.
4. Martin, Wachtell, Lipton, Rosen & Katz, Is Short-Term Behavior Jeopardizing the Future Prosperity of Business, in Harvard Law School Forum of Corporate Governance and Financial regulation, October 30, 2015.

These are all reasonable recipes – if properly implemented they would create more incentives to "medium long-term value creation".

However, we should avoid an over simplification of the issue. The duration of any investor's holding period in a company's stock is simply not relevant to issues involving corporate value creation. In today's equity markets, there is virtually no end of investment styles and goals, which vary greatly on many levels, including projected or actual duration of discrete portfolio positions.

- For instance, index funds must remain invested (directly or synthetically) in every equity within their index. These types of quantitative funds are the epitome of long-term investors.
- Other quantitative investors, such as high frequency and other program traders, may trade in and out of a specific security multiple times in one day or even in an hour or minutes, creating a new epitome of short-term trading. However, it is hard to see how such avowedly short-term traders have a meaningful effect on corporate behavior and strategy.
- Actively managed portfolios, unlike index funds, partake of both long-term investing behavior (e.g., establishing and maintaining a position in a desired stock often for years) and short-term buying and selling (e.g., to adjust the size of a portfolio position in reaction to one or more macro and micro factors affecting the portfolio company)[5].

Finally, and most telling, there is simply no connection between an investor's holding period for a given stock and the behavior of the issuer. Of course, issuers may wish to build a base of long-term holders to reduce volatility in their stock price and to facilitate investor relations and relationships. However, their underlying concern is to create more buyers and fewer sellers of their stock. Companies are concerned principally with buying and selling imbalances in the market, which cause increases, or decreases in the price of their stock. It is not the duration of the buyers' and sellers' holding periods that matters to the issuer—it is the act of buying or selling that matters, without regard to the holding period objectives or practices of the investor.

So then, what is the long-term, short-term debate about? It is not about duration of implementation, but rather it is about evaluating competing agendas that frequently have different time horizon. Much is about the challenge to determine net present value of a given corporate business initiative. Reasonable people can and will disagree about its calculation. Activist campaign, for instance, are typically characterized by competing investor presentations on different ways to demonstrate the value creation superiority of its business plan.

The importance lies in striking the right balance between short and long-term. To this end, corporate governance can be a strong ally in achieving this goal.

5. Nathan, ibidem, p. 2.

To conclude.

It is almost impossible to imagine Long-Term Investors to exist without Short-Term Investors. In fact, they contribute to:

- Manage liquidity in the financial system;
- Smooth peaks as well as bottoms towards the real long-term economic and financial path;
- Short-termism is become almost the catchall term to embody negative behaviors in financial market activities – so we should not confuse corporate bad behavior with short-termism – bad behavior could be long-term or short-term:
- Markets undershoot and overshoot, as one should expect. There is considerable evidence with the likelihood that a major source of short-term focus originates inside the corporation and not outside in financial markets.

Let us not stigmatize Short-Tem Investors a priori

- Against speculative, inefficient and distortive short-sighted investment activities;
- Pro an efficient and dynamic investment approach.

An exclusive buy and hold investment strategy could prove not only "boring" but above all inefficient and unproductive.

If Long-Term Investors can be appropriately thought of strategic and patient investors, Short-Term Investors can be definitely regarded as efficient and dynamic investors.

Hence, for Long-Term Investors could be much wiser to cooperate in a productive way with efficient and dynamic Short-Term Investors in order to enhance long-term growth strategies.

Let me conclude with two final suggestions. First, listed equity should be included – also in the European debate – in the long-term investment policy agenda. Second, Short Term Investors may have an important role to play also in Long-term Investments.

THE EUROPEAN INVESTMENT STRATEGY: THE ROLE OF NATIONAL, REGIONAL AND SECTORAL POLICIES

FINANCING EUROPEAN INVESTMENT

Luca Lazzaroli*

What is the Juncker plan and what is that the idea associated with the Juncker plan can do? The European plan for Europe was conceived at a point in time when Europe was coming out of – no was coming out, after seven years of recession – and with the awareness of many long-term challenges ahead of us; and when I say long-term challenges I'm not referring to demographic challenges, I'm referring to the fact that we have all realised that the crisis we have all been going through was not cyclical, but it was structural. We have seen economic data, we have seen the status of the banks, banks leveraging, we have seen the limitation of monetary policies, we have seen the constraints of fiscal stimulus and so forth. We come from a period where spending has been very low in spite of a number of manoeuvres made at policy level. This genesis I don't think has changed very much.

There are three components that are associated among themselves and I think must be looked at one in conjunction with the other. One is the financial dimension of that and is the notion of financing additional trend of 315 billion and I will come back to that in a second.

And this goes hand in hand with a notion of reform and with the notion of trying to build a pipeline, which is the third component – the notion of advisory, supporting, capacity building and so forth.

On the first one – and maybe I try to answer your question – 315 billion is nothing when you compare the needs of Europe. 315 billion over a period of three years is very little. Certainly, this is a first step. We were asked to assess what is the investment gap in Europe. We have done this in November of last year and we came up with a number which was close to one trillion per year. How did we come to that number? We just looked at where we stood in terms of investment level before the crisis (2008) and looked at where we wanted to be in some sectors like education and so forth for which we had some reference investment rates.

So we came up with a number of 780 billion of extra investment on a yearly basis – clearly we are far away from the 315 billion. However, these 315 billion are very important because these are new investments, new projects. There is clear commitment, a mandate given to the bank. The bank is there to support additional investment on top of what the bank would do in any case, to the tune of 315 billions.

* Director General, European Investment Bank.

What is that meaning? It does not mean that the EIB would create on its balance sheet new assets for 315, but it would generate new operations, in the course of three years, around 45 billions of new generations, which would have the quality to enable the crowding in of private investors. And this is important, these are new projects capable of bringing in new investors and because of the guarantee that we benefit from, in terms of products this must be funded by products which – as far as we are concerned – are in the high risk range of what we do. This is really the challenge we are confronted with. Products are products we know already about: investment funds, junior lending, quasi-equity, subordinated lending, it is about project finance where can now come as a senior lender, a junior lender.

These are projects where the scale is much higher, so we can look at every transaction even when they are risky, assess them, and finance them no matter what is the risk content. This is the prerogative and this is what we have been doing.

We started already in January of this year, even before the regulation was approved by the Council. We have been already piling up a number of projects. Some of them are being financed; as of now, we think that at year-end – I do not want to make any announcement but that will be new projects in the tune of 45 billion that would have enjoyed the support of the Investment Plan for Europe.

But of course it's work in progress. It is an effort that will need to be measured during the space of these three years. It must be assessed with the operators working on the ground, it is something that we intend to do. We need to work with operators on the ground, i.e. banks, national promotional banks.

This is something that we are doing. For us it means going into new products, scaling up tremendously these new products, revising our credit policy guidelines, developing platforms to work with the others.

What can we do when we work together with national promotional banks and commercial banks? We can do many things. We can co-invest. We can develop investment platforms. What is it, investment platforms? Essentially, it is a fund where we funnel, via which we widen and cover a number of operations which we could otherwise not reach. It is about developing a range of quasi-equity products at which we are now looking at. That is where we are, it is work in progress, it is a complex process but we are confident that this will yield its results.

As I mentioned before. It is not all about finance. I have to stress that. It is also about reform. There are many sectors we can speak about, I have in mind the electricity sector. I suppose we all agree that we all agree that what is missing is not finance, is certainty. I am looking at many countries in Europe, not just one in particular: what we need is certainty. Is very important, we are trying to work with authorities at national level to address what is missing because as I said this is what is missing, this is the missing link.

A last word on advisory because we all talk about financing new projects but sometimes we forget the necessity of supporting the pipeline.

We go to meetings and what I often hear from institutional investors is "We do not need cash. What we need are projects" It is true, it is a fact that in many countries in particular the effort that needs to be done is at the level of generation of pro-

jects. And that – I go to the third leg of the Juncker plan – that is – as far as we are concerned – the development of an advisory hub. That is an important initiative that has been developed.

Of course we are not the only player, we cannot address all the problems, but – and this is a number that I see rarely being mentioned – we have 200-250 people that are fully devoted to advisory, which is a lot.

We join forces with local partners, with commercial banks because clearly when it comes to origination, origination in particular, we do need to join forces with local partners.

We have the case of an agreement we signed a few years ago with Cassa Depositi e Prestiti, it is an important agreement. We have worked together with MPBs across Europe in the context of a working group which was set up around a year ago and we have regular meetings which are meant to yield new forms of cooperation: staff exchanges, new platforms and that I think that is what we intend to pursue with various players.

THE CULTURE OF LONG-TERM INVESTING AND THE IMPACT OF THE JUNCKER PLAN

Laurent Zylberberg*

Does the Juncker plan work? This is the question that we have to answer after the launch of the European Investment Fund. And the answer is: “yes, but”. And I will focus on “the but”. This does not mean that I put aside everything which is working quite well.

I think that we can do more with the National Promotional Banks and Institutions (NPBI). What are we? we are long-term investment public bodies which have important amount of money ready to invest for the long-term and ready to work together. The names can differ from one country to another (France Caisse des Dépots, Germany KFW, Italy Cassa di Depositi e prestitti…)

So what are the “but”?

The first one is, “what is the impact of the Juncker plan on the daily life of the European citizen?” At the present moment I think that the impact is very small.

It is small because as Helmut Schmidt used to say “the profit of today are the investment of tomorrow and the jobs of the day after tomorrow”. But the problem is that people are looking for a job today! Thus, the impact of the Juncker plan is quite small and this is a big issue.

The other point regarding the daily life of our citizens is the fact that we are all speaking about flexibility but in the meantime, we are considered – probably rightly – to be rigid about the constraints. For example, Maastricht’s criteria are not really considered as very flexible… The very people speaking about flexibility are those who are the most rigid about certain issues. This paradox undermines our credibility.

Infrastructures are another point where people have “great expectations” but it takes time when you want to do something about housing, energy efficiency, wind farms…

On all of the above, we need and we can do more if we are able to support local projects.

Local mean small and medium projects. This cannot be done only from the top. We need the Juncker plan to be implemented at the local level and this need a kind of delegation to the NPBI.

Second “but”: did we change our vision of risk? The answer is maybe.

Why? Because we are still thinking at the risk in the short term while we are in-

* Director of Public, International and European Affairs, Caisse des Dépôts.

vesting in the long-term. Therefore, the risk will come before the outcome of the investment. This is one of the paradox we have to deal with. And for this we need to change our vision of the risk. It is necessary to have a vision of risk, because we are just getting out of an economic and financial crisis but the risk we know is always the one coming from the past.

To make another example, which is not from the Juncker plan. Is there any reason for the development banks, which are lending money, making loans to developing countries, to have the same prudential ratio as commercial banks?. No of course. When you make loans to developing countries of course this is more risky than making loans for customers in a commercial bank. But, one size fits all cannot work everywhere.

Therefore, we need to change our vision of risk. We need not only to say that we are taking more risk. All countries in Europe are asking EIB to take more risk. But are the shareholders of EIB saying the same thing when they are discussing on the board of EIB? I am not completely sure. Sometimes some of them could say "I'm the shareholder of EIB, so please be careful on this or that and don't take too much risks".

The third but is linked to the means and tools. Do we use everything enabled by the Juncker plan to make it the success we are looking for.

The answer is probably "not really". We are using a lot of them, but we are not using all of them. Let's have a look at the platforms. When we have projects in different countries, or in one country at different places, about the same theme. It could be about digital, renewable energy, housing…

They are small projects; the fixed costs for any project could be reduce if we gather them in a platform. To implement this we need to have a form of delegation. We need the Juncker plan to have a form of delegation from the Commission to the EIB, from the EIB to NPBI. It is important to have this kind of delegation if we want to implement it at the local level. We cannot have a world in a way where we say it is important to delegate in management aspects, while we do not delegate in financial aspects. Another example, we have a tool: Margaret fund. Margaret was created to fund some European infrastructures. It is a European fund; it is funded by financial institutions coming from different Member States, Caisse de Depots, Cassa Depositi e Prestitti, KfW, EIB and the European Commission. A Margaret 2 Fund would be an important signal for the future. It is a sort of platform.

I would like to conclude by reiterating that Juncker Plan is a great idea, it works but it could do better. The success depends in our ability to be more flexible and to develop cooperation based on some delegation. As someone said sometimes ago: "we can do it"!

BOOSTING LONG-TERM INVESTMENT TO PROMOTE GROWTH, JOBS AND SOCIAL COHESION: THE REFORMS NEEDED AND THE ROLE OF THE DEVELOPMENT AND PROMOTIONAL BANKS[1]

Franco Bassanini*

Some years ago, when the last systemic financial crisis reached its peak (zenith), the G20 identified the achievement of a strong, balanced and sustainable growth as a key global strategic objective together with the need to prevent the financial crisis and assure the financial stability.

Since then, much has been done to improve the financial regulatory framework and to define and implement policies and instruments aimed at sustaining growth and jobs' creation. However, although some key results were accomplished, the final goal is far from being achieved. The last World Economic Outlook released in April by the International Monetary Fund highlights that global growth will remain subdued in 2016 at a mere 3.2%. The title of the Outlook, "Too slow for too long" leaves no room for interpretation.

Growth in advanced economies, shaped by unfavorable demographic trends, low productivity growth and legacies from the global financial crisis, is projected to remain modest, in line with 2015 outcomes. Growth in emerging markets and developing economies remains geographically uneven and generally weaker than over the past two decades, although still accounting for the lion's share of projected world growth in 2016.

International trade in 2015 has grown less than GDP. Usually it grows at a much faster rate thus functioning as the locomotive of growth. No surprise that the cruising speed of global economy is at the weakest point since 2009 and that forecasts for the next few years are gloomy.

In fact, at a global level uncertainty has increased, renewed episodes of global asset market volatility and financial turbulence have materialized and risks of weaker growth scenarios are becoming more tangible.

There are two main instruments to support growth and they have now to be used together. The first is to support the domestic demand and consumption worldwide. Both are today not sufficiently strong: that seems to be due, first of all, to the persistence of wide areas of poverty and of strong inequalities across the world and wi-

1. With a few additions and integrations, this is the text of my introductory speech at the 4th Annual Conference of the Financial Institutions with a Development or Public Mandate (D20 Annual Conference 2016), Organized by China Development Bank, Beijing, 27 May, 2016.

* Long-term Investors Club (LTIC).

thin major countries. In many advanced economies, the weakness of domestic demand and consumption seems also due to the growing impoverishment of the middle class. Poverty alleviation (and social infrastructures financing) seems to be a crucial way to support growth, on the demand side, and also to defend the social cohesion and the democratic values threatened by populisms.

The second main instrument to support growth and jobs is to speed up recovery by giving a real boost to investment at the global level. This is why long-term investment is a top priority in the agenda of policy makers.

Investment is indeed one of the great challenge of our century. In general, more investment has a positive effect on current demand and productivity growth in the future, which is key for competitiveness. Stronger investment is crucial also to face the transition to a low-carbon economy.

Investment, and in particular long-term investment needed to promote sustainable growth and to finance the energy transition are still largely insufficient. In many countries, fiscal consolidation and deleveraging, needed in order to bring public debt down to manageable levels, has led to scarce public investments (particularly in Europe, where the short-termist rules of the Growth and Stability Pacyt do not distinguish between investment and current expenditures). The huge mass of private financial resources is today almost totally directed towards financial investments, mostly short-term and often speculative. The estimated gap in economic infrastructure over the next 15 years is estimated to be $15-20 trillion.

In fact, much progress has been made on the regulatory ground and in the development of adequate rules, tools and instruments to prevent and tackle systemic financial crises and to assure financial stability. On the contrary, the necessary efforts have not been put in place in defining the rules, the policies, the tools and the incentives to sustain and boost growth and jobs, both on the demand and supply side.

This is true, in particular, if we consider the real dimension of the objective of a strong, balanced and sustainable growth: a growth which cannot be measured only in term of GDP, but must be declined and built in term of wellbeing, quality of jobs and management and conservation of the scarce natural resources of the planet. Which is, moreover, the only type of growth able to deal with the major challenges that the world is facing: poverty/inequalities, environment/energetic transition, ageing of population/sustainability of welfare systems, immigration/migrants integration and so on. The above-mentioned scarcity is even more evident for investments aimed at financing material and immaterial infrastructures, at promoting innovation, technology, research and education, and at financing SMEs and start-ups (venture capital).

There is an increasing and incumbent need for policies, rules and instruments suitable to boost such investments. However, public policies are mostly still national (or regional); instruments can be developed by national Governments, but also by multilateral, international or national institutions; and rules are largely, although not exclusively, defined at a global or regional level.

Coordination tools among national public policies are thus necessary and political institutions (governments, UN, G20) are in charge of setting them up.

Obviously, an important role must be played by regulatory authorities and private finance actors; however that role is not always consistent with the political directions established or suggested by the political institutions.

Looking at rules and instruments, given the important role that the above-mentioned political institutions are required to play, the institutions within the D20 and the LTIC can and must provide a key contribution (in terms of proposals, advice and execution).

Allow me now to submit to you some reflections for our debate and our final D20 Statement:

a. Liquidity and financial resources are now abundant worldwide, savings are copious in many areas, and central banks' expansionary monetary policies have contributed to raise liquidity. But these resources are predominantly directed towards short-term investments, still in large part speculative in nature, with a very poor impact on growth and job and important pro-cyclical effects. It remains difficult to direct a satisfactory share of these great resources towards the financing of medium to long-term investments that bring along key positive externalities for a strong, balanced and sustainable growth, such as the investments in infrastructures, R&D, technologies, human capital, innovation, start-ups and SMEs.
b. In the draft of our D20 Statement and in the proposals contained therein, we highlight the negative effects caused by the persistence of marked and relevant inequalities and of wide poverty areas. These factors translate into a global weakness on the demand side, which consequently, turns into a subdued economic recovery.
c. Together, we should emphasize the opportunity for new policies, rules and tools for the adoption and implementation of advanced welfare systems and we should advocate the importance of the role that institutions, to which we belong, together with national governments and other international organizations, can play in promoting social infrastructure and investment with a social impact.
d. In the D20 Statement, we particularly stress the positive impact of investments in innovation, technologies, human capital and infrastructure. Most of these investments provide economic returns only in the medium to long-term, involve a high level of risk, or produce positive systemic externalities without necessarily providing economic returns to investors: that is the reason why they may require instruments of public risk mitigation.
e. If we want to increase investment in infrastructure, we need to enhance the technical quality of pipelines and to create the right financial instruments to make a full-fledged "asset class" of its own. Now, the lack of a clear definition of an asset class of infrastructure investments practically translates into an incongruous accounting regulation and higher financial transaction and capital costs for long-term investors. Thus, to increase long-term investors' asset allocations, infrastructure needs to be transformed from the realm of an 'alternative' investment category into a real 'asset class', subject to ad-hoc regulations and with its own capital absorption ratios, supposedly lower than the actual ones.

The regulation should recognize that debt for infrastructure has lower default rates and higher recovery rates than corporate bonds, which means lower probability of capital loss. The goal should be to create a new class of activities in the accounts of institutional investors, which could be placed in between sovereign and corporate bonds. Thus, the affirmation of an asset class for infrastructure would directly translate into lower transaction costs for players in the market.

f. Long-term institutional investors have globally over 100 trillion of asset under management. Today only 1% is invested in infrastructure. Central banks have soaked most of high rating sovereign bonds. According the OECD recent estimates, there is today over 5 trillion dollar gap in search for investment with long-term and stable risk-profile. Infrastructure and securitization of SMEs loans, if properly structured have all these features. Therefore, we need to favor this transition: long-term institutional investors will become major investors of financial products backed by real economy assets.
g. Public authorities should facilitate the development of financial innovations, such as risk-mitigation and credit enhancement schemes, that enable private finance participation in infrastructure. The Juncker Plan in the EU represents a best practice in this respect.
h. Moreover, we should consider that investors and sponsors take their decisions to finance infrastructures and long-term investments based on their perceived level of riskiness of the underlying project. Such risk heavily depends on the level of uncertainty of the projects, including regulatory uncertainty. As we claim in the draft of the D20 Statement, projects would therefore highly benefit from an appropriate guarantee scheme backed by governments that would ring-fence projects with a well-recognized impact to growth and employment from the regulatory changes (such as change in tariffs or concession conditions) which could undermine the economic viability of these projects Such product or vehicle could involve public international financial institutions to ensure that needed criteria are met and economic impact is expected.
i. A much more active presence of the public sector can indeed significantly foster liquidity in the field of infrastructure sector, not only by actively participating in the project capital but also acting as anchor investors to attract private participation in infrastructure investment (through the use of appropriate financing and PPP models). By means of public contribution, or public guarantees schemes, private participation can substantially be leveraged. The effect could be extremely desirable: increasing institutional investors' infrastructure allocations could provide an extra $5-8 trillion for investment in economic infrastructure (excluding real estate, oil & gas and mining) between now and 2030[2].
l. As far as climate change is concerned, we acknowledge with enthusiasm the great strategic commitment showed by all actors in the Paris Agreement of COP 21. Enormous amounts of investment, especially long-term investment, are requi-

2. B 20 II TF (Turkey 2015).

red to finance the energetic transition. After the Agreement, policy makers are accelerating the low carbon economy transition, with different approaches. Decarbonization is taking place in the financial sector.

m. There is a very strong climate policy risk for investors. There is large consensus that markets' short-termism has not yet priced the forthcoming taxation on polluting companies, or the costs and risks of the decommissioning of nuclear plants. Regulation, fiscal policies and pricing mechanisms (i.e. carbon pricing) are relevant risks. It is hence of key importance that investors act timely by divesting polluting companies, decarbonize their portfolio and proactively invest in the low carbon economy transition.
n. Our institutions can play a leading role in all the above-mentioned aspects, not only as direct actors, but also as catalyzers and anchor investors for other private or public stakeholders, by acting in complementarity with respect to the banking system and to the others long-term investors (insurances, pension funds, sovereign funds, institutional investors).
o. Moreover, long-term Development and Promotional Banks and other long-term non-banking financial institutions should contribute to assist countries with their own expertise and knowledge to facilitate development planning, consulting, education and training in poverty-stricken areas, and assisting the local governments in drawing up a well-defined roadmap, setting out development targets, pand progressively enhancing own local capabilities whenever needed. D20 Institutions are also well placed to assist public and private investment project promotors in terms of technical assistance and financial advisory, again one of the pillars of the Investment Plan for Europe.

To conclude, a few reflections on the regulatory framework.

Our institutions are not of course entitled to intervene directly in political or regulatory decision-making processes. However, since we respect this regulatory framework within our public or development mandate rather than only with a limited profit objective, we can certainly invocate a proper and well-shaped treatment for our institutions in light of our business models.

On the other side, it is equally of our interest that the regulatory framework for commercial banks, insurances, pension funds and other institutional investors does not result to have undue penalizing effects for long-term investment. Of course, we are not in the position to do everything by our own. We can be catalyzer, but only if, together with us, other players are ready to take the role of long-term investors. To that end, a friendlier and fair regulation is necessary.

We surely acknowledge that the prudential regulation, set up in the aftermath of the financial crisis, made the financial global system much more resilient and stable. However, we must keep in mind that the relation between growth and stability is not one-way: growth surely needs financial stability, but stagnation and recession seriously undermine stability. Authorities and regulators have sometimes failed to recognize the reciprocity between growth and stability and have often underestimated the negative impact that a low growth can have for financial stability, by

giving priority to the achievement of financial stability at the expense of growth and jobs and by neglecting rules capable to harmonize the two aspects. On this basis, we believe that it is now becoming a priority to strike for a better balance between the stability of the financial system and its capacity to finance long-term investments.

It is the time to accelerate the analysis of the impact of financial regulation on the financing of infrastructure, R&D, innovation, SMEs and, in general, long-term investments. In the case that we discover that such an impact is significantly negative, I think that political and regulatory authorities should be ready to re-calibrate and fine tune the regulatory framework so that it can achieve both the two non-conflicting goals: financial stability and long-term investment.

Some robust empirical evidence has already been produced to show, for instance, that loans to project financing have better recovery rates and lower default rates than corporate bond. But, still corporate bond with same ratings and duration have much lower capital absorption.

To be clear. I am not asking for a preferential treatment. I am asking for a proper measurement of the risks underlying these asset classes. We should avoid "hazard". But we should take into consideration the "business model" of long-term investors; and we should also take into consideration the role played by public credit enhancement mechanism on the risk profile of the investment.

Finally. Of course political Authorities must delegate the definition of the regulatory framework to technical regulators: but too often they do it, without bothering too much to check and monitor whether their strategic policy directions are indeed followed and respected by the technical regulators. Their strategic directions require to combine the objective of financial stability with the objective of a long-time global growth. The regulations, often, do not.

We believe that it is now time for the political authorities to take on this issue their responsibilities. They have the legitimacy and the power to ask international regulators to seek better fine-tuned solutions to harmonize the need for financial stability with the need for a strong boost to long-term investment. Better regulation can do and should do a lot: in order to avoid that the goal of a strong, balanced and sustainable growth will remain just a noble but unattainable aspiration.

BALANCING RECOVERY, BETWEEN RISKS AND LONG-TERM INVESTMENTS

Marcello Messori*

The evaluation of the possible future macroeconomic effects of the Juncker Plan for the euro area is neither clear nor simple. From the perspective of public-private financial resources, the Juncker Plan displays two strengths and at least one weakness; other strengths and weaknesses also emerge when the plan is further evaluated from the perspective of private financial resources.

The first of the two strengths lies in the fact that the today's weak economic recovery would only gain traction in the foreseeable future if public and private investment demand reaches pre-crisis levels and follows pre-crisis dynamics, leading to efficient allocation of new productive resources. The recovery, however, cannot rely upon national stimuli alone; it requires systemic initiatives at the European level. The only European investment project available at this time is, indeed, the Juncker Plan.

The second strength of this Plan, lies in the fact that its design is backed by public-private financing; and the public source of financing allows the escape from recession and stagnation to be driven not only by a problematic market-led resurgence in private investment but also, if not mainly, on a prioritized introduction of public incentives or direct public investment.

Unfortunately, the Juncker Plan's second strength also causes one of its major weaknesses. Public-private financing usually starts from a foundation of public resources that serve as a multiplier of various other public-private resources. In the case of the Juncker Plan, it is well-known that this leverage is based on the constitution and initial financial endowment of the European Fund for Strategic Investments (EFSI) by the European Investment Bank (EIB).

The EFSI has the duties, among others, to evaluate and select the most efficient investment projects and to track down additional public-private financial resources in order to fund and implement the selected projects. These duties, however, risk being inconsistent each other and could thus lead to an impasse. Indeed, in order to allocate productive resources efficiently, the selection of investment projects to be financed cannot be impeded by the need to appease different Member States; it has to exclusively respect efficiency and efficacy criteria at the European level. On the other hand, the full potential of the EFSI's ambitious leverage rate can only be reached if the selec-

* Director, LUISS School of European Political Economy.

ted investments are funded by public-private financial sources from all Member States; however, the latter potential investors will only make their funds available if there is a more or less explicit understanding that investment projects from their own country will receive financing at least equal to what they put in.

This contradiction risks condemning the Juncker Plan to two suboptimal choices: sacrificing efficient allocation of investments in favour of catering to national interests, thus maximising available financial resources, or adhering to efficiency criteria when selecting investment projects, which tend to lead to a drastic reduction in available financial resources.

There is already empirical evidence that this dilemma is not an abstract danger but a very concrete possibility. The main eurozone Member States recommended financial institutions under their control (in particular, the savings and loans banks such as Kreditanstalt für Wiederaufbau in Germany and Cassa Depositi e Prestiti in Italy) to contribute to the Juncker Plan. However, each of these contributions did not occur as direct financial transfer to the EFSI, but rather materialized in the form of co-financing for investment projects selected by the EFSI and originating from the same country of the co-financer. It is not difficult to extrapolate how this co-financing mechanism might exert, ex ante, a powerful and distortive influence on the selection of investment projects. The EFSI's investment choices are, in fact, condemned to favour not the best investment projects, but rather those more likely to be co-financed based on national interests. This creates tension between the public-private nature of the financing scheme and the European nature of the Juncker Plan.

This mixed bag of strengths and weaknesses forces me to give an ambiguous answer to the initial question posed by Dino Pesole. It is not at all clear whether, putting various aspects of its character on a balance, the Juncker Plan provides an adequate framework for the implementation of that European investment project, which is essential for sustaining structural growth in the Eurozone. There are, however, additional issues compelling me to see the glass as half empty rather than half full: the trade-offs, already mentioned during our discussion, between Juncker Plan, Banking Union, and Capital Markets Union.

3. The mentioned trade-offs derive from a factor set aside thus far because it is mainly pertinent to the private side of investment financing. This factor can be articulated as follows: actually implementing a European investment plan is contingent upon a unified and profoundly restructured European financial market. In this regard, I am not such optimistic. One must consider the fact that, until today, of the three pillars making up the Banking Union, only the first and half of the second have been completed. Such incompleteness represents an important obstacle to the building of a European financial market. Moreover, even if the Banking Union were completed, it would not be enough to realise the European financial market, but would only be one piece of the puzzle. The other, probably even more important piece, is the creation of an effective Capital Markets Union which is still in its nascent stages.

In order to explain why the restructuring of the European financial market is essential for the success of the Juncker Plan, I am obliged to briefly digress in order

to better justify an aspect that has thus far been considered obvious: the central role of European investment projects.

The European Economic and Monetary Union (EMU) remains one of the dominant economic areas at an international level; therefore, it cannot solely rely on a continuous increase in its net exports to the rest of the world as a basis for its structural growth. There are cyclical factors supporting this view. The current difficulties in emerging markets and the different role the United States assumed in the international trade landscape after the international financial and 'real' crises exposed the vulnerability and instability of an export-driven growth model during the second half of 2015. Further, there are less contingent factors showing that this growth model is, at best, a zero sum model because the EMU's increasing trade and current account surpluses imply increasing trade and current account deficits in the rest of the world. More probably, this is a "negative sum" growth model because the rest of the world would react to the imposition of an export-driven growth by a dominant area with currency wars and other initiatives leading to further economic distortions.

This conclusion implies that the EMU must base the relaunch of its growth in the short term on stimulating aggregate demand in the internal market, and it must consolidate this growth in the long-term through an ever more competitive supply structure in its different Member States. Investments represent the connection necessary for harmonising EMU's short and long-term objectives.

The importance of investments for the Eurozone is reinforced by two additional considerations. The first is that each Eurozone Member State suffers a strong path dependence incompatible with the establishment of a single model for all different national economic systems. If "one size does not fit all" in EMU, complementarity among Member States must be developed. Complementarity, however, is not free of challenges. Since the EMU can neither be treated merely as a fixed exchange rate regime nor as a monetary union equipped with robust risk sharing mechanisms, complementarity is not compatible with competitiveness gaps above a critical threshold. The second consideration is thus that, if we do not want to condemn the Eurozone to financial and real instability, this threshold cannot be exceeded. Consequently, a balance between competitiveness and complementarity must be found. This makes it even clearer that Eurozone's growth cannot stem only from a relaunching of aggregate demand in the internal market; the supply side must also be strengthened through the spread of innovations and consequent reduction of competitiveness asymmetries between Member States. European investment projects, with an asymmetrical impact on different countries (i.e., favouring the EMU's peripheral countries vs. core countries), are therefore crucial.

This last point brings us back to the Juncker Plan and the viability of its leverage rate, but with an important qualification. In order to make a European investment project with asymmetric impact and public-private financing successful, it is not enough to confront and resolve the already difficult problems posed by the use of resources originating, directly or indirectly, from the public sphere (cf. section 2); we must also ask ourselves which conditions need to be satisfied in order to obtain efficient financial resources from the private sector. One of these conditions is the presence of finan-

cial markets able to offer an adequate set of financing instruments. In this respect, the current state of the European financial markets does not make me optimistic.

4. In order to justify my previous statement, it is convenient to consider the unresolved problems in the Banking Union process. I do not want, however, to be misunderstood. I share the opinion of those who earlier stated that the Banking Union is the most important reform for the EMU after the constitution of the single monetary area. Further, I agree that the partial realisation of the Banking Union halted a very serious threat that came out of the international financial crisis and the subsequent European crises — the vicious cycle between the sovereign debt crisis and the liquidity or insolvency crises of the European banking sector. However, part of the problem derives directly from the incompleteness of what has already been realised.

As mentioned above, the Banking Union process resulted in the completion of one and a half pillars out of the three in its original design. The lack of a public back stop in the resolution of banking crises (the missing half of the second pillar) and the lack of a European Deposit Insurance Scheme (EDIS) for bank deposits lower than EUR 100,000 (the missing third pillar) prevented a complete removal of the underlying cause of the vicious cycle between the sovereign debt crisis and the European banking crisis, that is, the national fragmentation of the European banking market.

This incompleteness was combined with other elements characterising the second pillar of the Banking Union and the unconventional measures adopted by the ECB. In particular, the Single Resolution Mechanism (SRM), under terms defined by bail-in, requires shareholders and a substantial part of private creditors of a failing European bank to first cover its losses before the single resolution fund or its temporary national branches can be utilised. The involvement of the private sector had an important effect, above all on the riskiness of non-subordinated bank bonds. Starting from 1 January 2016, all bank bonds, including plain vanilla ones, will become a sort of structured product with an implicit option characterized by the riskiness of their issuer. These bonds will, therefore, be very difficult to price for a professional investor and, even more so, for a retail investor. It is thus not surprising that, since the beginning of 2013, regulatory changes and a stronger risk-aversion on the side of savers caused a drastic decline in retail demand for this type of financial asset.

I do not intend to repeat here my long-held position that the allocation of illiquid and relatively low-yield bank bonds to the financial portfolio of households caused a significant distortion. Let me only recall that, in the years preceding the European crises, this phenomenon was very widespread, above all in Italy. In the coming years, European banks (Italian ones in particular) will thus have difficulties maintaining a quasi-monopoly on the intermediation of household financial wealth and filling the structural funding gap deriving from the high incidence of loans they lent to the firms and the same households. This means that it will become impossible to reproduce the peculiar form of bank-centrism typical until the recent crises. Hence a large part of European financial markets will need to undergo profound restructuring

The persistent fragmentation of the European financial market and the loss of centrality by banks in many national segments of this market pose binding constraints

to the supply of private financing in favour of European investment projects. The problem obviously affects the Juncker Plan.

5. This conclusion explains two of my previous statements: European financial markets offering an adequate set of financial instruments are essential for obtaining private sector resources for the Juncker Plan; in order to strengthen the supply of various financial assets, a single European financial market must be built modifying its past characteristics. In this regard, it would be unrealistic to use the US or UK stock markets as possible models for the EMU; the first realistic step would be to create a European market for corporate bonds.

Although more realistic, this aim poses several issues. Here, I will mention only the ones most relevant for Italy and the other peripheral countries of the EMU. In these countries, corporate bond markets are very "thin" and dominated by too few and big issuers. The majority of potential future national issuers will be, instead, small and medium firms (SMEs). The question becomes, therefore: can the objective to build and empower a European corporate bond market coexist with the current dimensional structure of the European productive system? The hope is that the solution might lie in the rapid construction of the Capital Markets Union (CMU) and in the ECB's quantitative easing (QE).

Among the main objectives of the CMU is the strengthening of an efficient and well-regulated European market for securitization; within the QE program, the ECB provides for the purchase of corporate bonds and asset-backed securities (ABS) with an adequate rating. An efficient European market for securitization would allow the aggregation of small scale corporate bonds issued by homogeneous small and small-medium firms. In particular, it would become possible to place the bond issuances of each small firms in special purpose vehicles (SPVs), which would in turn transform a combination of these assets in tranches based on their risk level. The resulting different types of ABS, sold on the financial market by various SPVs, would reach the amount necessary for satisfying a minimum efficiency scale and could also meet the rating levels required by the ECB.

SMEs AND INFRASTRUCTURE FINANCING FOR STABILIZATION AND LONG-TERM GROWTH

PROVIDING AN INVESTMENT-FRIENDLY REGULATORY FRAMEWORK

Carlos Montalvo Rebuelta*

The motto of the day is how to finance Europe, which is only the way to put fuel on our bigger and broader idea, which is building Europe and building Europe together. Something that is in the interest of citizens, of institutions, of corporations. And we are going to be talking now a little bit about means of infrastructure financing as part of this issue.

Coming to Rome is a living testament of how infrastructures can help you build an empire, expand an empire and consolidate an empire. It puts you in a very positive mood. Also coming to Italy in general is living evidence as well – my compliments to the country for that – you can translate excellent ideas into things, tangible outcomes and beauty. Normally you are extremely good at doing the two of them together. But I was also reminded this morning that I come from Spain, a country where we have done everything that we shouldn't be doing when it comes to infrastructures, from airports and airports and airports to roads and roads and roads. You need to find a balance between the one and the other. And I think this is exactly what I would like to do and would like to share with you on a very personal basis because "io lascio tutto, Paolo", exception made for my own ideas and thoughts and sometimes my political incorrectness.

So lets talk a little bit of what we are aiming for, how we would like to get it and who is going to be the main actors of this whole exercise. Well, what we want is growth but not any kind of growth. Sustainable growth, it is not the same and by the way it is interesting that we are focusing on only one of the elements that is a driver for growth. If we compare the situation between Europe and the U.S and the increasing gap between the one country and the other, the main driver has not been innovation, has not been infrastructures. Infrastructures in Spain are much better than in the US – between you and I. It has been demographics, an area on which we are probably not putting sufficient focus but needs to be part of the solution.

On the "Who" before this element of banking or financing was about banks and there was a simple reason for that, it was called business. They were good at credit risk but then crisis came and we started using a word, which is called "deleveraging". That means reducing the level of risk. First politically incorrect question, what are we doing with this risk? Are we addressing it or are we trying to put the same risk

* Executive Director, European Insurance and Occupational Pensions Authority (EIOPA).

without changing it, into a different part of the economy into a different part of the financial sector. If we don't give the right response to this, the only thing we are going to be doing is yes, we are going to have growth but it is not going to be sustainable, in the same way it was not sustainable in 2005 2006 2007.

The second point now comes to “If it is not banks, who can do it?” Well, many people now are looking at insurance companies and pension funds. And you could say there are good reasons for that. Yes, but yes if and only if we understand the number of elements which in my opinion – and that goes to the third element, not the What and the Who but the How – are the key success. The first one is we need understanding two things. First, the insurance and pensions business and reality. Second, today’s reality. The second element we need to succeed is to prioritize.

When I was reading the preparatory papers provided – I very much like this country – there was a question that I have had missing for the last 5 years in this whole debate. What type of infrastructure do we need to prioritize? And I think this is extremely important.

The third point is a clear proposal, a clear proposition with two dimension: a stability on the one hand, a clear framework, trust, and secondly with good products because part of the issue that we are witnessing that has to do with the supply side and that is I think something relevant. To make the long story short and that applies to every area of life of business. If the product is good it sells. If the product is not good, either you don’t sell it or you need to put a lot of sugar coating – incentives – in order to make it sell. So if we are thinking for a second about the business of insurance, insurance is not an NGO. It is there to do two things: fulfil promises to policyholders firstly, and secondly to pay a dividend to the people and this rightly so if they all put in their money there. If I am investing money, I want a return; if I want something different, normally I go to Caritas. It is a completely different thing. So if we do pretend that insurance companies are going to put their money only because growth is in everybody's interest, we are wrong. When you look at a road as a normal citizen, you see it as something you use to drive. When you look at it as a company you see it as an asset class, and it is not the same. Take the example of the highways in Spain: its great, they are empty, they are driving. That’s easy. But if you are an investor and you have a business proposal which is based on the number of cars driving there everyday, is it the same approach? I would say no. So if we look at it from an asset class we need basically that three elements fit. If those elements fit, then everything will be fine.

The first element is risk and you need to understand it. The second one is return for that risk and the third one has to do with liquidity. When we consider the insurance business model, we say that it is a modern version of risk, we should be good at that. But perhaps another provocative question is: “Are we equally good at all the risk? How good are we at liquidity risk?” “Good!” “How good are we at credit risk?” “Not as good as banks”. Let’s not forget that it is a long-term business so there is a clear fit between long-term assets and liquid assets and the long-term business it is based on sound ALM and it is a very diverse business. We cannot pretend that all insurance companies are the same, and we cannot pretend to treat them the same or

expect they have the same level of knowledge. When we translate this into the reality of what we are talking about – risk, return, liquidity – what we do see is that some products fit in this equation and some products don't fit in this equation. But what we also see – let us be very clear – and this is an element of concern, is that some of the products that don't fit into this equation are equally being bought.

I was talking not only on the business reality, I was reflecting also on today's reality. Today's reality is basically driven by a very strong monetary policy with very low interest rates with a low of liquidity in the market and with something called quantitative easing which to a certain extent was relatively new. How does this affect the types of assets that I can buy? Well, so much liquidity, quantitative easing means more volatility for certain assets on the one hand and on the spread of the risk that you are being paid for taking a contraction. In other words, you are getting the same risk for less money. If you think on long-term assets, there is clearly another dimension. Insurance and pension funds because their ALM has to understand that they are a bit like drugs addicts. They need long-term assets. So what do we do as a supplier? Well, you contract also the liquidity premia; you have to make sure you are able to combine these two dimensions in order to ensure that the risk, return and liquidity components do and still fit in your model. Because if not we are only going to be facing potential problems. With these elements, what have we done from our regulator point? Because we are regulators and supervisors. Firstly, we are following a request from European Commission to analyse whether there were obstacles, artificial obstacles to invest in the infrastructure. I am talking about obstacles, not incentives and we have seen that for example when it came to calibration, you could say that we get in more granular that you were given evidence by which you could reduce some calibration but we have seen that the knowledge and the know-how particularly on this driver for this reduction of calibrations – for examples high recovery rates where one of these products default. It is very much linked with one area of expertise which has to do with counterparty default management, credit risk management, which is not embedded in the DNA of the insurance companies. And in that situation we have to make sure that we are setting criteria and establishing risk management and due diligence requirements to make sure that insurance companies do something which I would say is basic: know the product you are buying, know the risk you are taking and know the return you are getting for that risk. More granularity can mean more complexity, yes, but it is also fair to say it is the only way to address the fact that some of these products are very good and make a lot of sense and you should go on and buy them and some other products simply do not and you restrain to get them. We are talking about infrastructure criteria like stable cash flow, robustness under stress, strong security, more simplicity. Discussing this with a manager of insurance companies, this person was telling me "Well, you are just asking for something that in any case is coming from common sense". Well, the problem with common sense is that it is less common than all other assets and attributes that we human beings do have. Two final points: one has to do with SME financing – an interesting experience I have been confronted with – and one more coming this morning again with the work that we are trying to do setting up a pan-European personal

pension that can be a clear strong call for making the difference – both giving the European citizen something that we take for granted and which is a safe, adequate pensions and by the way we shouldn't take for granted. And secondly, by setting a European hypothetical that through ideas like simplicity and value for money can certainly benefit from investing in some of these products because they are cross-country type of products.

When it comes to SME funding, EIOPA was probably in terms of regulatory perspective a pioneer in coming with the idea of high quality securitization for exactly the very same reason that we are discussing for the last 10 minutes. Not all assets, not all securitisations embed the same risk. And some do a lot of sense, particularly in a situation where from an asset side the returns you get are so low that if you don't do a bit of search for yield you are going to be out of the business. But to a situation as well where we need to set the clear line between what is search for yield – and that is good – and what is hunt for yield and that is not necessarily good. That has been the approach that we have been taking; we set a number of criteria, we have reinforced the idea of simplicity, we have tried to ensure that the risk is understandable and when the risk is understandable at it fits from a financial viewpoint, why not getting in to it?

Final point: we are talking in insurance sector and also financial sector a lot about digitalisation, big data and so on. And another interesting way we have seen insurance companies, in particular big insurance companies, are financing start-ups especially in this area, through venture capital which are focussing on potential developments and potential solutions and can help them in this new reality that we are facing, addressing some of the challenges and some of the business opportunities that they are doing. That makes a lot of sense.

But allow me end up in the same way that I started. Insurance is a business; le-t's not forget that otherwise we will fail. Is not an NGO. If we give them something, that is fit good for their business they will get and they will be part of the solution. On a second reflection, there is no such a thing as a cross opportunity – I am sure you Mario have the same ideas. Insurance companies are not the European Central Bank, they have not a money making machine. In other words, when they are investing one Euro of their asset portfolio in a certain asset category, they are disinvesting it from another one. And please share with me if you know any single asset in which an insurance company is invested – equities, corporate bonds, sovereign bonds – which is directly or indirectly, in one way or the other, also not financing growth. We are already there.

Now what we want to make sure is that we are there in a way that fits the ALM and the business reality of the companies.

PROMOTING A NEW APPROACH TO INDUSTRIAL POLICY

Fabrizio Pagani*

When we try to stimulate private investment in Italy, particularly from SMEs, we should start from one aspect: the fabric. We should analyse and understand the texture of the Italian business environment: how the Italian companies work, their strengths and weaknesses. Looking at those aspects, it comes out very clearly that Italian companies hold significant market shares in several productive sectors, but they also have weaknesses in two areas: governance and capital. They hold significant market shares because they are innovative, they always bring out new ideas and products. This is the way they survived to the crisis, at least many of them. They are now even stronger than before, as they have been exporting and they keep on doing it also in the present hard environment.

As I said, companies lack in capital and governance. They miss the equity because, on the one side, the system of Italian companies is too small, and on the other, they rely on bank credit as their almost sole source of financing. They are undersized to be competitive global players even if they can compete in specific product markets. They cannot have an active role in mergers and acquisitions market. Sooner or later, if you are too small, you will crowded out of the market.

This is why the Government has been promoting a new approach to industrial policy through the "Finance for Growth" programme, which consists in pushing Italian businesses, including the medium-sized ones to grow in size. Obviously, they can now count on more sources of funding which are alternative to banks, in particular with respect to credit. This also increases the level of sophistication and modernity of companies, as moving from a relationship with a local bank to, for instance, a global investor entails a significant step ahead. Being scrutinised every day by investors from around the world provides a stimulus for management, which the local bank cannot provide. In that sense, we really see the capital market as a very important leverage for the development of Italian companies.

This specific measures that we have taken are probably known but let me just remind some of them.

Firstly, I would like to cite the introduction of "mini bond" and the opening of a specific market, that is worth more than 6 billion euros. A subset of minibonds also enjoys the state guarantee from the Central Guarantee Fund. Wee have reviewed some

* Head of the Office of the Italian Minister of Economy and Finance.

elements of corporate governance introducing multiple voting shares and the so– called 'voto maggiorato', which facilitates the psychology will to maintain control by traditional owner in case of listing. We strengthened the "ACE" (Allowance for Corporate Equity), perhaps the most effective measure in terms of capitalisation, from which 350 thousands companies have benefited. This is an important fiscal incentive to invest in companies' capital structures. We keep on taking initiatives in this sector, as we want to be consistent in our policy strategy. The Budget Law 2016 has also introduced an important measure that has been not sufficiently discussed and highlighted.

The amortization of goodwill has been halved from 10 to 5 years, in order to fiscally incentivise companies engaged in process of acquisition. Investors and entrepreneurs should carefully look at this intervention. Clearly, there is not a silver bullet facilitating aggregation, which is also a matter of tradition, psychology, history. Nonetheless, the Government is strongly committed to one point: Italian companies have to become stronger, more capitalised, they have to go to the capital market and go abroad, not only to export but also to invest. These are the key elements for a path that will change the face of Italian capitalism.

Italy is not alone in this process, because some of the issues I have just mentioned are common to most other countries, at least in continental Europe. We are engaging in discussing this issue with the French and the German governments, as well as at European level. I would like to stress one last point, as already outlined by the Minister. We really look at the Capital Markets Union as the missing element. Nevertheless, this is not going to miss for long as we are working for its completion, linking these three elements: the banking union, the capital market union and the Juncker plan. If we connect these dots, we may really achieve a wide European Union of financing and investment.

FINANCE FOR GROWTH: THE CAPITAL MARKETS UNION

THE CAPITAL MARKETS UNION AND THE ELUSIVE GOAL OF A 'GENUINE' ECONOMIC AND MONETARY UNION

Rainer Masera*

ABSTRACT

The objective of a European EMU of stable prices, open markets, shared prosperity, employment and sustainable growth was defined in a Summit meeting of 1969, and has been actively pursued as a primary goal of the Union ever since. Significant results have been achieved, but the 5 Presidents' Report (5PR) of June 2015 frankly admits that a 'genuine' EMU remains an unaccomplished endeavour: divergences create fragilities for the whole Union which must be rapidly corrected. A critical analysis of the results so far recorded in the euro zone comes also from other recent documents of the ECB and the IMF.

The 5 Presidents indicate a roadmap covering the next decade to ensure a genuine EMU: they argue that progress must be simultaneously made towards economic, financial, fiscal and political union. All Unions are mutually interdependent and must develop in parallel. Financial Union, which comprises the launching and achievement of a Capital Markets Union (CMU), receives specific attention.

The aim of this paper is to offer a critical assessment of the Report, in the analytical framework of a system-wide perspective on financial and economic stability offered by the macro prudential policy approach. Purposely, the quantitative evidence presented to illustrate the shortcomings of the EMU building process so far comes exclusively from official documents/papers of the ECB, the EC and the IMF.

The "traverse" to the 4-Union EMU is especially complex partly because it goes beyond economic analysis and policy. The crucial role of CMU requires clarification, also in terms of the legal approach to be adopted. More generally, the intertwining of economic policies and the role of fallacies of composition/division must be analytically developed. The 5PR requires detailed specification of these medium-term processes to become operational and to achieve its declared goals.

* Guglielo Marconi University of Rome.

INTRODUCTION

The objective of a European EMU of stable prices, open markets, shared prosperity, employment, innovation and sustainable growth has been advocated and actively pursued for a long period. The official approach to EMU dates back to the Summit Meeting in the Hague in 1969. The Monetary Union was achieved at the end of last century, after the signing of two Treaties with a strong economic and fiscal content (Maastricht, 1992 and Amsterdam, 1997). The thirty years between 1969 and 1999 cover what I call here Phase 1 of EMU (Appendix 1).

The following fifteen years (2000-June 2015) span Phase 2, which refers to the operation and workings of the independent monetary policy of the ECB, the signing of many Pacts of economic nature, the build-up of the Great Financial Crisis (2007-2009) and a subsequent repair and recovery period, notably with the creation of the Banking Union (BU) (2013).

Much has been achieved and major difficulties were overcome during the past half century. But the track record, especially in Phase 2, makes it legitimate to ask whether the policies adopted, in particular during the operation of the euro, have been appropriate and, if not, what changes are required. In any event, the task of ensuring a true and genuine economic union overcoming the difficulties of monetary unification in a non-optimal currency area has not been accomplished. This strong proposition is, somewhat paradoxically, a conclusion which can be found in an official, highly important document of the EU: the "Five Presidents' Report" (5PR) of June 2015 (Juncker et al., 2015). This paper frankly recognises that the euro area, as of today, does not represent a genuine EMU, fulfilling the aspirations and expectations repeatedly expressed, since 1969, by the Council, the Commission and the European Parliament:

> «*Europe's Economic and Monetary Union (EMU) today is like a house that was built over decades but only partially finished. When the storm hit, its walls and roof had to be stabilised quickly. It is now high time to reinforce its foundations and turn it into what EMU was meant to be: a place of prosperity based on balanced economic growth and price stability, a competitive social market economy, aiming at full employment and social progress. To achieve this, we will need to take further steps to complete EMU*» (Juncker et al., 2015 p.4).

THE UNSATISFACTORY ECONOMIC RECORD OF THE EURO ZONE

An open admission of the lack of overall success of the euro area economic policies, after the creation of the common currency and, even more, after the Great Financial Crisis, comes from a EU official. Peter Praet, member of the Executive Board and Chief Economist of the ECB, recently produced quantitative evidence in this regard – notably in a comparison with the United States. The following four charts (Figures 1-4) are taken from his study (Praet, 2015). They do not require explanatory comments.

They show not only the need to enact different policy actions and mixes for the euro area as a whole, but also the necessity to develop an effective policy framework to correct fundamental differences between strong and vulnerable countries in the area[1]. In particular, the evidence presented highlights that EMU growth should be anchored to sustainable expansion of domestic demand in the internal market, not on net exports (and on a depreciating Euro). It also clearly indicates that key accepted paradigms of the political economy of the Eurozone must be critically reviewed.

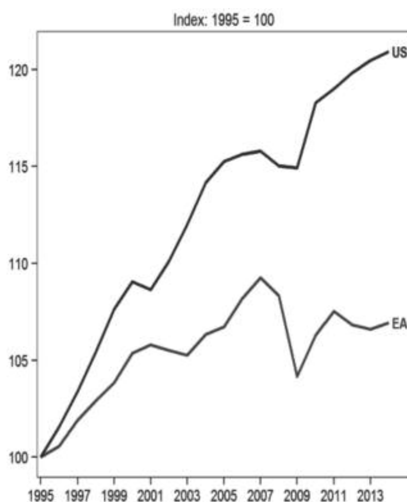


Figure 1 – Total Factor Productivity. Source: Praet (2015).

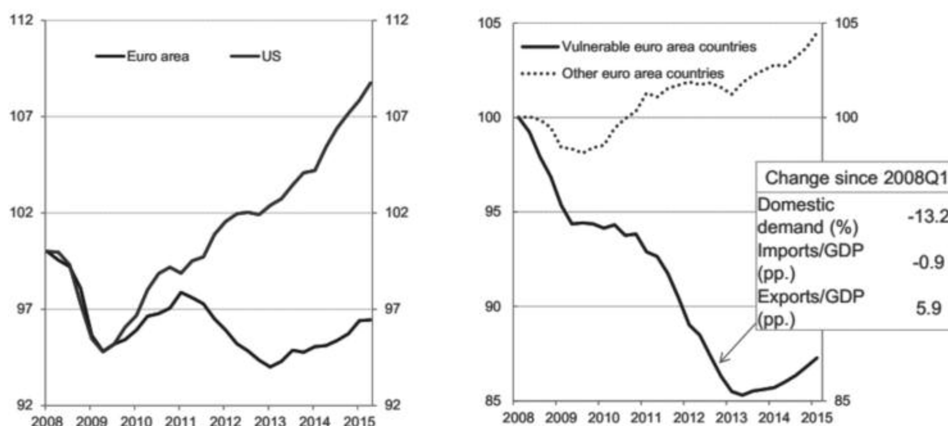


Figure 2 – Real domestic demand. Source: Praet (2015).

1. "Vulnerable euro area countries" refers to CY, GR, IE, ES, IT, PT & SI.

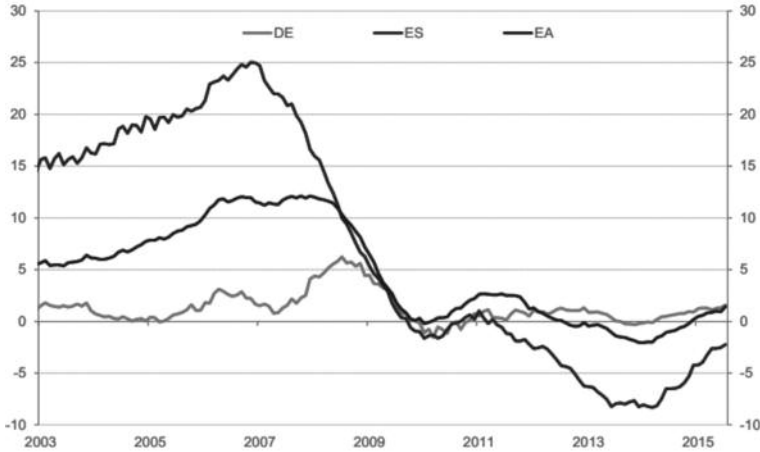


Figure 3 – Bank loans to private sector. Source: Praet (2015).

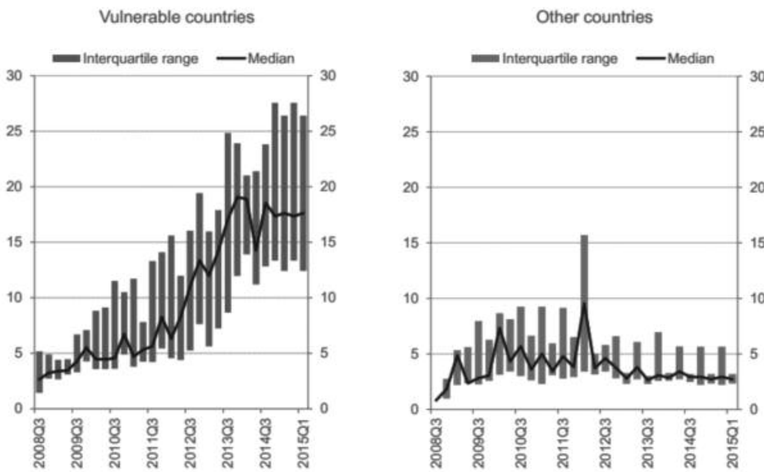


Figure 4 – Impaired loans of euro area banks (percentages of gross loans). Source: Praet (2015).

Notes: Based on an unbalanced sample of 32 euro area banks for vulnerable countries and 25 euro area banks for less vulnerable countries. The charts represents ratios of gross impaired customer and bank loans over gross loans.

The charts provides clear evidence of: the unsatisfactory overall results of the economic policies adopted in the euro area after the creation of the single currency; the inability to correct structural differences between strong and vulnerable countries;

the difficulties encountered in activating the bank credit supply process, notably after 2009[2].

As is well known, the ECB monetary policy framework was built on the heritage of the Bundesbank, and notably on the basis of a relative stability of the money supply process and hence on a reliable relationship between monetary base, M3 and inflation, for projected output changes (Issing, 2008). This simplified "monetarist" approach no longer holds. Here again, the evidence comes from the ECB itself (Constâncio, 2015).

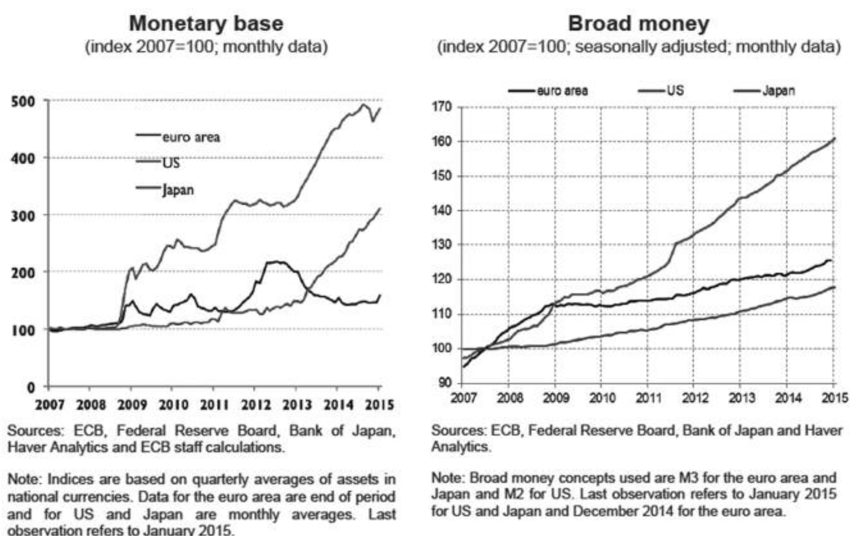


Figure 5 – Monetary base and broad money. Source: Constâncio (2015).

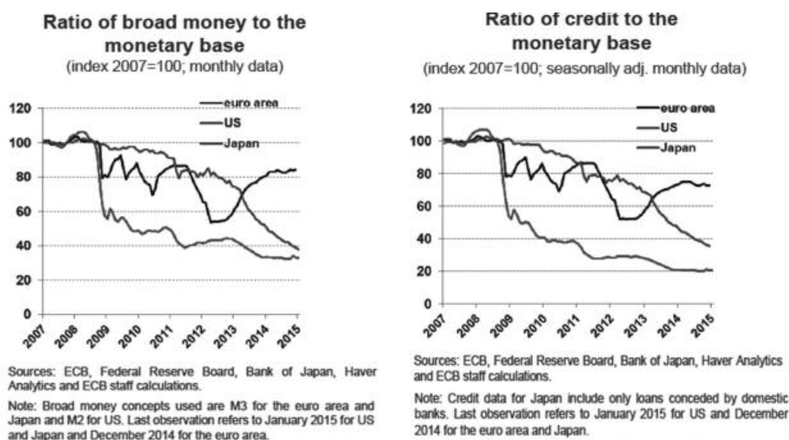


Figure 6 – Ratios of broad money and credit to the monetary base.
Source: Constâncio (2015).

2. "For an analysis and explanation of these shortcomings in a macro prudential framework, see Masera (2012).

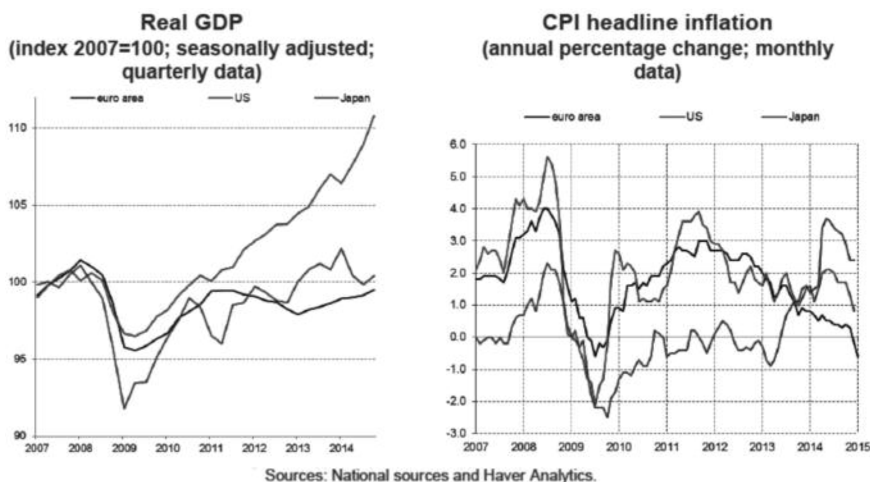


Figure 7 – Real GDP and CPI inflation. Source: Constâncio (2015).

The evidence provided by Constâncio (2015) is also indicative of the inappropriate monetary/fiscal policy mix which led to the double dip in the euro area. The econometric results obtained from the Commission Eurozone model show clearly the negative impact of simultaneous fiscal consolidations from 2011 to 2013 (Table 1), and the perverse debt/GDP, negative growth loop, which was at the heart of the sovereign/bank crisis.

Table 1. Fiscal policy: GDP losses in relation to baseline, resulting from simultaneous fiscal consolidations in seven euro area countries from 2011 to 2013 simulated by the EU Commission model QUEST.

	IMPACT ON GDP 2013 (%)	CUMULATIVE IMPACT 2011-13 (% OF 2013 GDP)
Germany	3.9%	8.1%
France	4.8%	9.1%
Italy	4.9%	9.0%
Spain	5.4%	9.7%
Ireland	4.5%	8.4%
Portugal	6.9%	15.3%
Greece	8.1%	18.0%

Source: Constâncio (2015).

The data collected do not identify the depressionary consequences of the enactment of CRR/CRD IV in the credit supply mechanism for the euro area (de Larosiére, 2013 and Masera, 2012 and 2015).

THE 5PR PROPOSALS TO ENSURE A 'GENUINE' EMU

The 5PR states that the gradual evolution of the euro area towards a 'genuine' Economic and Monetary Union requires a shift from a system of rules and guidelines for national economic policies to further sovereignty sharing, with institutional changes and full political endorsement[3]. More specifically, it affirms that non-binding intergovernmental agreements should be superseded:

> *«Instead of further 'pacts', concrete progress on the basis of EU law is needed to move towards an Economic Union of convergence, growth and jobs».*

Two stages are identified to reach EMU. But, it would be only at the end of the Final Stage (by 2025) and once all steps are fully in place that a deep and genuine EMU would be created and would provide a stable and prosperous place for all the euro area. The (network) architecture of a genuine EMU envisaged in the 5PR is graphically depicted in Figure 8. It must be observed that complex adaptive systems based on strong interrelationships are robust during normal conditions. At times of stress, they can become fragile with statistical distributions shifting from Gaussian to power laws (Helbing, 2010).

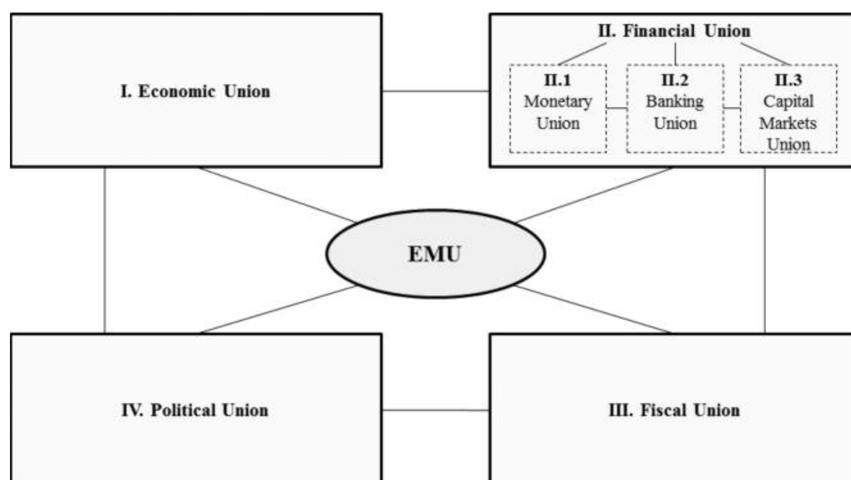


Figure 8 – The Five Presidents' Four interdependent Unions to transform the euro area into a 'Genuine Economic and Monetary Union'*.

3. Similar conclusions can be found in Capriglione and Sacco Ginevri (2015).

> * «*All four Unions depend on each other. Therefore they must develop in parallel and all euro area Member States must participate in all Unions for the euro area to gradually evolve towards a genuine Economic and Monetary Union… After many years of crisis, governments and institutions must demonstrate to citizens and markets that euro area will do more than just survive*» (Juncker et al., 2015 p.5).

The "Union Approach" has its interest and validity, but – perhaps as a consequence of the brevity of the 5PR – has also evident shortcomings and points which need clarifications.

To start with, it does not address the fundamental issue of a recognition of the flaws of the analytical and policy paradigms which led to the Great Financial Crisis, and of the appropriate road to repair. In the second place, it diverts attention from a critical analysis of the policy actions taken after the crisis and does not provide satisfactory explanations for the unsatisfactory results documented by the ECB itself, summarised here in the data taken from Praet (2015) and Constâncio (2015). Finally, it neglects the need for an interactive macro prudential policy framework capable of identifying the links between monetary, credit, fiscal and structural policies and their fallacies of composition/division (Masera, 2015).

This is paradoxical because the 4/6 Union Model is itself based on these premises: «All Unions depend on each other and must develop in parallel…». Without a complete analysis of the theoretical framework and the policy interactions, especially under stress, the proposed Union model may convey the wrong impression that institutional and political changes would automatically lead to the goal of a genuine EMU.

The fragility under stress of complex systems has led to the development of macro prudential policies to cope with the system wide perspective on financial and economic stability. Priority was given to avoidance of systemic risks. The new framework has been adopted in similar ways both in Europe and in the U.S. (de Larosiére, 2009 and Dodd-Frank, 2010). A representation of the relationships between macro prudential and other economic policies in the new framework is offered in Figure 9.

The macro prudential paradigm gives prominence to the prevention/containment of systemic risk and is characterised by the analysis of a double order of interconnections. First, reference is made to the links/mixes of different economic policies. Secondly, light is shed on the complex process interactions between the micro and the macro levels (with possible fallacies, but also synergies of composition). Finally, the conceptual framework of crisis as a medium-term process requires a corresponding approach to a coherent framework of political economy (Scazzieri, 2015).

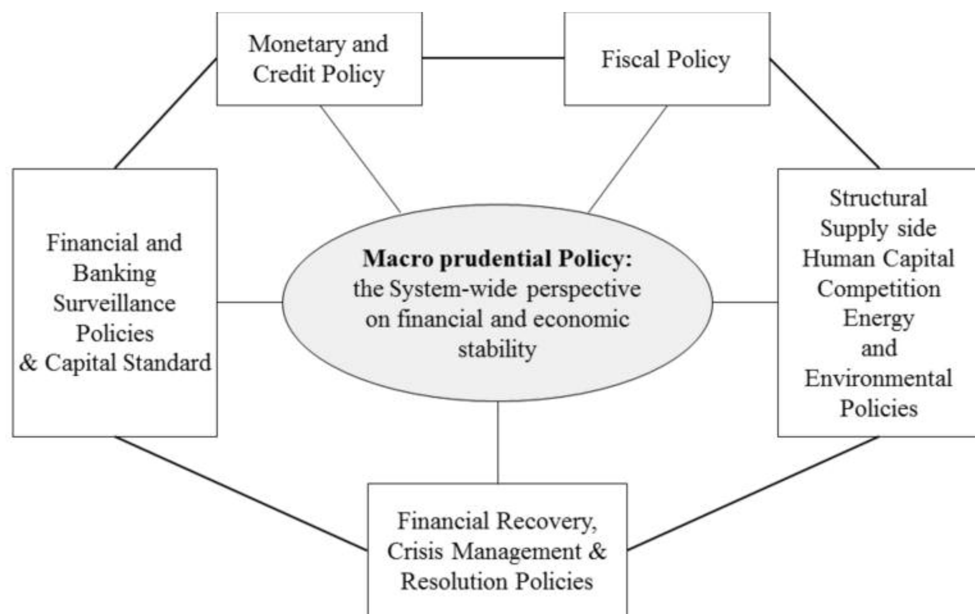


Figure 9 – A complex system (network) representation of macro prudential and other economic policies. Source: Masera (2015)

THE KEY ROLE OF THE FINANCIAL AND CAPITAL MARKETS UNIONS (CMU) AND THE ISSUE OF THE RIGHT APPROACH: LAW CHANGES (5PR) OR BOTTOM-UP MODEL (COMMISSIONER HILL)?

The 5PR correctly underlines the need to ensure a true financial union in the euro area. This requires completion and integration of the Monetary and Banking Unions and construction of the CMU, covering the whole EU.

On Monetary Union, the Report is vague on important points, perhaps because it was thought that these issues would be taken care of by the ECB itself. Three key questions should however be mentioned: i) is the current institutional set-up appropriate for the ECB to fully cope with renewed instances of financial instability; ii) how can the de facto overlap between the ECB and the ESRB be corrected, should more independence/immediate power be given to the ESRB to cope with systemic risk; iii) what should be done to overcome the dangers of intertwining of monetary policy and capital standards (respectively under the responsibility of the ECB and the EC) in the shaping of the credit process? All these points have an obvious bearing also on the workings of the CMU.

With reference to Banking Union, the 5PR rightly recommends completing the Union by moving to a common back-stop to the Single Resolution Fund, and by reforming the European Deposit Guarantee Scheme, by gradually setting-up a com-

mon deposit insurance scheme. Both issues are crucially important and the medium-term process outlined in the Report should be fully endorsed[4].

We come now to the CMU itself (EC, 2015a): the priorities and the complexities of the launching are well recognised and analysed, but some critical issues require clarification, also to guide the Action Plan initiated by Commissioner Hill (EC, 2015b). The 5PR underlines that a primary function of a well-functioning, integrated and balanced CMU is to permit risk diversification across countries of the euro zone and of the EU. The other side of the coin of free, unimpeded movements of capital through banks, insurance companies and capital markets is, in fact, the reallocation of country-specific shocks across the whole area. This by itself reduces the burdens of fiscal policies which can used with clear limitations in the euro zone, given the institutional set-up of the various Compacts.

Financial Union and CMU have therefore two main positive features which explain why it is of paramount importance to ensure their rapid completion. The most common type of argument is represented by the need to ensure a level common playing field for the external finance of the corporate sector, and notably for growing innovative medium-sized companies sector and for the investment in infrastructure. This point was highlighted in Lord Hill's Action Plan. In the euro zone a very large share of credit flows is intermediated by the banking system: more balanced sources of finance are necessary. This implies a greater role for capital markets in the financing process of companies and, in particular, more equity finance. The United States offer clear evidence that highly developed economic system benefits from balanced and well-integrated relationships between credit markets and financial intermediaries.

It must however be underlined that in the US, on the one hand, the largest banking/investment conglomerates play a fundamental role in the "market" sector (Cetorelli, 2013) and, on the other, local banks continue to account for a significant share of external finance of micro and small enterprises, largely because of a "tiered" approach to regulation and supervision of the banking system (Tarullo, 2015 and Yellen, 2014 and 2015). Due account should also be taken of the fact that in the U.S. official guarantee schemes for securitised bank loans, and notably for SMEs, have been and are being actively used (Fannie, Freddie and Small Business Administration) after 2008. These approaches are not part of the current CMU/BU schemes in Europe, as should be the case[5].

But, as already indicated, the Financial Union is also important as a cushion for asymmetric/country-specific shocks, which command three main types of response: from intermediaries, capital markets, fiscal shock-absorbers. Clearly, if intermediaries, markets and fiscal responses have mainly national features, the diversification of risks across countries is necessarily limited. There is therefore the need

4. A proposal for an integrated European Deposit Guarantee Mechanism has been recently advanced by the Commission (EC, 2015c).
5. On these points see Bassanini et al., 2014 and FeBAF, 2015b.

to encourage the development of a fully integrated CMU, but also to foster the development of truly pan-European intermediaries (as against national champions). Here again the US system of regulation and supervision should be carefully considered.

Beyond fiscal buffers at the national level, according to the IMF (Allard et al., 2013) in the euro area only 40% of country-specific GDP shocks is smoothed by cross-country risk-sharing insurance mechanisms: 30% comes from the operation of banking and credit markets and 10% from capital markets; there is no "federal" fiscal cushion. In the US, instead, the corresponding figures are 80%, 45% coming from capital markets, 20% from banking and credit markets and 15% by federal stabilisers (Fig.10).

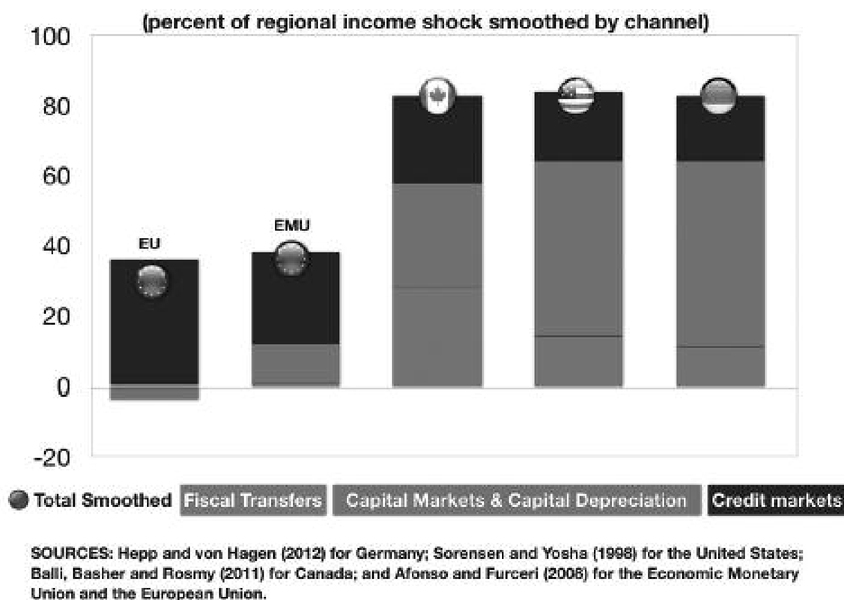


Figure 10 – Risk sharing: Insurance against income shocks in EMU remains low.
Source: (Allard et al., 2013)

It is, therefore, clear that the development of a truly integrated, effective and efficient CMU has positive macroeconomic effects and fosters economic/financial stability, thereby preventing and/or limiting systemic risk.

A relevant open question concerning the creation of the CMU is whether a top-down (legislation based) approach should be followed or a bottom-up (market based) model should be adopted. A combination of the two schemes is naturally required[6], but it should be underlined that the Hill/EC Green Paper (February 2015)

6. See, for instance, FeBAF (2015a).

and the 5PR give very different answers. The EC favours a non-legislative model, apparently as requested by market operators. The Report indicates, instead, that the objective is to create a Single European Capital Markets Supervisory Authority, in analogy to the Banking Union (Single Supervisory Mechanism, entrusted to the ECB). Even before this medium-term objective, many important changes to be rapidly achieved require legal action[7]:

> «*A true Capital Markets Union also requires other improvements, some of which can only be achieved through legislation, such as simplification of prospectus requirements; a revived EU market of high quality securitisation; greater harmonisation of accounting and auditing practises; as well as addressing the most important bottlenecks preventing the integration of capital markets in areas like insolvency law, company law, property rights and as regards the legal enforceability of cross-border claims*».

The lack of harmonisation of company and insolvency laws represents a crucial impediment to the full realisation of CMU, which feeds back on the Banking Union itself. A notable example is represented by the effective implementation of the Bank Recovery and Resolution Directive[8], especially with reference to the Intragroup Financial Support Framework (Lamandini, 2015).

The current EC Action Plan is based on a public consultation and an impact study, without setting apparently a time limit for the legal changes which are advocated in the 5PR. There is a clear risk of delaying the decision-making process at the EU and national levels.

CONCLUSIONS

It is obvious that a sound house must be built on good foundations, notably on solid cornerstones: the 5PR admits that this is not yet the case for EMU. The Report provides a time table and a road map to the final goal, but at the same time it creates a conundrum of joint decisions to be taken in various areas, and notably as regards the CMU and the Political Union. The traverse is therefore especially complex because, beyond economic, monetary and financial issues, political decisions are required, which go over and above the Fiscal Union itself. But, as is indicated, it is only

7. The relevance of the choice between the two different approaches had been anticipated and rightly stressed by Véron (2014), who argued correctly in favour of addressing from a legal point of view the development of market segments, with policy initiatives graded according to impact and political difficulty.
8. Directive 2014/59/EU and Council Implementing Regulation (EU) 2015/81 of 19 December 2014 specifying uniform conditions of application of Regulation (EU) No 806/2014 of the European Parliament and of the Council with regard to ex ante contributions to the Single Resolution Fund.

the Political Union which should provide the cornerstone for all the other Unions, by offering democratic accountability, legitimacy and institutional strength[9].

The complex network approach adopted in this study, notably in respect of the intertwining of economic policies in a macro prudential framework and the need to allow for fallacies of composition/division, is therefore stretched to the extreme. This is especially worrying because of the insufficient clarity on the macro prudential approach adopted in the Report and, more specifically, on the role and prerogatives of the ESRB. It must also be stressed that the decision model is extended to socio-political factors, which will require, even before the 10-year deadline indicated, institutional, legal and Treaty changes.

In conclusion, the 'genuine' EMU target requires success of common cooperative efforts in economics, law and politics over a relatively short time horizon, compared to the length of the two phases from 1969 to 2015.

9. The ideas expressed in 1991 by the Chancellor Kohl to the Bundestag should be carefully reconsidered: «It cannot be repeated often enough. Political union is the indispensable counterpart to the economic and monetary union (EMU)… Recent history, and not just that of Germany, teaches us that the idea of sustaining an economic and monetary union overtime without political union is a fallacy».

APPENDIX I – THE LONG ROAD TO ECONOMIC AND MONETARY UNION (EMU) IN EUROPE: 1969-2015, KEY STEPS.

Phase 1 (1969-1999)	
1969	Hague Summit decided that a plan should be drawn to create in stages an Economic and Monetary Union.
1970	Werner Report presented a plan for the attainment of EMU.
1972	Creation of the "snake" exchange rate agreement.
1979	Creation of the European Monetary System (EMS) and the European Currency Unit (ECU).
1985	The Single European Act set out a programme to create a unified economic area with freedom of movement of persons, goods, services and capital.
1988	The European Council confirmed the goal of EMU and mandated a Committee chaired by Jacques Delors to propose concrete stages leading to the Union.
1989	The Delors Report proposed that EMU should be achieved in three evolutionary stages, leading to strengthened economic and fiscal convergence and ultimately to the introduction of the Single Currency.
1991	Maastricht meeting of the European Council which drafted the Treaty on the European Union and on European fiscal convergence.
1992	Maastricht Treaty signed on 7 February.
1997	Treaty of Amsterdam signed on 2nd October. The Treaty contains the Stability and Growth Pact (SGP).
1998-99	Preventive and Corrective Arms of SGP.
1999	The ECB was created and the euro established with 11 initial participating national currencies.

Phase 2 (2000-June 2015)	
EU Treaties affecting EMU	
2001	Treaty of Nice
2007	Treaty of Lisbon
2012	Treaty establishing the European Stability Mechanism European Fiscal Compact
EU Pacts on economic commitments	
2005	SGP Amendment
2011	Europlus Pact Six Pack
2013	Two Pack
2014	SGP Review
2015	SGP Flexibility Banking Union
2013-14	Single Rule Book Capital Requirements Directive IV Capital Requirements Regulation Single Supervisory Mechanism Deposit Guarantee Scheme Directive* Bank Recovery and Resolution Directive Regulation (EU) No 806/2014*
Note	*To be completed

REFERENCES

Allard C., Koeva Brooks P., Bluedorn J.C., Bornhorst F., Christopherson K., Ohnsorge F., Poghosyan T. and an IMF Staff Team (2013), Toward a Fiscal Union for the Euro Area, IMF Staff Discussion Note, SDN/13/09, September.

Bassanini F., Del Bufalo G., Masera R., Minenna M., Reviglio E. and Zadra, G. (2014), "Quantitative Easing, Structured Finance and Support to the Real Economy Proposals on ABS". Available at SSRN:
http://ssrn.com/abstract=2527807 orhttp://dx.doi.org/10.2139/ssrn.2527807

Capriglione F. and Sacco Ginevri G. (2015), "Politics and finance in the European Union", Law and economics yearly review, forthcoming. Available at:
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2662084

Cetorelli N. (2014). "Evolving intermediation", Chapter 13, in Acharya V.V. et al. (ed), The Social Value of the Financial Sector: Too Big to Fail or Just Too Big, Singapore: World Scientific.

Constâncio V. (2015), Presentation at the 2015 US Monetary Policy Forum Panel discussion on Central Banking with Large Balance Sheets, New York, February 27.

de Larosiére J. (2013), "The trade-off between bank regulation and economic growth", Central Banking Journal, 28 February.

de Larosiére J., Balcerowicz L., Issing O., Masera R., McCarthy C., Nyberg L., Pérez J., Ruding O. (2009), The High-level Group on Financial Supervision in the EU, Report. Brussels, February 25.

Dodd C. and Frank B. (2010), The Dodd– Frank Wall Street Reform and Consumer Protection Act, US Congress, July 21.

European Commission (2014), Directive 2014/59/EU and Council Implementing Regulation (EU) 2015/81 of 19 December 2014 specifying uniform conditions of application of Regulation (EU) No 806/2014 of the European Parliament and of the Council with regard to ex ante contributions to the Single Resolution Fund.

___ (2015a), Green Paper "Building a Capital Markets Union", COM(2015) 63 final, Brussels, February 18.

___ (2015b), Action Plan on Building a Capital Markets Union, COM(2015) 468 final, Brussels, September 30.

___ (2015c), Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme, COM(2015) 586 final 2015/0270 (COD), Strasbourg, 24 November.

FeBAF (2015a), The Italian contribution to the design of the Capital Markets Union in Europe, Collana Quaderni, 3.

____ (2015b), Fondo di garanzia per le PMI, Working Document, Roma, novembre.

Helbing D. (2010), "Systemic Risks in Society and Economics". In IRGC Report "The Emergence of Risks: Contributing Factors", October.

Issing, O. (2008), The birth of the Euro, Cambridge: Cambridge University Press.

Juncker J.C, Tusk D., Dijsselbloem J., Draghi M. and Schulz M.C. (2015), Com-

pleting Europe's Economic and Monetary Union, Report, European Commission: Brussels, June 22.

Kohl H. (1991), Statement to the Bundestag, November 6.

Lamandini, M. (2015), Risanamento e risoluzione delle imprese bancarie: le modalità operative per il sostegno finanziario intragruppo, Milano: Paradigma, 19 novembre.

Masera R. (2012), "Risk Regulation and Supervision of Financial Systems: US and Eurozone Solutions", ZOeR, 67: 251-280.

____ (2015), "Macro prudential policy as a reference for economic policies: a Hicksian perspective", Convegno Accademia Nazionale dei Lincei "Between Theory and Policy: Political Economy of Crises Trade-off", Rome, October 27.

Praet P. (2015), Presentation at BVI Asset Management, ECB: Frankfurt, October 1.

Prescott E.C. (2006), "Lecture at Trinity University in San Antonio", in Spencer R.W. and Macpherson D.A. (eds) (2014), Lives of the Laureates, Twenty-three Nobel Economists, Sixth Edition, Boston: MIT Press.

Scazzieri R. (2015), The Medium-term Approach to Economic Crises: a Framework. Convegno Accademia Nazionale dei Lincei "Between Theory and Policy: Political Economy of Crises", Rome, October 27.

Tarullo D.K (2014), Rethinking the Aims of Prudential Regulation, Speech at the Federal Reserve Bank of Chicago Bank Structure Conference, Chicago, Illinois, May 8.

Véron N. (2014), Defining Europe's Capital Markets Union, Bruegel Policy Contribution, 12.

Yellen J.L. (2014), Tailored Supervision of the Community Banks, Speech at the Independent Community Bankers of America 2014 Washington Policy Summit, Washington, D.C., May 1.

____ (2015), Improving the Oversight of large Financial Institutions, Speech at the Citizens Budget Commission, New York, Board of Governors of the Federal Reserve System, March 3.

EXPAND FUNDING OPPORTUNITIES FOR SMES

Alberto Baban*

I am going to bring here the Italian SMEs business point of view, standing back from a pure financial approach.

From one side we find a large availability of liquidity and the willingness of the European Union to promote the growth of enterprises, with a focus on SMEs, from the other side the same Union has worked to reduce the risk that weigh on traditional investors, in particular on the system banking.

This situation causes a credit crunch to businesses, that in a bank-oriented system as the Italian one also affects the growth of the country.

The first goal is to expand the funding opportunities for SMEs, simplifying the access to alternative instruments now available, and make them accessible and usable from every enterprise. SMEs have a strong interest to diversify their sources of funding, but are held back by difficulties and complexities they usually face making use of them.

The 2008 crisis has also led, in a perspective of system protection, to a more regulated banking system. Although we believe these actions are correct, it must be said that they have produced the effect of slowing down the credit supply, since the firm is, and remains, a risk system.

To overcome this problem, to support the banking channel and to ensure the right level of risk for everyone involved, it is important to strengthen the guarantee instruments even in their economic disposable.

At the same time, the government should affect the tax lever, modifying first IRAP, which also weighs on financial burden. It would be an important measure which would help to stimulate and to support investments, together with the measures already implemented as the 'super ammortamento' and the tax credit for research and development.

Italy has accumulated an economic upturn delay and this is, paradoxically, a great opportunity. Italian SMEs have got a great potential for development, as export data confirm, and right now their ability to innovate and to rethink their strategies and dynamics represents a key facor.

Our enterprises are much more ready than is statistically detected and, we believe, now the Italian factory is capable of supplying a very positive reaction to investments.

* Chairman Piccola Industria, Confindustria.

THE ROLE OF BANKS IN THE INFRASTRUCTURE FINANCING

Federico Cornelli*

In the ’60 Italy has got a strong growth: thanks to the infrastructures the National Work Bank and IRI had build, the country started growing thanks to investments and private demand.

With the Marshall plan first and the Juncker plan now, the aim remains to relaunch the economy, and everyone hopes to start again with investments, after eight years of passive investments.

What is the role of banks?

We are looking to a big paradox. On one side italian banks have increased their capital for fifty billions and they are able to support the real economy – even in this global crisis – on the other side there is an european lawmaker, who ask for rules always more strict.

There is another paradox, because the accounting standard IFRS9 asks the banks to record even negative estimates. Induce all of this is not easy, but the banking system is stronger now and we must focus over two points:

- SMEs: SMEs represents the italian and european economy strenght, but the credit demand is oriented to the working capital, but the demand for capital investment is poor. In this regard, I would like to remember the importance of confirming the SMEs supporting factor, the weighting factor which compensates the increased capital requirements imposed by the new regulationsin case of loans aimed at SMEs.
- Reviving the infrastructure: should be necessary to play what happened in Italy in the ’60, but to do this is important to have players who can make accurate assessments. We have seen that in italian banks there are at least 40 teams capable of making project financing, all very well prepared.

It is important to replicate success stories, like that of the italian Investment Fund.

Historically for SMEs should be preferred long-term loans, now available with greatly reduced rates. Then it would be appropriate to have the rules that promote financial research particularly on those SMEs, something that is still in thee last version of the MiFID is not yet present.

* Italian Banking Association, ABI.

It is therefore clear that the banking system is ready for new challenges and it is strengthened; there are signs of tangible recovery: about that just see the data on mortgage loans that are very positive in the last nine months.

THE EFFECTS OF THE CURRENT REGULATORY FRAMEWORK ON LONG-TERM INVESTMENTS

Long Term Investors Club*

ABSTRACT

In the aftermath of the crisis, financial and prudential regulation has been strengthened in most jurisdictions of the world. In particular, Basel III and changes in IFRS have been applied to most banking systems of G20 members. This has strongly helped an ordered deleveraging process and made the financial global system much more resilient and stable. However, the application of the new rules may have had some unintended consequences on the capacity of the financial system to provide more financing for growth. Long-term investment may have been penalized. Infrastructure and SME financing are the sectors of the economy which have suffered the most.

We believe that the relationship between financial stability and growth is crucial in order to achieve a strong, balanced and sustainable global economy. However, this relation is not one-way: growth needs financial stability, while stagnation and recession undermine it. To reach the objective of strong and sustainable growth, without jeopardizing long-term financial stability, we need more long-term investment in infrastructure and the real economy. Therefore, we believe that it is now becoming a priority to strike a better balance between the need to assure the stability of the financial system and that of providing financing for long-term investment.

In this paper we try to highlight some of the unintended consequences of the new regulation on long-term investment and we try to make a few proposals to re-calibrate or better fine tune the global accounting and regulatory framework and to create a more favorable and appropriate regulatory environment for the financing of infrastructure and SMEs worldwide. The aim is to help properly re-direct at least a part of the global financial resources currently allocated in short-term (often nonproductive) investments towards the financing of infrastructure, SMEs, as well as research and innovation (more generally for the "real economy"); and to restore the appropriate attractiveness of LTIs in these areas/sectors by leveraging on their main positive and very specific features, such as steady and predictable cash flows or potential technological breakthrough.

* This Position Paper has been prepared by the Long Term Investors Club – with the technical assistance of KPMG – as discussion material for the Annual D20 Meeting help in Beijing at the China Development Bank, May 26-27 2016. The paper has been coordinated by Alessandro Carpinella, Franco Bassanini and Edoardo Reviglio.

The main objective of prudential and accounting regulations is to ensure financial stability. The primary objective of financial reporting is to provide a true and fair view of information for making economic decisions. The question we wish to raise in this Paper is whether the new financial regulatory framework is weighting properly all asset classes and whether there is a negative bias, in particular, towards infrastructure and SMEs financing. We do not advocate treatment (incentives) for these asset classes. Incentives by policy makers maybe be fiscal or of another kind, but not of an accounting nature. Accounting regulation should be objective and neutral in respect to policy objectives. This general principle inspires this contribution.

Moreover, we understand that we lack, so far, a robust empirical analysis of whether the still rather low level of LTIs provided by the financial system is due to the lack of demand or of supply. After ten years since the explosion of the crisis, we believe that such empirical evidence should be a major object of enquiry by international regulators.

1. INTRODUCTION

The world economy is slowing down. The objective of a global strong, balanced and sustainable growth, planned by the G20, is far from being achieved. Re-launching investments at the global level is crucial. Public and Private financing of investment – in economic, social and urban infrastructure, energy, digital communication, education, R&D, innovation and socio-environmental investment – and SMEs financing must be revisited. A new global plan to support these key drivers of the global economy must be brave and must have a long-run perspective (the Juncker Plan in Europe may be a good model to start with). In this context, we need to reconsider if there are regulatory disincentives and obstacles which may be slowing down the process of re-launching investment at the global level.

We need, among other things, to tackle the accounting and regulatory framework which may hinders the financing of the "real economy". This includes Basel III for banks and new regulation for insurance companies, pension funds and other long-term institutional investors, as well as some of the recent changes in the International Accounting Standards (IAS-IFRS).

We need to avoid the paradox that some of the rules on capital and liquidity may hinder new lending needed for growth, neutralizing the impulses coming from the QE implemented by many Central Banks. In the context of the Chinese G20, the B20 Task Forces on Infrastructure and on SMEs also recommended to ensure continued participation of the banking sector, as a key source of infrastructure (and SMEs) financing. Bank lending comprises around 63% of global project finance. Overall, data on loan supply shows that the relevance of the banking sector in infrastructure finance is likely to remain high. Further, banks play an important role, particularly in emerging countries, by providing strong credit underwriting and supervision skills; and by playing a catalyzer role in bringing non-bank long-term private investors to the table. However, Basel III regulation of banks' capital, leverage and liquidity seems to make it

harder and more expensive for banks to issue long-term debt, such as project finance loans.

Furthermore, preliminary discussion within the B20 Task Force on Infrastructure, held under the Chinese Presidency of G20, highlights again the need that Ministries of finance, in collaboration with financial regulators, review the effects of prudential financial regulations and other investment regulations to reduce impediments to regulated long-term investors' participation in infrastructure. In effect, the B20 Task Force underlines the fact that institutional investors have $90 trillion at their disposal, with only a very small portion allocated to infrastructure. Many markets are still limited by early maturity constraints, such as the limited availability of risk-mitigation instruments, low liquidity and inadequate investment regulations.

To sum up, there is growing consensus at the Global Level on the need to review the impact of accounting and prudential regulation in financing investment in infrastructure and SMEs. In this context, and far from being a comprehensive review of the evidence available or to dig down all technical aspects – which would inevitably imply a different kind of analysis – the aim of this Paper is to review some of the main issues and to make a few concrete proposals.

2. THE ROLE OF LTIC IN PROMOTING BETTER REGULATIONS FOR LONG-TERM INVESTMENTS

The Long-Term Investors Club (LTIC) was created in 2009 with the aim of bringing together major worldwide institutions to emphasize common identity as long-term investors, to encourage cooperation and to foster the right conditions for Long-Term Investments (henceforth, also LTIs) in promoting growth.

Since its foundation, the LTIC has done much progress to foster LTIs not only in the EU but globally. Cooperation among members has developed sensibly and policy makers, at the European and G20 level, are increasingly aware of the role LTIs can play.

We believe in a long-term vision of finance and the economy, where financial stability is a key factor of growth but where, yet, growth is a crucial condition for financial stability in the long-run. This long-term vision represents a real change of paradigm to achieve a strong, sustainable and balanced growth in global economy.

Since the beginning of the crisis, the LTIC, in several occasions, has posed these questions to policy makers and international organizations.

In 2010, at the European level, four prominent European long-term public investors founding members of the Club (EIB, KfW, CDC and CDP) presented a working paper entitled "Conclusions of the European long-term financial institutions' working group on banking supervision". In this paper, the Group commented on the proposed changes to accounting principles (IFRS9) and prudential regulation (Basel III).

Since then, both projects have progressed, albeit quite differently. While Basel III has been finalized and adopted with relatively few changes with respect to the

2010 proposals, IFRS 9 has followed a less straight path: some important parts, concerning hedge accounting, have been transformed into a separate project.

Along with IFRS 9 and Basel III, several other important regulations are reshaping long-term investment and lending environment. Most notably, the BRRD, RLAC, Solvency II implementation and EMIR have brought important changes to the way banks, insurance companies and other players interact within the financial system.

If growth does not materialize as needed, stability is not going to become a permanent feature of the system. This is the reason why we think that the G20 summit in China (September 2016) should launch a project of in-depth assessment and review of the global financial regulatory framework. As already stated, this Paper does not have the ambition to carry out this in-depth assessment, but rather stimulate the discussion and provide the G20 summit with a few relevant inputs for discussion, then to be assessed in an analytical way.

3. OPEN QUESTIONS AND "UNINTENDED CONSEQUENCES"

The Financial Stability Board (FSB) established after the 2009 G-20 London Summit has been promoting international financial stability, providing studies and recommendations to Finance Minister and Head of State of the G20. The FSB represents the first, major institutional innovation undertaken by G-20 leaders. It has been described as the fourth pillar of the architecture of global economic governance. Since then, the FSB has been assigned a number of important tasks, working alongside the IMF, World Bank, and WTO.

In February 2013, the FSB provided an initial report to G20 Finance Ministers and Central Bank Governors, which identified a series of market and regulatory reforms as changes which may significantly affect the provision of long-term investment finance. Namely, Basel III, over-the-counter (OTC) derivatives market reforms, and the regulatory and accounting framework for different types of institutional investor. Since then, the FSB has undertaken many initiatives, including a few recommendations reports submitted to G20 leaders.

According to the FSB, "it is too early to fully assess the effect of regulatory reforms on the supply of long-term finance investment since many of the reforms are still in the early stages of implementation and some are still in the process of being developed. Moreover, it can be difficult to disentangle the effects of regulatory changes from other broader economic factors that affect the supply and demand of long-term financing investment."

However, FSB members have focused on potential unintended consequences generated by regulatory reforms that may affect long-term financing investments, which can be clustered into the following groups:

(i) Possible negative effects of Basel III on long-term bank credit;
(ii) Potential effects of Basel III liquidity framework (LCR and NSFR) on the provision of long-term finance investments;

(iii) Lack of proper incentives for long term institutional investors, who are the natural providers of long-term funding;
(iv) As regards the accounting standards, possible introduction of an additional category for financial assets, which does not fall within the definition of amortized cost or in that of fair value;
(v) Asymmetries in the application, and consequently in the effects, of regulation on national and/or regional financial systems.

To mobilise these investors we need that the FSB and, in general, regulators at the highest level, direct their effort on a much more adapted and well-focused analysis of the regulation for the financing of infrastructure and SMEs, considering, moreover, the specific business model of the real long-term investors (such as life insurance companies, pension funds, development and promotional banks, etc.). Only by doing so, they will be able to decide whether is the case to undertake specific re-calibrations within the global accounting and regulatory frameworks needed to overcome excessive penalization – not justified by a correct and objective probabilistic analysis of risks underlying certain classes of LTIs.

As OECD Secretary General Angel Gurrìa recently suggested, we need "an effort so detailed, so granular, so targeted as it has been for example for the capitalization of institutions or the OTC derivatives. It has to be that specific, that important, that ambitious because it is holding us back...".

4. Prudential and accounting regulations as part of the solution

We are still facing many asymmetries in the ways countries apply prudential regulations, which are, as we are going to argue later on in this Position Paper, still not well-tuned. The lack of viable financing tools for long-term investments and for SMEs, coupled with an inappropriate risk-assessment framework, might indeed lead to exacerbate the trade-off between the need for stability, on one hand, and much needed investments, on the other.

This trade-off can certainly produce "unintended consequences" and distortionary effects, hindering competition among countries and affecting the "real economy".

Moreover, the current regulatory framework does not address the fact that different countries have different economic and financial structures and industrial specializations, which imply different business models, strongly influenced by: i) the size of enterprises; ii) the industrial sectors and (iii) the size of banks vis-à-vis the size of the capital market. And different business models may require different, tailor-made regulatory tools, together with appropriate industrial policies and (project) financing tools.

In synthesis, our assessment highlights a lack of consistency across countries. Although rules should be different in light of different business models and their peculiarities, they should be, in any case, consistent within entities operating in different countries but following the same business model.

Infrastructures investments and industry-specific policies can certainly be encouraged and can provide all economic agents involved with the correct incentives.

To reduce uncertainties and to kick-off long-term investments, we need to work, both at the G20 and regional (EU) level, on re-visiting financial regulation, with respect to which we certainly need bolder actions. Better and more focused financial regulation can do a lot. We hear so much about infrastructures becoming an "Asset class" within the global financial system, for example. To achieve these goals, special regulations and new financial instruments are crucial.

Overall, the final aim of these proposals is to remove current obstacles built by ineffective and "distortionary" micro-prudential regulation; and by doing so correcting potentially biased incentives and market for LTIs.

5. OUR PROPOSALS

Attention should be focused on the following themes, around which the LTIC is formulating a series of concrete proposals.

(i) Revisiting Accounting standards: introducing a new classification category and extending the low credit risk exemption.

The goal of most long-term investors is to generate steady returns by managing financial instruments for their contractual cash flows and/or by holding those assets in portfolio in the medium-long term.

Today, this specific business model, adopted by most long-term investors, is not fully reflected in the current accounting and regulatory proposals.

Accordingly, this proposal aims at discussing possible approaches to overcome the issues faced by Long-term Investors with respect to IFRS 9. The classification and measurement of financial instruments should be based on their liquidity and investors' holding horizons, taking into account valuation uncertainty. However, IFRS 9 does not give enough importance to the investor's holding horizons criterion yet.

In order to reduce excessive volatility due to Fair Value classification and to avoid the undue transfer to Stage 2 (impairment requirements), for assets measured at amortised cost and therefore increase the appetite for investments in infrastructure, it is suggested to introduce a new classification category for financial assets and extend the 'low credit risk' exemption. Both proposals should remove undue penalisations that currently hinder infrastructure investment. The first proposal addresses issues affecting investment in equity and hybrid instruments; the second attempts to provide a more appropriate approach to debt instruments.

The new classification category

Significant long-term investments are needed by both Developing Countries and Countries in the OCSE Area. The former are characterized by a lack of infrastructures and

a fast growing demand for goods, whereas the latter faces the challenge of infrastructure impoverishment and lack of maintenance as well as the impact of aging population. Both need significant investment to face climate change and to build a low-carbon economy. To increase the appetite for such investments, making it attractive to a broader range of investors, by means of innovative financial instruments and proper national fiscal and regulatory incentives is, of course, one of the major political issues of many governments worldwide.

Therefore, notwithstanding an objective analysis of the risks underlying different asset classes which require LTIs, we propose to introduce a new classification category. This new classification category, to be effective, should become an element of discussion with respect to a new regulatory framework. It will need to be focused on equity and hybrid instruments that are held as investments in a long-term perspective, especially in Infrastructures (both tangible and intangible).

Often, LTIs translate in holding a portfolio of assets, which is managed with a long-term view. In these instances, the aim of the entity would be to generate steady returns and thus contributing to a specific part of the financing of economic development. Under IFRS 9, equity instruments, hybrid instruments and subordinated instruments will be recognised at fair value through profit or loss, even if they are held on a long-term basis in line with the business model of the holder. The IFRS 9 classification criteria do not adequately reflect the purpose of the entity in holding the instrument, thus leading to an unjustified volatility of the income statement and a consequent bias towards pro-cyclical behaviours.

The standard, prohibiting to "recycle" fair value changes from Other Comprehensive Income (OCI) to profit or loss for equities measured at fair value through OCI, ultimately introduces additional costs for those providing equity for infrastructure projects.

In the case of equity instruments held on a long-term basis, it is suggested that the mixed measurement model should be kept. It should also be composed of three categories, based on a business model criterion:

(i) amortised cost category: financial instruments that the entity holds (or issues) for the purpose of collecting (settling) contractual cash-flows;
(ii) fair value through profit or loss category: actively traded financial instruments which are held for trading purpose by the entity;
(iii) a third category: equity and hybrid instruments that are held as investments in a long-term perspective.

For this third category, the measurement model should be based on the lowest of the acquisition costs and values in use, assessed according to the holding horizon and management judgment (with adjustments recognized through profit or loss).

The concept of "value in use" could be based on the one defined in IAS 36.6 (i.e. "The value in use is the present value of the future cash flows expected to be derived from an asset"). In this specific case, the present value could be estimated by taking into account the overall prospects of business development of the issuer and the

holding horizon of the holder. This estimate could be based on criteria such as the average quoted prices on a long period, the level of equity, the profitability or the forecast of profitability, the economic environment, and so on.

One other option would be to consider the possibility of recording hybrid instruments in long-term investment in infrastructures and SMEs sectors within the already existing category of “amortised cost”. This option would allow us to exploit the current normative structure, while making results less volatile, and avoiding a potential drop in the credibility of accounting statements.

Extension of the ‘low credit risk’ exemption

The IFRS 9 impairment principle creates a bias by requiring that in some circumstances lifetime expected loss is recognised in profit and loss. This bias originates from the fact that this expected loss is already incorporated in the asset credit spread, and, although it can be justified by prudential reasons, it creates unintended consequences, in particular for investments in SMEs and Infrastructures. Currently, IFRS 9 states that the credit risk of securities different from equities and hybrids is low if the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and/or if the instrument has a low credit risk of default. As an exemption, this classification allows to disapply a lifetime deterioration of the credit risk of an investment grade asset as long as it stays within the IG scale. It is suggested to extend this exemption to:

(i) loans to SMEs with no rating;
(ii) loans to infrastructures.

The infrastructures, for instance, display a positive expected rating drift over time and a recovery rate that tends to improve after the construction period.

The exemption should be based both on low external and internal grades; the general rule being that the entity management needs to assess whether or not a significant increase in credit risk has occurred to determine if lifetime expected loss should be recognized at profit and loss (instead of the 1-year expected loss).

(ii) Confirming, extending and making permanent the SMEs Supporting Factor, and introducing a new Infrastructure Supporting Factor.

In Europe, among the measures aimed at supporting the access to credit by SMEs, a crucial tool has so far been the SMEs Supporting Factor. A concrete proposal, used to reduce the restrictive effects of higher capital requirements under Basel III, concerns the confirmation of the SMEs Supporting Factor, and the decision to make it permanent and to extend it to infrastructure companies, setting up a new instrument: the 'Infrastructure Supporting Factor’.

Given that the SMEs Supporting Factor is applicable to the European context only and as a temporary measure, we suggest, first of all, to extend this instrument to the

global regulation framework making it permanent. The final aim would be to free up regulatory capital to be deployed for additional SMEs lending and to improve SMEs lending conditions.

When and where applied (although as a temporary measure), it allowed enterprises facing increasing issues in accessing credit, to be eligible for loans from banks. Such loans could be more easily issued if, with regard to provisions, they envisage less stringent risk budget criteria.

However, in the current context, due to several interventions on the regulation of the banking system that required banks to hold even higher levels of capital, investments in infrastructure are also negatively impacted by stricter credit access criteria. In order to combine the "need" for growth with the "need" for financial stability, we must recognise that a strategic role is played by companies that develop infrastructures for Local and Global growth, such as Transport, Communications, Networks, Power Plants, etc.... Infrastructure can indeed reduce the cost of delivering goods, facilitate the physical mobility of people and products, and remove productivity constraints. Infrastructures also matters for education and health outcomes. Therefore, a concrete proposal, in order to reduce the restrictive effects of higher capital requirements under Basel III, concerns the extension of the SMEs Supporting Factor to these companies: the 'Infrastructure Supporting Factor'.

Our goal is to consider adequacy of the risk weights applicable for loans to Infrastructure Companies, by lowering risk weights. Capital charges for exposure to Infrastructure Companies should be reduced through the application of a reasonable Infrastructure Supporting Factor, so to allow credit institutions to increase lending to these companies.

It is recommended to conduct an empirical study to investigate the correlation between the growth in lending to Infrastructure Companies and the growth of World GDP. The Infrastructure Supporting Factor would probably show observable and measurable impact on economic growth, without undermining the soundness of banks themselves. This instrument would reduce the regulatory capital provision made by banks for the portfolios of loans granted to companies in the field, pursuing the development of infrastructure, representing a crucial factor in encouraging and supporting long-term economic growth.

(iii) Improving risk-management quality to relieve regulatory capital requirements.

As pointed-out by the recent consultation papers published by the Basel Committee, many difficulties need to be faced when developing internal models with satisfactory performance and then comparing their results in a meaningful way. This is mainly due to the subjectivity in the application of the legislation across different jurisdictions that makes comparison of the risk profiles of institutions hard, and is unfavourable to competition.

Future prudential regulations will likely impose the use of simplified "standardised" approaches for the asset classes and/or risk types that appeared difficult to

model.

The consensus is that the alternatives currently under discussion will lead to a substantial increase in capital to be held against risk; along witha decrease in risk-sensitive components developed in the last decade by the risk management units, even with large investments. Although the aim is to try to take a step forward towards standardisation and comparability of capital requirements, the importance of holding an increasing share of capital as a "guarantee" of the stability of the economic system, is emphasised.

One of the likely (although not desirable) effects of the simplification and standardisation of internal models is a reduction in the commitment of financial institutions to invest resources in the control, management and mitigation of risk. This could lead to serious consequences for some types of risks, such as the Conduct Risk, which, by contrast, requires control tools allowing for rapid and efficient mitigation strategies.

A clear indication is required as to the need of including an incentive mechanism in terms of capital for those institutions that demonstrate a high level of risk management and mitigation culture, pervasively on all business processes.

The concept of high level Risk Management should encompass the independence of the Risk Management function within a strong governance policy. In this scenario, risk managers should report directly to a board composed of independent and competent members, who pay particular attention to risk-appetite matters.

Moreover, an incentive system has to be defined in order to judge the risk managers performance and competences, addressing at the same time their accountability.

Such measures would have the advantage, at least theoretically, to benefit investments by freeing capital and at the same time to pursue the necessary conditions for growth: stability of the financial system.

(iv) Easing capital requirements of high-risk investments in infrastructure.

In Europe, the Regulation EU 575/2015 (Capital Requirement Regulation), in the implementation of Basel III, has considered a new regulatory portfolio related to "Items associated with particular high risk".

A 150% risk weight is assigned to all the items included in this portfolio, independently of the risk analysis actually connected with such operations. In particular, reference is made to:

(i) investments in venture capital firms;
(ii) investments in private equity.

Bearing in mind that venture capital and private equity are among the most popular forms of LTIs, this regulatory provision might discourage many growth-enhancing investments.

So, considering the Capital Requirement Regulation, it is suggested, as policy measure, to reduce the unintended effects of the 150% risk weight assigned to high-risk

portfolios in the context of infrastructure development. In more general terms, a lower risk weight may be applied at national discretion to a bank's exposure in investments in Venture Capital firms or in Private Equity, if the exposure is to an entity which was created specifically to finance and/or operate physical assets and is aimed at sustaining Long-term Investments.

(v) Promoting long-term Investment of Insurance Companies and Pension Funds: Jurisdictional harmonisation, Governance frameworks, and Solvency II.

The patchy Jurisdictional and Governance frameworks within which Insurance companies and Pension funds operate might affect long-term investments to a greater extent than banks'.

Reducing Jurisdictional Fragmentation

Compared to the banking sector, the insurance industry will face even more significant challenges due to jurisdictional fragmentation and its peculiar business model.

In fact, the attitude of the Basel Committee and other regulators is to focus (in terms of capital charge) on the financial instruments which are also used in the context of long-term investments (equity, venture capital, etc.), regardless of the underlying business model.

Insurance companies (especially those focused on life insurance) and pension funds build their business models primarily on long-term investments. The different business model, together with the application of capital requirements based on Basel Committee principles, and accounting standards skewed towards fair value measurement can lead to a reduction – a much greater one than that experienced by the banking sector – of investments of such companies aimed at financing infrastructures, as well as long-term innovation, research and technologies, hence boosting growth.

Moreover, the Banking sector is regulated by guidelines that are "global" (set by the Basel Committee), whereas insurance companies and pension funds are not subject to common regulatory standards. Regulatory differences often lead to arbitrage aimed at finding competitive advantages in the various geographic areas where companies operate.

Insurance Capital Standards (ICS), proposed by IAIS' (International Association of Insurance Supervisors) and updated during 2015, will only apply to international groups and could just add another layer of complexity and do little to address this issue. This is because its application is solely at the group level and legal entity regulatory requirements will be unaffected. Since the ICS will not apply at a legal entity level, groups will face additional challenges in managing both solo and group requirements. Moreover, the current IAIS proposal adopts a market-adjusted valuation approach as the basis to develop the capital standard. This approach attempts to bridge the gap across jurisdictions, but it is not consistent with European Solvency II regulation or capital regimes in the US.

Despite wide recognition that supervisors need to "have a common language", countries are concerned about creating a new regime that is incompatible with existing ones. Regulatory regimes in Europe have committed to market-based valuations, while regulators in other parts of the globe, including North America and Asia, take a different approach. The gap between the US and Europe is significant. One of the examples is the difference between the US 'windows and walls' approach and the European group supervisory approach under Solvency II. Within Europe, the ICS developments will present an opportunity for debate on the role of the European Insurance and Occupational Pensions Authority (EIOPA) in relation to the group-wide supervision of European IAIGs. In the meantime, countries in Latin America, Africa and Asia are looking at both Europe and the IAIS for guidance on reforms. The International Monetary Fund (IMF) and World Bank's Financial Sector Assessment Program (FSAP), based on the Insurance Core Principles (ICP), are doing much to encourage changes in the areas of risk-based supervision, better governance and increasingly conduct risk. Currently, however, there is little consistency in conduct regulation and consumer protection measures, either within Europe or across global geographies. Such inconsistency in regulatory approaches is unhelpful, especially as what drives regulatory action (particularly in times of crisis) is often dictated by the need to protect local policy holders, disadvantaging competition and then growth.

Therefore we suggest that:

- before attempting to introduce global solvency standards – such as ICS – accounting standards are modified according to our proposals set forth in proposal (i);
- any global regulatory framework should incorporate at least the following main aspects (that in the EU are part of the amendments to the Commission Delegated Regulations published in the EU Official Journal on 2nd April 2016):

  a) introduction of a new category of "Qualifying infrastructure investments", intended to encourage insurers to invest a greater proportion of their investments into this asset class;
  b) adoption of significantly reduced capital requirements for "Qualifying infrastructure investments" (for example, the solvency capital requirement (SCR) charges under the standard formula which apply to qualifying infrastructure investments from 2 April are significantly reduced, both for equities and bonds)
  c) adoption of the same SCR charges as equities traded on regulated markets for European Long-Term Investment Funds (ELTIF) and equities traded on multilateral trading facilities (MTFs).

Enhancing Governance Frameworks

Instead of increasing regulation layers ad imposing higher capital and liquidity requirements, efforts should be directed to better supervision and better governance frameworks.

As a matter of fact, regulators, led by the Financial Stability Board (FSB), are trying to push companies to develop a more effective corporate risk culture, including a clearly defined risk-appetite framework.

In principle, boards must be able to demonstrate that their risk governance procedures, with regard to risk culture in particular, permeates all levels of operations, sales and management. The practical impact of regulatory efforts, however, have not been successful: as stated in paragraph (iii), more demanding capital and liquidity requirements tend to catalyse the attention of board members, who strive to reach the short-term goals of fulfilling new regulatory requirements while maintaining a decent profitability. Thus, the ability of boards to focus on managing risks with a long-term view is seriously impaired.

As a policy measure to address the bias for pro-cyclicality and short-term risk management goals in current and perspective regulations, we propose to relax and simplify quantitative investment restrictions and allow institutional investors to invest in less liquid, long-term assets.

Improving Solvency II

Within the EU, the effects of Solvency II and the completion of its legislative process are currently underway. There is still room for avoiding a few of the unintended consequences on long-term investments though. In particular, we suggest amending solvency regulations through the introduction of a preferential treatment for long-term equity investments:

- a 22% shock should be applied to equity and hybrid instruments that are held as investments in a long-term perspective, thus qualifying for the new accounting category we propose under proposal (i);
- an even lower shock, (e.g. 16%) should be applied to qualifying infrastructure equity investments.

(vi) Changing Liquidity Standards for Project-financing assets.

As long as the rules to define Liquidity Ratios (henceforth, LRs) as established by the Basel framework III are concerned, it would be desirable to make a few changes to current factors, with regard, in particular, to rules affecting project bonds, as one of the main tools to support LTIs.

In more detail, it is suggested to revise current rules by taking into account the following guidelines:

- for Liquidity Coverage Ratio (LCR) purposes, project bonds with public or internal rating at least BBB, or guaranteed by sovereign underwriting, may be included in the asset “Level 2A”;
- for LCR purposes, project bonds with public or internal rating at least BB+, or guaranteed by sovereign underwriting, may be included in the asset “Level 2B” with a 75% factor;

Consequently, for Net Stable Funding Ratio (NSFR) purposes, the two categories above should have a Required Stable Funding (RSF) factor of 15% and 50% respectively.

Finally, in order to extend preferential treatment even to funding on a project basis, in the NSFR context, the following elements could also be considered:

- in case of internal or public rating at least BBB, RSF factor should be equal to 50%;
- in case of internal or public rating at least BB+, RSF factor should be equal to 65%.

Due to the fact that the proposed percentage cuts are significant cuts, and may make an important difference to some institutions, it is also suggested to conduct empirical studies to assess the impact of these measures.

(vii)Recalibrating or eliminating the M factor for long-term projects.

Since 2004, the advanced internal ratings-based approach (A-IRB) has been requiring that an unexpected loss (and, therefore, required capital) should be adjusted using the "M" factor, which is a parameter that depends on the loan term and the probability of default (PD). This did not change in Basel III.

At that time, the rationale to the introduction of such a factor was that it would be more likely for the rating of a company to be revised if the loan term were longer. It is expected that companies with low associated PDs (that is, better quality credit) tend to have a higher potential to see their risk assessment be downgraded than companies with a higher PDs (lower quality credit) at the time they are classified. In light of this, when loan terms are extended, the requirement for capital in Basel II (and in Basel III) increases too. However, this requirement increases proportionately less than it would do for companies with higher risk, since it implies the chance of a better rating, over the loan term.

The issue to be raised is that, while it seems intuitive that a longer term implies higher risk, the existence of longer credit relations between banks and clients (which tends to occur in the case of loans for infrastructure) tends to reduce default, per se; this is due to the fact that the ties of interdependence grow and the flow of information between debtors and creditors improves. Besides this, institutions lending credit for infrastructures, in general, also have in place mechanisms to raise funds in the long term, so they can refinance debt, in case of short-term changes to the current economic context, without affecting their financial health.

Lastly, there are issues related to establishing the weight of the "M" factor so as to take the peculiarities of the different countries into account. The shortaverage term for credit operations is a standard characteristic for several emerging countries and should not be treated internationally using the same parameter that penalises long-term financing. In reality, one proposal is to calibrate or, at most, eliminate the "M Factor".

(viii) Introducing a special treatment for Micro and Small Companies in lilght of low correlation with systemic risk.

The internal credit rating-based models (IRB), in Basel II and III, are "portfolio invariant". The specification of the model assumes that there is a large number of small exposures spread across each sector and region, in such a way that idiosyncratic risks associated to individual exposures tend to cancel each other out. With this, there is one sole factor for correlation among the assets, which is the systemic risk of the economy.

One argument used in 2004, which could be of use, to defend the idea that MSMEs should be given differential treatment is that these companies are less susceptible to "systemic risk". MSMEs are less vulnerable to the risk of the economy slowing down – and more vulnerable to idiosyncratic risks than other exposures (corporate/sovereign/banks). Since in the Basel for credit risk the sole factor for relevant weighting is the idiosyncratic and the systemic risk, MSMEs could be given a lower weighting factor.

(ix) Mitigating capital overload due to portfolio concentration.

The Basel capital framework implicitly assumes that a bank holds infinitely granular portfolios, i.e. no form of concentration risk is considered when calculating capital requirements. However, large exposures to individual counterparties may be present in banks' portfolios. A supervisory review process (Pillar 2) of concentration risk (which could be sectorial, per economic group, regional etc.) adjustments could be made to mitigate this risk and more capital would be needed.

The problem is that infrastructure projects, as is their nature, tend to be served by oligopolistic sectors (construction companies/developers) and can also result in regional or sectorial concentration, carrying out national infrastructure plans or programs. That is to say, in addition to being penalised by the "M" factor, banks offering substantial support for infrastructure would also be penalised through "adjustments for concentration", established in Pillar II of the Basel.

As a matter of fact, BIS (2014) includes a general limit applied to all of a bank's exposures to a single counterparty, which is set at 25% of a bank's Tier 1 capital. This limit also applies to a bank's exposure to identified groups of connected counterparties (i.e. counterparties that are interdependent and likely to fail simultaneously). A tighter limit will apply to exposures between banks that have been designated as global systemically important banks (G-SIBs). This limit has been set at 15% of Tier 1 capital. The framework is scheduled to take effect as of 1 January 2019 and will supersede the Committee's 1991 standards for this topic.

It would be important to consider mechanisms and mitigating factors that can avoid an overload of capital, without affecting the financial health of these institutions. A proposal could be to exempt development banks and other institutions that are involved heavily in infrastructure from additional capital so as to deal with concentration, while placing limits and maintaining strict regulatory supervision.

(x) Reducing the risk weight factor for the issuer of guarantees so as to encourage other offers of guarantees.

Currently, the weight for a letter of guarantee (50%) is similar to an indirect operation for the Bank which uses guarantees to mitigate its credit risk. Nevertheless, for the financing agent providing guarantees, the impact on the balance sheet is identical to a conventional credit operation (100%). This impact has reduced the incentive for banks to offer guarantees. The Bank that receives the guarantee benefits (generally speaking) from a 50% saving in allocated capital, while the agent providing guarantees suffers a 100% impact. In the system, there is a 150% risk weight – which is excessive. The proposal is to reduce the factor (how much is yet to be discussed by the group) from 100% for banks that provide guarantees.

TOWARDS A CAPITAL MARKETS UNION FOR LONG-TERM FINANCIAL STABILITY

Marek Belka*

Why is the Capital Market Union necessary, and what is the idea that appear some time ago in Europe, about the sustainability of the Eurozone. We all know that to have a common currency without a state as the US puts the bar about the sustainability much higher. The problem is that the individual elements of the currency union have to conform to each other to much higher degree that in a state. Other words, we can afford diverce between Louisiana and Massachusetts, the Eurozone much less so, and it is not really a problem of Fiscaly Union, Banking Union whatever union, is about divergence in how to limit divergence, with the Union, with the Currency Union. We strated with the idea of fiscally union as the most natural straight forward way of naturalizing problems, well than it turn out that this is politically and socially hard to swallow.

Well if the public money cannot be use freely to feel the gaps than lets turn private money, than the natural step was to think about banking union well we have made a big progress in building up banking union bit we are still far from the getting the real objective of making european banks paneuropean banks and and not national banks with paneuropean or brother activities as it is now; well I am talking as a pole, which is probably a good example of banking union in the working, most of our working system is dominated by foreign financial groups so we in fact have an economy is already subject to a working better or worse Banking Union in a way that our authorities our activities cannot control even in directly our banks. Well in than the next stepp is credit Market Union well what is the objective of the Credit Market Union from our perspective.

It is to implement the Banking Union well the long-term prospective is about changing or modifying the structure of the European financial sector from entirely bank based to more balanced bank based market based capital market; but really, what is the core of the capital Market Union? Is to facilitate the cross border capital flows from surplus economies to deficit countries especially as concerning smaller medium size enterprises a long-term objective a long-term project with the British of course being in front of this, because of the they want to seat to the initiative of this project, however there is some inconsistent in this. The UK is clearly against the notion of ever-closer Union, because to implement Credit Market Union you have to be very intrusive, you have to intervene in the internal issue of the European countries that

* President, Bank of Poland.

are threatened as the core of national sovereignty, legal system including the bankruptcy, lose taxation. Well ok good luck credit market union this is something we like on Poland at least most of us every thing that help Europe to become a sustainable entity Eurozone is good for Poland. Well why and then a few remarks, few partizan remarks of representative of a country like Poland what I would say like Poland it is valid for other countries in the rich.

Why should we happy with the idea of the Credit Market Union? One, because we are usually being a country importing capital, Poland use to have what we threatened as a structure of current deficit of 5% of GDP, it is gone now, but it was like this for 15 years or so but it was good, capital flowing downhill is something that every book dreams of, and it never happened in other parts of the global economy after the crisis of asian crisis in the late '90. But in Europe it is hold up, well but it has changed after the big crisis and now this capital flows are much smaller there is some retrenchment here in there for some countries but all in all this is an idea that facilitate credit flows from surplus countries to deficit countries, is something very attractive for a country like Poland, that need more capital.

So we should be happy, so what is the problem? The problem is that the most national way to deal with decreasing capital inflows from abroad is to look into domestic market and to develop it, the worry is that Capital Market Union would pull down to concentrating the capital flows at the cost of sprouting young National Capital Markets, so this is one concern that comes to our mind when we think of credit market union.

Second, what is the firms hat will benefit from those capital inflows? Well, if you look at countries in centre and Eastern Europe, one of the main characteristic is that, there firms are ten times smaller than in the western part of the continent. At least between Poland and say Italy if you look at the blue chips, well even not the blue chips, on the Warsaw stocking exchange of the west european stock exchange, the market capitalization of our firms about ten times smaller. So when we talk about SMEs in our countries they are probably micro firms in old terms.

Are those companies mature enough to take advantage of capital markets in the same way that your SMEs; have a potential to use it. Well, probably not, but it does not mean they are interested in market financing. What is then interested in capital markets union idea for us? Of course is the prospect of making securitization available option for european markets, whatever market based financing we have for SMEs is through private placement for bonds an those bonds are held to the majority by the banks underwriting the emission and that is 95% the turn over on the market is minimal, many reasons, but one of the reasons is that this issue is so small that information assimetry makes too expensive for investor to be interrested in this. However if we make securitization safe, simple than even those small by your standards mid-size by our standards companies could use capital market financing as a available option, these are the bank credit.

So yes there are things that are interested in the idea, we think that the size of the company issue can be mitigated by some of the objective of the capital market union but still this seems to me a long-term project with a potential only appearing in the long-term because of the structure of the financial market in Europe.

ACCELERATE THE PROCESS TO CREATE A PAN-EUROPEAN CMU

Salvatore Rossi*

I would like to comment on the proposal for a capital markets union (CMU) by raising three questions, and giving some tentative answers to all of them.

The first question is: do we actually need a CMU in Europe? Should it really be a priority in the European policy agenda?

My answer is a resounding 'yes!'. The question may seem rhetorical, given the tide of apologetic documents, papers, and seminars (including perhaps this one) that have been dedicated to the project since its official launch last year. However, I think it's important to keep in mind the reasons for that 'yes', because hesitations and even open dislike are quite widespread in some countries and sectors.

The fact is that the European economies, with the partial exception of the UK, are strongly dependent on banks for their financing needs. Too dependent. Let me explain why.

A wide literature (I have in mind for example a very recent piece of empirical research by Langfield and Pagano, 2015), shows that economic growth tends to be lower in economies with a bank-based financial structure, particularly at times of falling asset prices, and systemic risk to be higher. A 'bank bias', as L&P dub it, is bad, in any circumstance.

But even if we believed, just for the sake of the argument, in the optimality of banking dominance in our financial systems, here comes another hard fact: also as a consequence of the new regulatory and supervisory framework, banks are less and less willing to lend money to risky borrowers such as SMEs, because of the heavy burden of non-performing loans which is the legacy of the crisis; because more capital is required against risky assets, and capital is costly. Requests for more capital buffers come from all international regulating bodies, both at the global level (Financial Stability Board, Basel Committee) and at the European level (Single Supervisory Mechanism – SSM), as a shield against a new, devastating financial crisis. Up to now, in Europe the effect has been procyclical: notwithstanding the cheap, abundant liquidity supplied by the ECB, banks are reluctant to increase lending to the real economy.

* Director General of the Bank of Italy and President of the Insurance Supervisory Authority (Ivass).

The corporate sector, especially in southern Europe, is mostly made up of SMEs, for which access to financial and capital markets is difficult, if not impossible. Hence, we have an inconsistent trio: an economic structure mostly requesting bank finance, regulators concerned with the risks posed by banks' activity, and banks consequently stepping back from ample parts of the credit markets.

How to sort ourselves out? One way is to move the European financial structure from intermediaries towards markets (Visco, 2015). This will indeed require national efforts, but more is needed: an integrated European-wide capital market, with harmonised and SME-friendly rules. In other words, a CMU.

The second question is: can we consider a European CMU a realistic project?

This time my answer is much more doubtful.

The idea for a CMU was first put forward by the President of the European Commission before the European Parliament in July 2014 (Juncker, 2014), in very ambitious language. Last September the Commission presented an action plan to transform that enlightened vision into reality (EC, 2015). From one document to the other the degree of ambition was apparently scaled down. As Nicolas Véron (2015) recently noted, the plan 'mostly boils down to pruning existing rules and correcting some of [the] EU's own recent regulatory overreach'. But this is supposed to be the normal business of the Commission. Let's check whether this harsh judgment is well founded.

What does CMU mean in substance? It means creating a single market of non-bank financial services: the belated completion of the Single Market project of the '80s. A first attempt at merging European financial markets fifteen years ago did not succeed. In the goods market the main obstacles to integration were technical standards: harmonising them was the crucial move. In the financial services market, obstacles are of various kinds: every country has its own legal system, tax treatment, accounting standards, and prudential regulation (Danielsson et al., 2015). These specificities are entrenched with local costumes and traditions, and in some cases they protect national champions. Harmonising the myriad of laws, taxes, and regulations in a short period of time, as the urgency of the matter would require, is extremely challenging.

The most delicate problem has to do with the UK. It's quite obvious that a European CMU excluding the City of London would have little sense. But the UK Government is highly sensitive about London's competitive advantage as the financial hub of Europe, and the issue will remain almost intractable until the referendum on the UK remaining part of the European Union is held.

The third question is: what can be done to facilitate/accelerate the process of creating a pan-European CMU?

The approach followed by the action plan is a step-by-step one. Such an approach was recommended, not by chance, by most of the stakeholders involved in a wide public consultation held by the Commission in the first half of this year. Is it the right

approach? In principle, one might have preferred a bolder attitude, one that addressed simultaneously and directly all the needed harmonisation in the fields, for instance, of bankruptcy laws, taxes, investor protection and market infrastructure regulations: a Thatcher-like 'big bang'. But that would have been definitely unrealistic.

What the action plan intends to do, and I quote a key passage of the document, is to proceed 'from the bottom up, identifying barriers and knocking them down one by one, creating a sense of momentum'. Among those to be knocked down first are, according to the plan:

- red tape and information asymmetries making it too costly for SMEs to list on equity and debt markets;
- specific rules in both the new European insurance regulatory framework (Solvency 2) and in the capital requirement regulation for banks (CRR) preventing insurance companies and banks from getting more involved in the business of financing infrastructure investment;
- a sort of damnation still weighing on securitisation after the global financial crisis (asset-backed securities were labelled 'toxic sludge'), while, if simple and transparent, it could be a fundamental tool to bridge the gap between SMEs and financial markets.

These are all good intentions. Are they sufficient to create a 'sense of momentum'? We will see.

The risk is that we fall into a sort of 'Ten Little Indians' trap. A risk still present, for example, in the banking union story.

Banking union was conceived as an institutional framework with three pillars (Rossi, 2015): an SSM, a Single Resolution Mechanism (SRM), and a Single Deposit.

Insurance Scheme (SDIS). The three pillars were originally meant to be concurrent, symmetric, and logically connected. But the outcome has been different. The SSM was swiftly realised because it was seen as a prerequisite for restoring mutual trust among countries after the sovereign debt crisis. But mistrust has remained. On the crucial issue of bank resolution, after long and tiresome negotiations it has been decided that sharing the cost of a banking crisis among all the eurozone countries is not for now; it is foreseen as the final step in a process lasting many years, and in any case it will involve private funds only (the Single Resolution Fund, financed by all the eurozone banks). The use of money from the taxpayers of countries other than the one where the bank's head office is located has been ruled out – contrary to the original intention (anyhow, the use of national public money is in general forbidden by state aid rules). As to the SDIS, it was first postponed to an indefinite future; more recently, a timid proposal has been presented by the European Commission, but envisaging the same many-year process before reaching a mutualisation such as the one established for the Single Resolution Fund.

The CMU, needless to say, is a totally different endeavour. Still, overcoming the variety of national habits and interests will be a formidable task, the inherent difficulty of which must not be underestimated if we want CMU eventually to succeed.

REFERENCES

European Commission, 2015, Action Plan on Capital Markets Union, http://ec.europa.eu/finance/capital-markets-union/index_en.htm#action-plan.

Danielsson, J., et al., 2015, Europe's proposed capital markets union: Disruption will drive investment and innovation, http://www.voxeu.org/article/europe-s-proposed-capital-markets-union.

Juncker, J-C, 2014, A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change, Opening Statement in the European Parliament Plenary Session, Strasbourg, 15 July, http://ec.europa.eu/priorities/docs/pg_en.pdf.

Langfield, S., Pagano, M., 2015, "Bank bias in Europe: effects on systemic risk and growth", ECB Working Paper Series, 1797, May.

Rossi, S., 2015, Towards a European Banking Union: a euro-area central bank supervisor as a first step, Lecture at the Central Bank of Russia, 2 April, https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2015/Rossi_02042015.pdf.

Véron, N., 2015, Europe's capital markets union and the new single market challenge, http://www.voxeu.org/article/europe-s-new-single-market-challenge.

Visco, I., 2015, Investment Financing in the European Union, OECD-Euromoney Conference on Long-Term Investment Financing, 19 November, https://www.bancaditalia.it/pubblicazioni/interventi-governatore/integov2015/Visco_19112015.pdf.

THE ROLE OF THE CAPITAL MARKETS UNION, A VIEW FROM THE EUROPEAN PARLIAMENT

Roberto Gualtieri*

The Capital Market Union represents an essential element of a European strategy for growth and stability; the European parliament and the committee which I chair strongly supports it. I use the word "element" because I think that the Capital Market Union has to be considered as part of a wider strategy that perhaps should be more consistent and coherent and that can be summed up well with the formula "finance for growth" and I also add "finance for stability".

We have two big questions, two big issues concerning finance and the stability. The first is that Europe grows poorly, has a unique active current account and an equally extraordinary excess savings on investment. And to grow, modernize itself, Europe must fill this gap, and in particular strengthen the long-term investments and receivables from small and medium-sized enterprises.

The second question is that a single market and, a fortiori, a common currency, require full and well-regulated financial integration in order to diversify risks and absorb shocks. The dynamic of the crisis has shown that this was a central element in triggering the events of the crisis and boosting the crisis. And to address these two issues, we must measure ourselves against a series of obstacles and against various general problems, including some from outside Europe: the so-called "short-termism" in corporate governance with a high level of dividends and pay-backs leading to an excessive cost of capital, reducing the correlation between low interest rates and investments; the incomplete integration level of the economic monetary union that limits the fiscal space for public investment at both national and European level, as well as a space for fiscal mechanisms of shock absorption.

Third, the contradiction between the inherent increased risks of the investments that are necessary to achieve that innovation which is necessary to increase our growth potential on the one hand and on the other the growing aversion to risk of individual savers.

Fourth, a regulatory framework with accounting and capital requirements that cannot distinguish sufficiently between short and long-term liabilities, including liquidity risk level of an asset and thus slows or will not follow enough the necessary process of transformation and modernization of our financial instruments.

Fifth, an insufficient level of financial integration and an excessive financial markets fragmentation along national lines that produces an insufficient allocation of

* Chair ECON Committee, European Parliament.

savings, a difficulty in channelling them where they are most needed and insufficient shock sharing capabilities.

Europe is working to address these issues and to address a broader strategy, precisely finance for growth is taking shape and, the capital market union is indeed a key component of this strategy. There is no doubt that the action plan does not have the same level of ambition of the first document, but nevertheless, I believe, it has a level of organic unity and strength that should not be underestimated and in any case it is also the result of a specific political dynamics, i.e. what you can do and in this sense there would be nothing worse than not start moving to try to build a process, despite all the limitations that I, of course, admit are present.

The European plan is ambitious, as me, as us have been when we approved the texts. We are also working for a new regulation to make the administrative burdens more proportionate for small and medium businesses, looking to finance themselves on the market and we are also pleased of the delegated regulation "Solvency 2" that for the first time introduces the category of "qualified infrastructure Investment", first step for the necessary creation of a true "asset class".

And then, of course, it is important the parallel consultation on the equivalent change in the prudential treatment. Then, beyond these legal issues, there is a matter of broader regulatory framework that the Commissioner has launched a debate; I hope that in addition to a reflection it will also produce concrete actions to avoid famous "unintended consequences".

Then there are other less big issues that can be important, I think, talking to this audience, as the need to have a deferral of the application of the FR9 for the insurance industry until 2021 which is a more comprehensive solution than the over light approach which must address the issue of the temporal symmetry with the entry into force of F4, to avoid a asymmetry between "asset and liability". And then, these very important regulatory issues that also concern the banking sector, which as I will explain in a moment, however, can not be considered as a separate solution because the two issues are linked, and here's the issue that we are very determined in respect of Eba, a balanced matter, an intelligent approach, to national and optional description and also avoid some treatment asymmetries, I also think about the insurance industry.

I do not understand why the conglomerate should have a treatment mode and the non-conglomerate another one and then there is a matter not only about CNU but on the overall structure of the regulatory system on which we must act with the necessary consistency, naturally with good sense. There are, then, ambitious positive elements in the action plan that I would ask you not to underestimate: the announced support package of "venture capital" including the creation of a fund of funds.

The announced measures, the support for the creation of a European market for private placement of securities, up to the more ambitious initiatives, nevertheless explicitly announced in the action plan, such as the definition of a standardized pan-European pension product and insolvency legislative initiative and failures and then the question where instead I do not see sufficient clarity for greater convergence of the supervision system, because it is clear that the capital market union is hardly compatible with a national supervisory mechanism.

And the question of the removal of the national barriers to permit a free capital movement and finally get the most practical tools for achieving effective dissemination of information to credit for small and medium-sized enterprises, and yet there is a path to CNU with elements of short period, perhaps not decisive, and some ambitious elements of the long-term, where we await the commission and invite you to be consistent and timely, but of course, since the role of the banks and their action of maturity transformation is, and will remain, central. Then the analyses, we read Pagano, are correct, interesting, but still no one – rightly so – thinks about going beyond a greater enhanced complementarity between the market and the banking system capital.

The Banking Union is very important in the finance strategy for growth. I would like to emphasize too how important is the issue of setting up a European deposit guarantee system to complete the System Banking Union.

I find, on the contrary, Commission's proposal ambitious and in fact is raising understandable objections in some Member States, although it is a gradual proposal.

It provides a gradual system mutualisation. and then, convinces me a little less this politicized parallelism between risk sharing and risk reduction, as you do something that actually is not connected to the treatment of sovereign in prudential regulation, but the completion of a third pillar and so is the necessary completion of the existence of a single supervision and of a unique resolution and a rather severe mechanism as it is now known to all, it is clear to everyone, about the resolution of banks. This element is inside this package, is not part of another package, which is also a package on which it will be necessary to think, to reflect, but which is inside another trade-off that has to do with a common policy on the management sovereign debt; as is known in the crisis resolution we can have 8% of bail-in, then we can have 5% resolution fund, but it is said that is enough 55 billion for the 55% and thus could serve a back stock.

And then there is also the guarantee reserve deposits and as is well known, it is related only to 0.8 of the "cover deposits" and therefore it may be useful to cover this 0.8 and to go beyond a fiscal back stock; the fiscal back stock argument is an issue that should not be just put off until a future undetermined date.

About the insufficient effectiveness and impact of the country system in Europe, I cannot not say anything about the well-known story, so to speak, precisely because it is related also to a judgment on the Banking Union; I would just say three concepts:

1) The BRRD and the bail-in are the right things because they avoid that the banking crisis cost relapses on taxpayers, but they provide elements of proportionality and flexibility that should be used more.
2) The BRRD should be read together with the SMA, and its range, its effectiveness is also linked to the fact that this complex system prevents crises.
3) And then that the Italian banking system is solid and it is solid even without having had need of public funding help and I think this should be an element to be proud of, not an element of disappointment, we should be proud that we have

a well capitalized and well solid banking system, without having had to use billions of Euros to support it. Finally there are the critical elements that must be examined, perhaps, recognized.

First, it is questionable the position of the "T competition" that the use of the deposits resolution fund mechanism could only take place in the presence of an absence of resolutions, the art.11.3 does not say that.

Second, there is a temporal asymmetry problem between the securities that can be bailed-in and have increased their risk level after their placement, it is therefore a gap, a European problem, because having a rule of retroactive poses a problem, it is perhaps hard to blame someone had bought or sold a stock before they became more risky, because the rule was not there before, it did not exist.

However, persists, in my opinion, an insufficient level of restriction, not a ban, a limitation of retail placement of subordinated stocks that introduces a specific concentration limits and maybe the ban for lower risk categories; here there is still an implementation space for MiFID 2.

So all these limitations justify a recovery action by the Italian government; whether it id humanitarian or whether it will be through an arbitration procedure it seems a secondary element also because we are talking about very small numbers.

CMU BETWEEN REVAMPED AMBITIONS AND POLITICAL ECONOMY CONSTRAINTS

John Llewellyn*

The EU has been moving towards a notional CMU for decades

The 1999 Financial Services Action Plan was a precursor to the current initiative

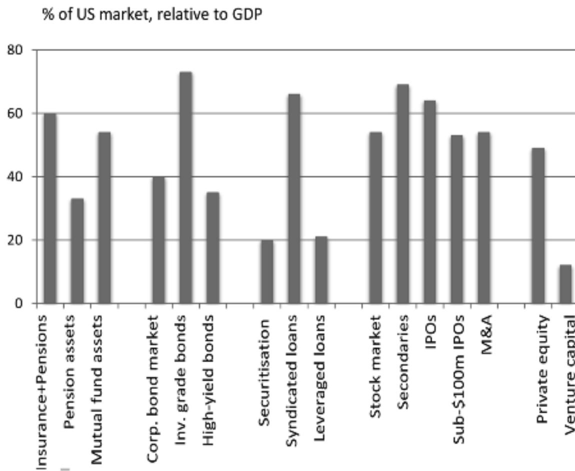
- Major European legislative initiatives were launched in the 1970s, 1980s, and 1990s
- The early focus was in banking and insurance: initiatives concerning securities and investment management came later
- The Single Market Programme, launched in 1985, and the Single Market Act (1987) were important milestones
- The Financial Services Action Plan (FSAP), launched in 1999, was an attempt to give the single market in financial services another major push as the euro came into being
- The FSAP put forward a five-year timetable for the achievement of three strategic objectives:
  1. Establishing a single market in wholesale financial services;
  2. Developing more open and secure retail financial services markets; and
  3. Strengthening the rules on prudential supervision.
- Under the previous Commission, a whole host of initiatives were progressed
- In many ways, recent discussions on CMU echo those of the past. Key objectives:
  - Progressing the job that was started many decades ago;
  - Fixing deficiencies laid bare by the crisis;
  - Adapting to meet future challenges.

* Llewellyn Consulting.

Europe has much untapped capital market potential

The gap with the US is large, across a range of areas

Long term pools of capital and market size: Europe vs. US



In Europe, on average over the past five years:

- Long term pools of capital have generally been much smaller than in the US, particularly pension assets (30% of US total)
- The corporate bond market has been around 40% the size in the US; with a larger 'shortfall' in the high-yield market
- Equity markets have generally been around half the size of the US
- Venture capital markets have been around one-eighth the size

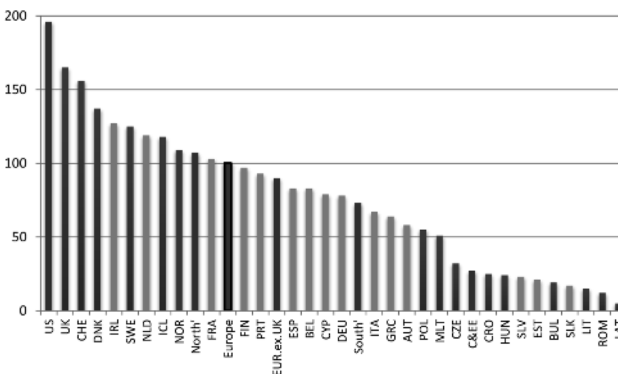
Source: Wright, W., and Bax, L., (2015). Decoding Capital Markets Union: Measuring the Potential for Growth Across Europe's Fragmented Capital Markets. New Financial.
Note: average between 2009 and 2014. Europe is EU plus Iceland, Norway, and Switzerland.

The aggregate picture masks regional and cross-country variation

For most European countries, the 'gap' with the US is large

Size of US and European capital markets

Europe = 100



- Europe's capital markets are most developed in the region's northern economies outside the euro area:
  - The UK (in particular), but also Switzerland, Denmark, Sweden, Iceland, Norway
- Southern Europe has markedly less developed capital markets
- Central and Eastern Europe has very small markets

Source: Wright, W., and Bax, L., (2015). Decoding Capital Markets Union: Measuring the Potential for Growth Across Europe's Fragmented Capital Markets. New Financial.

Note: 23 indicators, average 2009-2014 relative to GDP, Europe=100. Euro area economies shaded light green; non-euro EU economies shaded dark green; US and regional totals shaded red.

Capital Markets Union began with a wide-ranging agenda

Six broad areas, and latterly three themes, have been advanced

- A flavour of the breadth of the early agenda, from Nicholas Veron, 2014:[1]
  1. Regulation of securities and specific forms of intermediation
  2. Prudential regulation of financial institutions (banks and non-banks)
  3. Accounting, auditing, and transparency
  4. Supervisory frameworks for financial infrastructure firms
  5. Corporate insolvency and restructuring frameworks
  6. Tax regimes
- Lord Hill, has latterly placed three themes at the heart of the project:
  1. Increasing funding options for business;
  2. Creating more opportunities for investors; and
  3. Encouraging cross border investment.
- A range of policies have been proposed under themes 1 and 2
- They appear to largely fall under 1 (in particular) and 2 of the six broad areas above

[1]Veron, N. 2014. *Defining Europe's Capital Markets Union.* Breugel.

CMU now appears set on delivering in a few key areas

The wider agenda appears to have been scaled back somewhat

1. **Regulation of securities and specific forms of intermediation** (Veron area 1); or
   - Increasing funding options for business (Hill Theme 1): strengthen venture capital and other non-traditional finance; support the private placement market; review the Prospectus Directive; develop simple, transparent, standardised securitisation products …
2. **Prudential regulation of financial institutions** (Veron area 2); or
   - Creating opportunities for investment (Hill Theme 2): create opportunities for retail and institutional investors; encourage more investment in infrastructure; update calibrations for Solvency II and the Capital Requirements Regulation …

For the future:

- Accounting, auditing, and transparency; supervisory frameworks for financial infrastructure firms; corporate insolvency and restructuring frameworks; taxation regimes (Veron areas 3-6)
  - Encouraging cross border investment (Hill Theme 3): *"There are many long-standing and deep-rooted obstacles that stand in the way of cross border investment. These range from obstacles which have their origins in national law — insolvency, collateral and securities law — through obstacles in terms of infrastructure ..., right through to tax barriers. … On some of these issues, particularly those linked with taxation, the feedback suggests we should be pragmatic. In other words, we shouldn't risk making good progress in other areas by charging head long into some of the most intractable ones."*

    Lord Hill: *Next steps to Build a Capital Markets Union*, Brussels 8 June 2015.

Delivering a form of 'Big Bang' for the European Capital Markets

How should we assess the current state of play?

- The incremental nature of the current action plan contrasts somewhat with the more ambitious initial agenda for the proposed Capital Markets Union:
  - Nicholas Veron has suggested that the Commission's plan largely boils down to pruning existing rules and reversing some of the post-crisis regulatory overreach at the European Union level[1]
  - Lord Hill would perhaps argue that the pragmatic approach is best, with the focus on delivering some early 'wins', and in some key areas for growth that could make a real difference
- Political economy constraints abound: politics – and hence policy is the art of the possible
- In assessing the current state of play, a number of questions come to the fore:
  - Is it enough to try to develop some key markets such as securitisation; private placements etc.?
  - Or should the focus be on delivering a broader 'Big Bang'?
  - What is needed in addition?
  - Can most of what is needed be done within the current institutional set-up?
  - Is the UK renegotiation an opportunity as well as a threat?

There are many pre-requisites for structural change success

… not least in Europe

- Implementing any major structural reform is complex and challenging, particularly in Europe.
- Evidence shows that successful structural adjustment policies share a number of common features, which reach across the political spectrum and society, and across countries. These include:
  - Support of the main European institutions;
  - Support of heads of state;
  - Broad support across cabinets;
  - Opposition that is supportive, or at least insufficiently strong to make a difference;
  - Points of light across society that provide vocal and credible support;
  - Simplicity of purpose – an easily-understood agenda;
  - Positive message(s): the growth and stability case for Capital Markets Union
  - The ability to assess progress – targets, both quantitative and qualitative;
  - Initiatives to at least temporarily temper the costs and compensate losers; and
  - Sustained positive momentum: sequencing, while in principle desirable, is often impractical.

While it is not essential to have everything on this list, the more areas that are addressed, the more successful structural change is likely to be in delivering a Big Bang.

INSURANCE AND CMU

Dario Focarelli*

...Towards a Capital Markets Union

The actual framework

BEI estimates that total EU infrastructure investments needs in the EU could reach 2.000 billion euros up to 2020

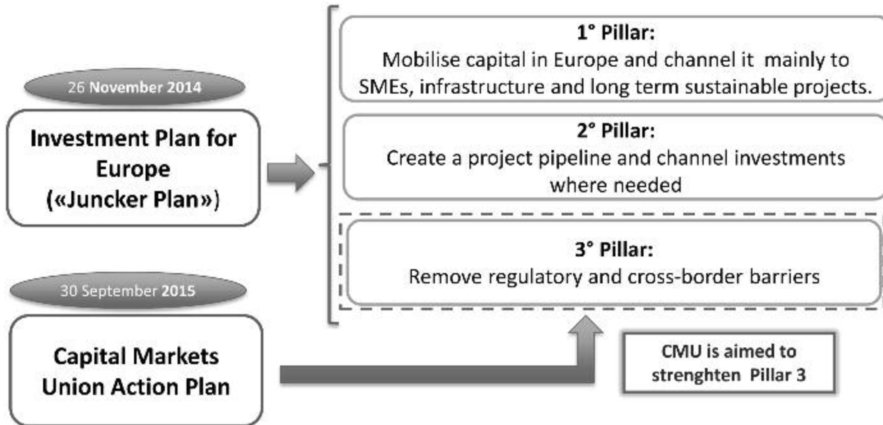
Compared with the US, European SMEs, receive five times less funding from capital markets

If EU securitisations could be revived – safely – to pre-crisis average issuance levels, banks would be able to provide an additional amount of credit to the private sector of more than EUR 100 billion.

... And if SME securitisation was re-built to half the crisis peak it could generate EUR 20 billion of additional funding

Source: Action Plan on Building a Capital Markets Union

* Director General, Italian National Association of Insurance Companies – ANIA.



Source: Action Plan on Building a Capital Markets Union

Insurance and CMU

Infrastructure Long-term investments and harmonisation of financial services

Insurers are particularly interested in some of the actions planned by the Capital Market Union Action Plan.

Investing for long term, infrastructure and sustainable investment		
Support infrastructure investment	Adjust Solvency II calibrations for insurers' investment in infrastructure and European Long Term Investment Funds	Q3 2015
	Review of the CRR for banks, making changes on infrastructure calibrations, if appropriate	Ongoing
Ensure consistency of EU financial services rulebook	Call for evidence on the cumulative impact of the financial reform	Q3 2015

Source: Action Plan on Building a Capital Markets Union

Insurance and CMU

Savings and retail investments

Fostering retail and institutional investment		
Increase choice and competition for retail	Green Paper on retail financial services and insurance	Q4 2015
Support saving for retirement	Assessment of the case for a policy framework to establish European personal pensions	Q4 2016
Expand opportunities for institutional investors and fund managers	Assessment of the prudential treatment of private equity and privately placed debt in Solvency II	2018
	Consultation on the main barriers to the cross-border distribution of investment funds	Q2 2016

Source: Action Plan on Building a Capital Markets Union

Insurance and CMU

Relaunching high quality securitisations, removing barriers to cross-border investing

Leveraging banking capacity to support the wider economy		
Build EU securitisation markets	Proposal on simple, transparent and standardised (STS) securitisations and revision of the capital calibrations for banks	Q3 2015
Support bank financing of the wider economy	Consultation on an EU-wide framework for covered bonds and similar structures for SME loans	Q3 2015
Facilitating cross-border investing		
Improve market infrastructure for cross-border investing	Targeted action on securities ownership rules and third-party effects of assignment of claims Review progress in removing remaining Giovannini barriers	2017 2017
Foster convergence of insolvency proceedings	Legislative initiative on business insolvency, addressing the most important barriers to the free flow of capital	Q4 2016

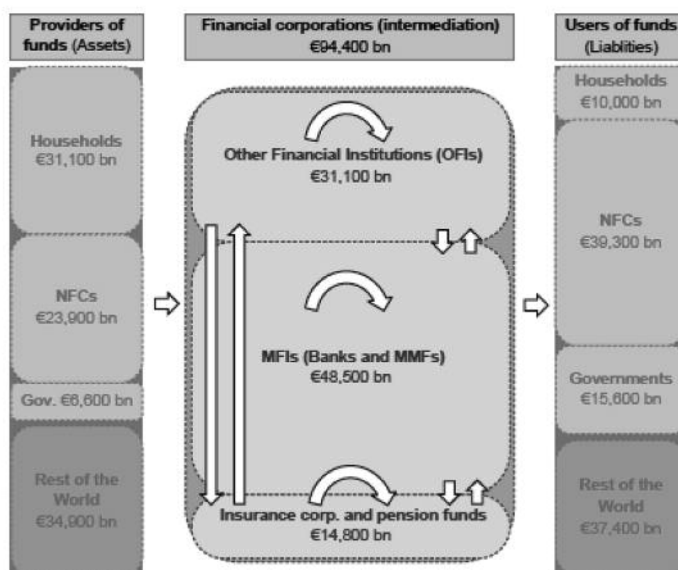
Source: Action Plan on Building a Capital Markets Union

Insurance companies and economic growth

The insurance sector contribution

The insurance companies' business model positions them as «natural» long-term investors, assigning them an important role in financing the European economy.

Figure 2: Financing of the economy: size of institutional sectors, 2014, EU 28, EUR billion



Notes: The height of each box is proportional to the actual size of the sector. Assets and liabilities of the real economy and RoW include funds channelled both through intermediation and direct financing.
Source: ECB, Eurostat and own calculations.

Insurance companies and economic growth

Asset allocation (%)

The companies' portfolios are still concentrated in «traditional investments»:

	Total billion, national currency	Currency and deposits	Loans	Bonds	Shares and other equity	Investment funds	other
Insurance corporations							
FR	2418	1.4	1.5	59.8	10.6	20.7	6.0
DE	1884	19.3	14.1	17.4	11.5	28.8	8.9
IT	679	4.2	1.4	65.2	10.3	16.9	1.9
NL	511	2.9	16.8	39.7	4.7	19.5	16.4
other EA	1350	7.7	3.5	47.8	8.6	20.1	12.2
UK (2013)	1516	5.3	2.4	25.7	24.8	NA	41.8
USA (2013)	7511	1.0	0.0	51.6	29.1	NA	18.2

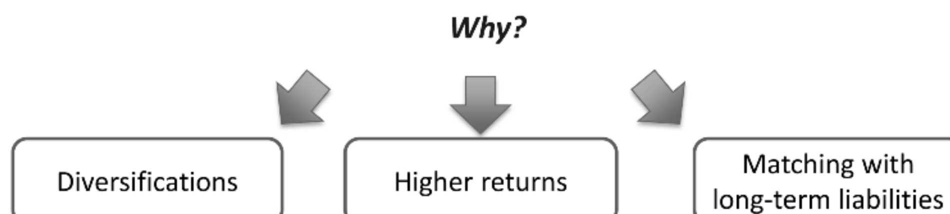
Economic analysis – CMU Action Plan

Insurance companies and economic growth

The insurance sector needs

- At European level a number of initiatives have been launched in recent years with the aim of encouraging investment in the real economy through long-term investments
- Some of these initiatives appear of particular interest to insurance companies, as they could represent new investment tools:
  - ❑ **Sustainable infrastructure investments**
  - ❑ **Long term investments funds (i.e. ELTIF)**
  - ❑ **"High quality" securitisations**
  - ❑ **Credit to SMEs**

Why?



Need for suitable long-term assets

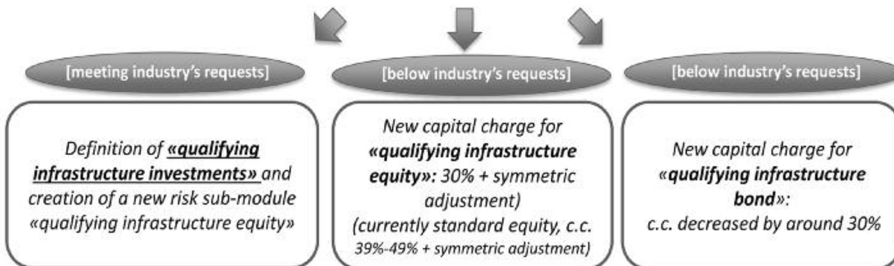
Infrastructure investments

- Insurers are interested in infrastructure investments (equity/bond) because of their features:
  - long-term duration
  - low correlation with other asset classes
  - higher returns when compared to «traditional» investments
  - default risk mainly due to physical/technical factors
- In particular, insurers are interested in infrastructure investments with:
  - stable and predictable cash flows
  - low correlation with financial market movements

Need for suitable long-term assets

Infrastructure investments

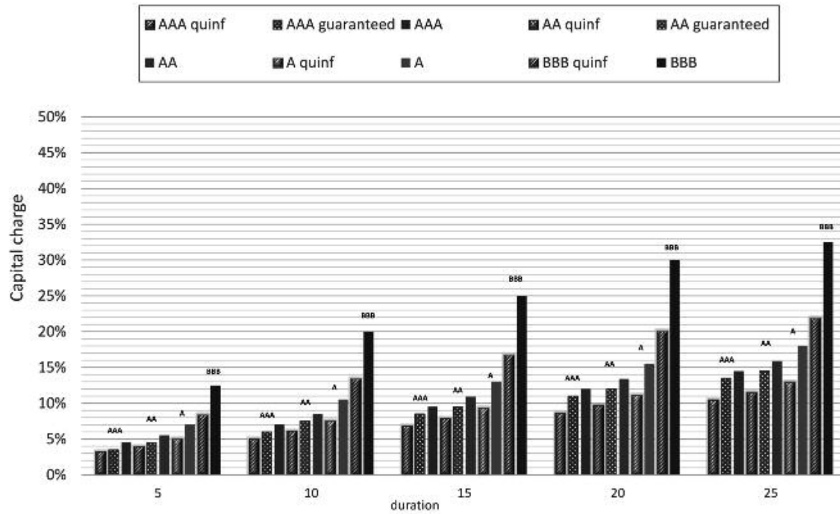
- Within the scope of the actions under CMU's Plan, the 30th of September the EC published a proposal modifying Solvency II delegated acts, focusing mostly on infrastructure investments amendments
- The proposed amendments, preceded by a broad discussion started at the beginning of 2015, are partially aligned with the insurance sectors' requests, yet remaining for certain aspects distant from companies requests.



- After a new Technical Advice request by the EC, on the 19th of November EIOPA launched a new *call for advice* in order to identify and calibrate other infrastructure investment risk categories i.e. infrastructure corporates.
  - The definition of «qualifying infrastructure investments» is now restricted to «infrastructure project entities»

Need for suitable long-term assets

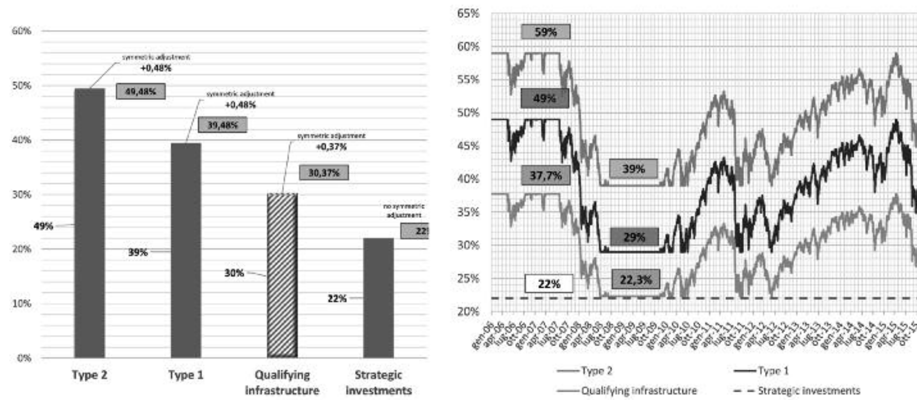
Standard vs. infrastructure bond – the EC Proposal



For bonds and loans to (or guaranteed by) Member States central banks and governments, MDBs, international Organizations, capital charge is 0%.

Need for suitable long-term assets

Standard vs. infrastructure bond – the EC Proposal



Symmetric adjustment dated to 31/10/2015

Capital charge + symmetric adjustment from 2006 to 2015

Source for symmetric adjustment caluclation: EIOPA – as at 30/10/2015
https://eiopa.europa.eu/Publications/Standards/EIOPA_symmetric_adjustment_equity_capital_charge_09112015.xlsx

Need for suitable long-term assets

European Long Term Invesment Funds (ELTIFs) and direct lending

- Recent regulatory measures increased the opportunity for insurance companies to invest in SMEs (directly or indirectly).
- ELTIFs (European Long Term Investment Funds) – for example, will finance long-term projects (including infrastructure investments) and will have the opportunity to supply loans (within certain limits)
- Insurers will be attracted by these instruments only if a more efficient market for private credit risk is established

- **The proposed Delegated Acts amendments allow insurance companies to apply the «look-through» approach to ELTIFs or, if not possible, to apply the same capital charge of equity type 1 (instead of equity type 2).**

Need for suitable long-term assets

Securitisations

- Insurers will be attracted by these instruments only in case of:
  - High quality issuance
  - Returns satisfying commitments towards policyholders
  - An adequate guarantee framework
  - Products standardisation and transparency of underlying portfolios

- **On the 30th of September 2015, the Commission published, among the 20 key measures set out by the CMU action plan, the following legislative proposal**
  - A legislative proposal to create a European framework for simple and transparent securitisation (STS);
  - A proposal for a ricalibration of securitisations for banks;

- The Commission also stated that after the adoption of the Regulation on STSs a similar proposal will follow for the insurance sector.

BARRIERS TO SMES LENDING AND CMU

Angelo Federico Arcelli*

Introduction

- access to finance for SMEs and Infrastructures is a key enabler to economic growth and employment and increasingly a policy priority across the EU.

- But whilst Infrastructure investments are essentially having a long term impact on growth, the enhancement of SMEs economic activity has a more immediate countercyclical effect.

- In the following slides we propose some discussion points about possible drivers and policy actions to enhance SMEs access to finance. In particular concerning Demand, Supply and Market Infrastructure

- Policy solutions can be prioritised by understanding the causes of the financing gap – these are multi-faceted, spanning demand, supply, market infrastructure

* Partner, Oliver Wyman.

We have identified nine barriers to sufficient credit formation
Three on the Demand Side

Area	Barrier to lending	Description of barrier	Relative impact	Primary policy objectives
Demand side	**Insufficient demand**	The absolute level of demand for debt finance is a function of the capacity, ability and willingness of SMEs to take on fairly priced debt	**x10**	Improve fundamentals of SME economic system
	Poor interaction with finance provider	The quality and dynamics of the initial and subsequent contact between SME and finance provider has a major impact on the price, amount and structure of debt	**x3**	Improve the quality of interaction to reduce the number of SMEs dropping out of the lending process
	Perception of unfair terms	The expectations of the SME on the availability, price and terms of the debt applied for are not always met, which in turn reduces the amount of credit actually drawn down	**x3**	Reduce the misalignment in expectations to increase draw down rates

We have identified nine barriers to sufficient credit formation
Three for Market Infrastructure

Area	Barrier to lending	Description of barrier	Relative impact	Primary policy objectives
Market infrastructure	**Insufficient risk differentiation**	The extent to which the asymmetry of information between SMEs and finance providers can be reduced has an enormous bearing on the ability of the latter to differentiate between high and low risk borrowers	**x2**	Reduce informational asymmetries that hinder the ability to differentiate risk
	Insufficient Risk mitigation	The more ways in which the risk of the finance provider can be mitigated (e.g. by taking security) and the more certain their recovery in the event of default, the more finance providers will be able to lend	**x7**	Increase the scope and certainty with which lenders can mitigate their risks
	High cost of delivery	Since operational and funding costs are passed onto the borrower, the more efficient the infrastructure to deliver debt finance, the more debt the SME sector can afford to carry with the same free cash flow	**x1**	Reduce aggregate cost of credit delivery, and thereby debt service cost

We have identified nine barriers to sufficient credit formation
Three on the Supply Side

Area	Barrier to lending	Description of barrier	Relative impact	Primary policy objectives
Supply side	**Limited funding capacity**	At its most basic, the absolute level of funding available for domestic SME finance is a function of the domestic deposit base, supplemented by the wholesale markets	**x1**	Stimulate wholesale funding and capital available to meet SME demand
	Gummed up transmission mechanisms	The banking sector acts as the primary transmission mechanism by which deposits and wholesale funds are allocated to the SME sector, supplemented by finance companies that provide wholesale markets with direct exposure to the SME asset class	**x10**	Address elements that are currently gumming up the transmission mechanism
	Poor origination capabilities	The extent to which true competition exists improves the effectiveness with which funds are allocated	**x2**	Reduce privileged access to borrower information to stimulate

MOBILIZE RESOURCES FOR EUROPE'S GROWTH

Giordano Lombardo*

EU is accelerating on the creation of the CMU, to mobilize resources for Europe's growth. Assogestioni highly welcomes the CMU and supports the areas of priority indicated by the Commission.

In the current context, monetary policies are not enough to revive growth and actions must be taken as to strengthen capital markets and unlock resources for new investments.

After the big crisis, the lack of funding channels alternative to capital and bank debt, curbed the growth potential of many enterprises, while cuts in public spending blocked essential investments in education, technology, R&D and infrastructure.

While commercial banks are likely to remain a major source of funding, alternatives are needed, in order to bridge the funding gap. The objective of the CMU is to create a deeper and more integrated capital markets as to:

- make it easier (and cheaper) for companies to finance themselves;
- finance infrastructure projects, which would not be undertaken otherwise and at the same time
- open up new investment opportunities for savers and investors (in search for yields in the current low return, high risk and high liquidity risk scenario).

All this should also help to make the financial system more integrated and stable and the lowering the barriers will also increase competition with improvements in efficiency of the system overall.

1) Level playing field for all investment products

A CMU cannot be realized without removing all the barriers that hinder the creation of a single market for capitals in Europe. Assogestioni thinks that the creation of a single coherent regulatory framework at the European level is needed, to avoid regulatory arbitrages between countries and to ensure regulatory consistency and a level playing field across sectors and investment products.

Thus, investment products with similar characteristics and purposes (whether investment funds, structured products or insurance vehicles) must be subject to the same rules.

* President of the Italian Asset Manager Association – Assogestioni.

In particular, same high level of transparency has to be ensured across all distribution channels and all investment products as to allow comparability and to help investors making conscious choices. If regulation nurtures high quality competition, then this is good regulation.

In the last years, a number of new regulatory interventions have affected the AM industry, with the result of creating a stratification and fragmentation of requirements, and rules sometimes in contradiction to each other. In an industry highly regulated and where the rules play a key role it is essential that these rules are consistently oriented to the development of the market (not to its detriment) and they are designed and implemented for the sake of end investors.

According to Assogestioni, it would be useful to promote the creation of a single rulebook for asset management, gathering all the different provisions stemming from all pieces of legislation and regulation.

2) New asset classes and new instruments

a. SMEs

As for the measures encouraging the supply of credit to SMEs, Assogestioni thinks it would be appropriate to encourage SMEs to collect a common minimum set of comparable and standardized credit information to facilitate the process of analysis and evaluation by the lenders.

Centralized rating systems, issued, for instance by the central banks (or even by the ECB) could also help the channeling of funding, thus creating a shared and consistent measure of SMEs' creditworthiness.

It is also important that all the information provided for the assessment of the credit quality of SMEs is shared on an equal basis between banks and investment funds

MIFID II regulation on research matters could also hinder SMEs' financing, as coverage would likely be reduced for these type of firms.

b. Loans

To encourage the expansion of the funding base and a greater diversification of providers of funding for companies and infrastructure projects, it is important above all to remove the barriers that still limit the possibility for funds to act as loan originators.

In order to have this a harmonization of the rules and conditions for the lending activities of investment funds not ELTIF is needed. A standardization of the structure of agreement governing loan origination activities to create best practices is also advocated.

c. ELTIF

Assogestioni has welcomed the creation of ELTIF, investment funds specifically targeted to the long-term and aimed at financing infrastructure projects. These funds should play a pivotal role in financing infrastructure investments and making them possible.

To facilitate investments in infrastructure, the introduction of a pan-European definition of infrastructure as an asset class and the encouragement of a standardization of information related to investment in infrastructure would also help.

Pension funds and insurance companies, in the light of long-term time horizon for their investments, may be the ideal investors for this type of products. However, the existence of some kind of regulatory limitations, in particular the provisions on capital requirements inherent in Solvency II, could prevent insurance companies to invest in such kind of vehicles

Are UCITS and ELTIF a good marriage? The Commission might also consider specific actions designed to further expand the group of possible investors for ELTIF encouraging (indirect) participation through UCITS funds of retail investors.

Fiscal incentives from PIR to ELTIF: Assogestioni would also welcome the development at a national level of fiscal incentives related to long-term investments through ELTIF, by extending to ELTIF the preferential tax treatment of UCITS, as foreseen in several national jurisdictions.

3) Pan-European pension fund

We welcome the Commission's objective to support pan-European individual pension plans, and to remove all the obstacles that prevent their development. A pan-European market for "third pillar" products currently does not exist. The presence of a wide range of national and supranational rules hinder its development, resulting in a highly fragmented market.

A pan-European 29th regime implemented with an EU passport would be the right solution, removing the obstacles to cross border access and encouraging the creation of a single market for personal pensions.

A Pan-European individual pension scheme:

- Same for all EU citizens.
- Tax harmonized across countries.
- With preferential taxation.

Could be the right tool to meet the retirement needs of households and, at the same time, create a more direct link between savings and investment in the real economy. Like what happened in the US with 401k.

Households in Italy are characterized by low debt and high savings. Typically, however, these savings are invested sub-optimally, with excessive exposure to real estate and financial products with short-term horizon.

In terms of pension fund investments, Italy is bringing up the rear compared to other countries of continental Europe, not to mention the UK and the United States.

The culture of long-term investment is still struggling to take root in Italy, also because this is not properly incentivized. In order to promote its development, the government could play in advance and point to:

- The harmonization of the tax treatment of Italian pension funds (from ETT to EET).
- The introduction of a preferential tax regime for long-term investments. (The increase in the capital gains tax from 11% to 20% for pension funds has gone exactly in the opposite direction).

In conclusion, in order to make the CMU really effective AMs are crucial actors. Their role is central as being facilitators in allowing demand for financing meeting the supply.

REVIVING EUROPEAN INVESTMENTS: HOW TO INTEGRATE NATIONAL, SECTORAL AND EUROPEAN INVESTMENT STRATEGIES

Nicky Edwards*

The European Commission's Capital Markets Union (CMU) project aims to realise one of the founding principles of the EU by the creation of a Single Market for capital. This will give access to capital more quickly, more cheaply and from more diverse sources for Europe's businesses and enable flows of investment across all 28 Member States.

Safely restarting securitisation, reviewing the Prospectus Directive and implementing the Juncker Plan to meet the EU's infrastructure needs are among the first priorities of the CMU. In its report Long term Finance for Infrastructure and Growth Companies in Europe the International Regulatory Strategy Group (IRSG) has looked at the impact on jobs and growth of implementing the infrastructure plan.

There is no shortage of money of money to finance infrastructure, but the estimated €600 billion of additional investment needed each year to 2020 is greater than any state or group of states can bear from the public purse alone. Only by the public and private sectors working in partnership will infrastructure renewal on the required scale be achieved.

The public and private sector interest most crucially intersects in the efficient allocation and pricing of risk. The financing of infrastructure projects is subject to selection risk, planning risk, procurement and project design risk, construction risk, asset operation and longevity risk and political risk. Of these, planning and political risk are most notably beyond the control of the private sector and political risk is predominant. Only governments can give the long-term certainty throughout the life of a project that makes political and planning risk acceptable to investors. The public and private sector working in partnership can deliver a pipeline of strategically significant investible and bankable infrastructure projects.

The creation of a Single Market for capital would enhance the ability of the private sector to finance infrastructure by identifying and removing obstacles to the efficient allocation of capital, enabling access to deep and liquid pools of capital across all 28 Member States. The European Infrastructure Plan and CMU are therefore complementary initiatives.

The quality and availability of information about projects, companies and investors is also important to the delivery of the European Infrastructure Plan. The creation

* Former Head public affairs, TheCityUk.

of infrastructure databases at EU and Member State level (in cooperation with local and regional authorities) would make infrastructure planning transparent across the EU and make investment opportunities more visible. This transparency would also further the CMU agenda.

Financial services regulation, especially capital requirements, must be calibrated to enable infrastructure spending. The recalibration of Solvency II within CMU is therefore to be welcomed. If capital requirements are approached in a way that emphasises both stability and growth, insurance companies, pension funds and pension providers will be better able to invest in Europe's infrastructure.

The long-term financing of infrastructure rests on a narrow range of instruments. Capital markets complement the traditional and central role of banks as credit intermediaries and lending entities. Without deep capital markets, long-term infrastructure relies on too narrow a set of financial instruments, including some with short maturities or volatile underlying financing sources. European Long-Term Investment Funds (ELTIFs) are innovative financial instruments which encourage investment in longer-term assets. It will be important that the financial services industry works closely with regulators as ELTIFs are being transposed into national regulation to inspire investor confidence to supply finance.

Institutional investors, such as insurers and pension funds have significant capacity to provide infrastructure funding if regulation is properly calibrated, stable and free from uncertainty. Consumers need access to products backed by long-term assets which use capital markets effectively to meet a range of long-term needs. These include providing an income throughout retirement and insuring against health and long-term care costs.

Substantial infrastructure investment is possible in a Defined Contribution pension system. Investment in illiquid asset classes (such as unlisted infrastructure) can be difficult, especially where individuals have the option to switch funds easily. In a Defined Benefit system, solvency and funding regulation can make long-term investing more difficult, as requirements for illiquid assets are typically tighter than for liquid assets. In Australia and Canada, investment and pension regulation allows pension funds to invest in illiquid assets to a higher degree than in most other countries: Europe should learn from the success of these regulatory regimes in enabling such investment.

National, sectoral and European investment strategies will be central to the success of CMU. This success will rest on the strength of the partnerships between the public and private sectors that will enable the flow of capital and benefit of infrastructure across all 28 Member States of the EU. The quality of information for and about projects, businesses and investors is important as is creating a regulatory regime for financial services that enables long-term investment in infrastructure. Finally, it must be realised that the EU is competing for investment and must be attractive in global economy if the ambitions of the European Investment Plan are to be fulfilled.

CAPITAL MARKETS UNION: FINANCIAL CENTERS' INTERMEDIATION AND THE POLITICAL NECESSITY TO CHOOSE A FINANCIAL MODEL

Edouard-François de Lencquesaing*

Since the crisis, our countries have two major challenges: how to trigger growth and how to fulfill the new prudential regulatory constraints.

Growth means risk at the entrepreneurial level. Risk must be financed, but investors (private or institutional) are reluctant to take risk. The financial industry must intermediate this risk to make it acceptable and channel savings to transform it on productive capital toward the real economy. Prudential constraints means how to properly balance risk concentrated on banking balance sheets via credit vs risk taken by end investors via the capital market.

The tuning of this balance is a real structural political choice for the society. This choice must be done through the proper ecosystem between politics, regulators, investors, Corporates and financial industry. This community is how in Paris we define a financial center.

It is the role of a FC not just to compete with others or being attractive towards global investors, but to define the conditions to optimize the functioning of the domestics "financial pipes" to bring (mobilize) domestic savings where it is needed between big corporate, medium size corp. SME and start up. Each target needed a specific ecosystem and strategy (including fiscal strategy to complement incentives on top of the financial intermediation.

To fulfill this role the FC must be properly structured and governed to be able to integrate all the contradictory forces against its constituents and help the emergence of a kind of consensus in the long-term.

In Europe and in France we are at a stage where we think that we shall not copy the US model dominated by the capital market (80/20); but that the actual model dominated by the credit (20/80) will evolve in favor of the market. We must accompany this evolution in a way to avoid financial rupture. That is why we have the "capital market union" project and in France "Paris 2020" to fix the proper strategy and priorities.

Those priorities are first based on long-term investment in favor of equity like instruments from the investors' point of view it is important to structure a strategy to help them to take risk and mobilise their saving in the long-term. That is why the fund management industry is crucial along with kind of long-term collective or in-

* Délégué general, European Institute of Financial Regulation (EIFR).

dividual contracts: pension funds, life insurance, employee investment schemes, mutual funds, accompany by a voluntarist financial education.

From the corporate side what is important is the diversity of funding sources, and credit seems the most “comfortable” as banks know very well the risk profile of the corporate are in a position to accompany stress period with more flexibility than investors via capital markets. But in the same time markets may offer a lot of advantages and flexibility from the banking side to deliver credit and respect prudential ratios it is important to find ways to “distribute” it to investors leveraging this indirect usage of market via the chain: credit-securitisation-investment. This can be triggered by banks and it is the “originate and distribute” model or by investors and it is the “invest to lend” model.

It is clear that to optimize the functioning of those models it is essential to rely on a strong system of financial market infrastructures including securities services and transparent and robust securities law.

At a certain step of the evolution of financial centers, the stock exchanges may play a wider role than just being a transaction/price factory as it is a subset of the FC ecosystem. As the SE needs “fuel” it is of its interest to take initiatives to reinforce the buy side structures to bring the necessary savings to the markets.

Obviously to trigger the proper dynamics of all the pieces of this puzzle must be integrated in a clear political vision meaning a legislative and regulatory road map based on macroeconomic assumptions: size of equities, bond, mutual fund markets and therefore, GDP. When this alchemy is properly tuned, then foreign investors will contribute naturally to the domestic growth and the virtuous circle is engaged.

It is clear that the actual crisis can be a good leverage to accelerate structural reforms as it should be the case in France. The priority is the condition to mobilize the financial industry to finance growth with domestic savings.

We share the idea that a stock exchange is primarily a market infrastructure to serve the financial ecosystem and leverage general interest in the way to intermediate corporate and investor’s needs. As the financial center is not yet really structured, the stock exchange should be used in a broader function/perimeter than just the primary and the secondary market.

Today in Russia the priority is to find ways to reorient savings to the corporate world directly or indirectly at the proper granular way (blue ships vs medium size corporate MSC). The priority is to address the risk aversion of the investor; that is cultural (takes time) and structural (also time) it should be necessary to be innovative and find shortcuts.

As the stock exchange is at the center of the game, it would be interesting to find out how to leverage this “force” to articulate few initiatives to facilitate the mobilization of the buy side. I think that with the public authorities, the central bank and intermediaries some concrete initiatives could be explored. As the direct investors are culturally far from being able to access the world of capital market the priority should be through fund intermediation.

In my sense the major objective of the CMU process is identifying all the major questions (a good formalized question is a way for a good answer) and ask the in-

dustry, not the Commission, to build up progressively answers, visions, solutions (legislative or business driven/processes/instruments, from the private sector collective initiatives, with the proper public incentives).

At this stage we do not have to be afraid of words, like "strategy". Each institution devote time and money to formalize its strategy, why not Europe? Another misunderstood concept is "industrial policy". Yes the financial industry in its specific role of channeling/intermediating savings towards the best targets (enterprises) that will create value and growth for the collectivity, need an industrial policy analysing competitive issues (critical mass – degree of industrialization/compatibility/interoperability), models (growth and stability; credit and capital market, debts vs equities, long-term investment and funds) and building consensus for actions.

In that matter it is clear that the key word should be "convergence" to create intercategorial synergies, it is not one country or one segment (SMEs vs large cap) against the other, it is all together as for example, if we want to facilitate SME financing we need to leverage the critical mass (including knowledge/practices) offered by upper segments.

Europe should create a competitive advantage from its potential motto: "a convergent diversity". Our common driver, to trigger our necessary growth, is our collective risk appetite, meaning entrepreneurial culture. To finance that dynamic it is necessary to propagate that culture to the investors' circle which is today risk adverse. That is the fundamental role of the financial intermediation including the fund management industry in the context of the long-term investment strategy. That is why in France we promote a slightly different approach: a "financing and investment union", the CMU being just a (important) tool among others to achieve this objective.

Today we are confronted to a major gap: this common sense long-term vision and a regulatory framework that promote short term strategies. That is why the "Long-term investment intergroup" and also the Juncker plan initiative are essential to progressively but also urgently feel this gap.

That is why also financial centers should play collectively a major role: they represent the general interest of all the stakeholders (users and providers) of the financial industry, they "incarnate locally" this "infrastructural" capacity to channel savings and to structure risks to match entrepreneurial– investors schemes. As diversity, in Europe, is a given, they are also a condition to implement this needed "prox-union": an union for critical mass and proximity services for principle of reality, in other words mass customization at the European dimension. This articulated network of financial centers on the ground is a unique tool to leverage our European sovereignty and competitiveness in financing our economy.

THE CAPITAL MARKETS UNION, A GERMAN PERSPECTIVE

Jochen Biedermann*

The Capital Market Union, both the objective as well the action plan, which was published at the end of September, was seen very positive by the members of our association. That is the first and maybe the most important point I want to mention.

Secondly, I have to say that I fully agree with the statement that there will be less bank lending and more market.

I think the idea, at least for Germany, is not to have less bank lending, because bank lending in Germany works reasonable well. More choice in financing is a good idea, of course. Improving the capital markets for issuing bonds and raising equity at the stock exchange is certainly a good idea. And without any doubt there is a certain gap in capital markets financing in Germany, which needs to be closed. This will give more choice for the investors and also for the companies.

Another point is an urgent need for more venture capital in Germany. The entrepreneurs many times raised that issue. They want to see more seed capital. But also in the following financing rounds they feel that is not always enough capital available. And not only a lack of capital, but also a lack of investors who understand their businesses.

According to latest figures, there is a very strong community of start-ups in Germany, including young and innovative companies in the financial sector, the so-called FinTech companies. We need to support all those innovative companies. That includes providing reasonable funding options for them, from venture capital up to a going-public at the stock market at a later stage. Access to risk capital needs to be improved in Germany and all over Europe.

If I look at the German situation, EU initiatives for creating a capital markets union and encouraging more cross-border investment are certainly very helpful. But independent of that, we have several issues in Germany that need to be addressed as well. It starts with tax, where in my opinion providing tax incentives for venture capital and for investing in small and medium-sized enterprises are worthwhile to look at. Fortunately, the German government is already doing so, at least for venture capital.

Another issue is the risk averseness of the average German investor, who prefers to keep his money on his bank account, even in times of negative real interest. By

* Senior Advisor, Frankfurt Main Finance.

doing so, German investors are losing money, but I think changing their mind-sets is probably a challenge for the next decades.

Then we have in Germany – like in many other European countries – a so-called home bias. Investors prefer to invest in the domestic stock market, which they know better, despite better investment opportunities elsewhere, perhaps. Here we need more transparency and better information about EU listed companies, and the right way of communication to the end investors.

The last thing I want to mention are the owners of small and medium-sized enterprises, who are regularly shying away from using the stock market. In many cases, they are afraid of pre and post-IPO transparency requirements and all the red tape, which is involved in tapping the capital market. Some have been active in issuing corporate bonds, but with mixed results so far. In a few cases, investors have lost money due to insolvency of the bond issuers.

To summarize, we need to offer various ways of raising capital for start-ups, SME and corporate issuers and we need to encourage business owners and investors in making use of them, and not stopping at national borders, of course.

Only by doing so, we will stay competitive in the European Union.

INVESTING IN SUSTAINABLE FINANCE AND SOCIAL INFRASTRUCTURE – PUBLIC PRIVATE PARTNERSHIP

A ROLE FOR SOLIDARITY IN BUSINESS DECISIONS

Domingo Sugranyes Bickel*

The Centesimus Annus pro Pontifice Foundation was founded by Saint John Paul II in 1993 as a forum for businessmen, professionals, economists and academics that delves into how Christian social teaching can be applied in real economic life. On behalf of the Foundation and its members in 20 countries, I am very honored to have been invited to speak in this highly acclaimed session of the Rome Investment Forum and I would like to congratulate the organisers for putting the emphasis on sustainable and social investment. What do these terms imply?

We urgently need a humanism capable of bringing together the different fields of knowledge, including economics, in the service of a more integral and integrating vision writes Pope Francis in Laudato si' (141). And his predecessor in Caritas in Veritate: Locating resources, financing, production, consumption and all the other phases in the economic cycle inevitably have moral implications. Thus every economic decision has a moral consequence (37).

When talking about investing in sustainable finance and social infrastructure, the starting point is necessarily an integrating concept of sustainability and social utility, something which is very central to the economic and social views of the Catholic Church and also acceptable for many, whether or not members of the Church.

NEW SOCIAL DEMANDS OFFER GREAT OPPORTUNITIES

In a way, we are at a lucky point in economic history, in spite of all our uncertainties: the urgent need to rethink existing patterns in economic life can and should be seen as opportunities. We need economic growth to continue fighting poverty, but there is also a demand for qualitative changes: more sustainable use of resources, more responsible consumption, more opportunities for the young unemployed, better professional education, better access to job satisfaction. We are facing a real demand for a qualitatively different economy, and this offers huge opportunities for innovation and investment.

Experience shows that relying on centralized and impersonal public programs does not bring sustainable solutions on either front: qualitative change cannot be

* Chairman Centesimus Annus pro Pontifice Foundation.

achieved through regulation alone; and the old assistance systems can induce a dangerous 'welfare trap' based on passivity and inaction which aggravates poverty.

We know that decentralized entrepreneurial initiative is the only context where the new demands can be satisfied, while the fight against poverty can continue at the same time. If there is demand for more responsible use of resources and more sustainable products, let's go for it: the market economy has given proof of its ability to adapt. The same applies to demands from workers of all ages for better jobs and more job satisfaction.

In order to succeed in satisfying the new demands, entrepreneurial initiative needs a favourable institutional context. Let's admit: there are big obstacles on the way: entitlements which prevent the excluded from accessing jobs; inadequate education systems which lead candidates to unemployment; subsidization which hinders competition, and prevents start-ups to reach break-even; rigid legislations which hinder innovation. We have the moral obligation to be self-critical about our own business practices: too often, we pay lip-service to the market economy while at the same time defend positions of corporatist privilege.

Who are the movers of this necessary rethinking of economic life? Some people would say: the unions, the co-operatives, the new social movements… Maybe, but it won't work unless there is an effective answer in the form of true economic innovation, which in turn is inseparable from entrepreneurial initiative, intelligently supported – though not controlled – by the State. If there is consensus that environment protection and job creation are today's more urgent needs in Europe, then let's turn to the forces which really have the resources to change the state of things. And this means providing adequate education, regulatory support and available finance to support the flourishing of a new breed of entrepreneurs of the present day.

"HELP THE POOR HELP THEMSELVES"

From our viewpoint of the relatively well-off, it is preoccupying to see a growing distance between levels of income. Not so much because of inequality as such – egalitarian utopia don't usually produce good economic or democratic results – but because it seems that in relative terms, and sometimes even in absolute terms, the poor are becoming poorer, even in our affluent society: the problems of wage stagnation or wage reduction, precariousness and marginality. Now the refugee emergency in Europe brings new dimensions to the problem and sometimes can deviate available resources from previously registered poor people. And the usual answer is: more tax.

Is additional tax a solution for these problems? Who guarantees that the new tax revenues would be used for the needs of the poor, when public debt and government uncontrolled expense eat such a large part of public income, and when welfare benefits are still too often spread on people who don't really need them?

In America first, but also in Europe, more and more voluntary philanthropic action is being undertaken by business. This important development requires specific attention. Management expertise, transparency and good governance are great

factors of success whereby corporate philanthropy can significantly contribute to social action projects.

On the other hand, business promoted charities need to learn from Church supported and other charitable movements. Social projects can't succeed unless they are based on communities on the recipients' end getting totally involved in decision making and motivation, so as to become dignified agents of their own destiny, using a phrase by Pope Francis in his recent address to the United Nations. Religious and NGOs have an indispensable know-how in organising participative, bottom-up initiatives.

Be it religious, idealistic, or corporate, philanthropic initiatives are highly positive, but there is need for more: more voluntary involvement by corporations and, above all, more commitment by people and families in the rich parts of the world. We need the funds to become larger so as to reach economies of scale. The amount of resources mobilized needs to be significantly higher if we are to change the trend towards impoverishment. The running of the funds should not only be transparent; their founders should also renounce corporate or local pride and embark more decidedly on the purpose of the common good: and this probably requires joining resources in creating common funds, putting them under independent management and applying to them generally accepted accountability rules.

A focused action on promoting new, professionnally managed voluntary solidarity funds can be an answer to the danger of increased marginalisation. This is a subject on which the Centesimus Annus pro Pontifice Foundation is now working and we hope to come up with action oriented recommendations in the near future.

A ROLE FOR SOLIDARITY IN BUSINESS DECISIONS

But what about business itself: is there space for solidarity in business decisions? Investing in Sustainable Finance and Social Infrastructure, our theme of this morning, implies that business decisions involve a degree of solidarity, the same way as in every human act, gift and fraternity co-exist with the natural yearning for individual satisfaction.

Against many situations of mismanagement, corruption and lack of accountability – which are now so frequently exposed to public scrutiny – we all know that it is also possible to build areas of the market economy which serve directly the common good. How can we enlarge this bright side of the economy? Let me just indicate a few practical possibilities:

1. Promoting a culture of service to society in our organizations is something where we all can invest. Putting organizations to the service of common good is in the first place a cultural fact which in the best cases permeates all policies, from product design to the use of resources, from sales policies to personnel management and financial plans. Why not expressly change our order of priorities, not as a marketing tool, but as a potent management resource?

2. To foster these ideas, we need to promote intermediate bodies which autonomously sustain solidarity and contribute to harmonize concepts and interests that would otherwise be in conflict. It is not just Public Private Partnership, as in the title of the present session. The idea is to look for opportunities of developing civil society, i.e. initiatives which are really developed in common between different groups and organisations; for example, social development projects jointly supported by business, associations and public bodies.
3. Linking entitlements with duties allows to build co-responsibility at corporate level and in all possible "alliances for change". One of the difficult pre-conditions here is to return to more proportionate levels of rewards between different levels of responsbility, i.e. reducing excessively high salaries and bonuses. This is not totally unrealistic: Let me just quote John Cryan, Deutsche Bank new co-CEO in a recent speech in Frankfurt: "Bonuses don't make bankers work harder… Pay in the sector is still too high, and I don't fully empathise with people who say they turn up to work and work harder because they can be paid a little bit more" (FT, nov 25, 2015).
4. Corporations and small business firms are all indispensable partners of professional training and transitional monitoring, which works very well in some European countries, but is totally unsatisfactory in others.

If we are able to communicate these kind of ideas and take the right action in our own professional environment, a favourable climate will naturally emerge for investment in sustainable finance and social infrastructure.

Public-private partnership is not an easy path, unless it is seen in such an integrating framework of corporate culture and active civil society. Why is it difficult? Because we have had so many bad examples of politically influenced mismanagement in finance, in real estate development, in construction and in many more areas of business. On the contrary, long-term, sustainable business continuity and success are made of autonomous investment decisions and marketing policies, not on relying on State subsidies or concessions. So a word of caution is necessary about public-private partnership: it might be necessary in the broader context of "alliances for change", but it can work only if all parties are inspired by a vocation of public service, under a strict regime of transparency, well known rules of the game, and total accountability.

FINANCE WITH A PURPOSE

Sustainable finance requires a chapter of its own. In the present context of profound changes in the financial sector, both through added regulation and through internally promoted ethical displicine, there is an urgent need for the reforms to be instilled with real ethical and human perspective.

Financial institutions need to redefine their business model in the new context, which probably implies more moderate return targets, a shift towards long-term in-

centives and bonus policies at all levels, and zero tolerance of unethical practice which should always be punitively expensive for those involved. The added regulatory constraints and market demands are in any case forcing the institutions to pay even more attention to consumer protection, to family financial education and to avoid excessive leveraging.

Perhaps in addition to all this, the deepest challenge is to rediscover finance with a purpose: helping job creation through decentralized lending at the level of small firms and local initiative; mobilize financial technology for inclusive finance through the use of mobile devices and digitization: these are just some of the objectives which the best financial institutions are already adopting among their basic policy aims and this is probably the way towards real financial reform.

To conclude, in the eyes of the Centesimus Annus pro Pontifice Foundation these questions and challenges do not limit the possibilities of future growth. On the contrary, they are the key which motivates us to look forward and design a future which considers deep changes in both purpose and practice in finance, enterprise and the economy. These are ideas which contribute in the continous exercise to identify the best investment opportunities towards Financing Long-Term Europe.

CHALLENGING THE FOUNDATIONS OF THE SOCIAL CONTRACT: IMPACT INVESTMENT AND SOCIAL INNOVATION

Miguel Poiares Maduro*

Wealth creation and with it the financial system and social justice are often perceived at best as separate – at worst as in opposition. This actually forgets the role that the financial system has had historically in the beginning as a way of democratising access to wealth, but this is indeed the view which has become predominant.

The way the two are often reconciled is by putting the focus on the extent to which wealth creation can create more resources that can be redistributed. And the traditional instrument for that – as the previous speaker mentioned – was the taxation system. But this understanding, in opposition or at best as strictly separated of wealth creation on the one hand and on the other hand of social value, of social infrastructure has shaped the understanding of the relationship between the two domains. An understanding governed by different set of values and pursuing different goals.

This tension has been clearly exacerbated by the financial crisis and the perception that this crisis was linked to inadequate set of values, to a world deprived of ethics and appropriate behaviour.

In my view – and this is the first point I want to make – this tension feeds and is fed by a deeper challenge to the foundation of the social contract on which our societies, our States have been based and worked for decades.

There are two main origins for this deeper challenge to this social contract.

The first one is globalisation. Globalisation is perceived as redistributing wealth between different set of actors. Mobility for example is easier for capital than it is for individuals and in that way then having redistributive effects altering the social contract by virtue of the consequences of globalisation. And globalisation is also perceived as affecting the autonomy of State political communities in regulating and distributing the wealth as part of that social contract. So, globalisation puts in question the traditional forum for the governing of the social relationships that are part of that social contract.

The second deeper challenge for that social contract is linked to a variety of structural challenges in our society such as ageing but, I would say, the crucial element for the future is terms of those societal structural changes and the way that it will affect our social contract is the technological revolution. This technological revolution is having and will have extremely important and relevant redistributive impacts. First, because the nature of innovation today and the nature of technological innovation and

* Former Minister for Regional Development, Portugal.

the products and services that it creates is such that added value in these new products and new services is often very strongly concentrated. And that strong concentration therefore has an impact on equality and has profound redistributive consequences. Second, robotics, artificial intelligence is bound to profoundly impact the nature of employment. Some recent studies estimate that 50% of all jobs that we currently have, 70% of low skilled jobs, will be replaced in a period of 10 to 20 years. I will argue that this set of conditions – globalisation, the structural challenges, the technological revolution – puts us in a situation very similar to that which we historically faced when we had the industrial revolution. The industrial revolution had profound societal consequences and the way to legitimate, to accommodate these consequences was the emergence of the Welfare State. The Welfare State was the answer to the challenge that we historically faced with the industrial revolution. So what we need today is to design and to find what is our answer to this profound challenge which we have in societal terms. In my view, the fundamental part of that answer will come from impact investment. And I believe so because a fundamental part of that answer will need to come from breaking this separation between wealth creation on the one hand and social justice on the other. This can be then by instruments that will internalise social values, social goals in the operation of the financial system and the market economy.

This can be also by pulling on the power of innovation, also not only at the level of products and services but also on the level of public policies. It is in this context that I said that I believe social innovation and impact investment can play a fundamental role.

This is what we try to do in Portugal, by developing a very ambitious social innovation and impact investment program. Our program for social innovation is the first one also where EU structural funds are being used, is probably in relative terms the most ambitious worldwide.

But in my view it's not enough to have funds, to put money. For this to work, for social innovation to succeed and to deliver what we expect and want it to deliver, we need to change institutional culture. Infrastructure is important, funds are important, people are important, but it is crucial to change our institutional culture, what is often described as the ecosystem. We need an ecosystem that is friendly to innovation, that welcomes and understands impact investment and integrates the set of values that is linked to it.

But the creation of this ecosystem, the change in institutional culture, is perhaps also the most difficult thing to achieve because we are culturally dependent. We have sort of cultural bias on how we understand the world. And therefore one of the most difficult things for those who work on social innovation, on impact investment is to make the others understand its potential because often the potential is understandable only when it is lived. We do not have that reality yet, it is difficult for those to anticipate the potential of something which is totally foreign, stranger to how things have usually been done.

I would like to make a small exercise with you, to try to make this point clear.

Imagine you are in the year 2000 and you have two groups of people that come to you asking to fund a project. The first is a group of very famous professors come

and say well we are going to create the best encyclopaedia in the world. It is going to surpass the Britannia encyclopaedia, it's going to surpass Larousse, it's going be the best encyclopaedia in the world because we have the best professors. We have agreements with Harvard, with Yale, with Sorbonne, with La Sapienza, with all the best universities in the world and these people are going to write the entries and the best encyclopaedia you can think of.

And then comes the second group of people, likely younger people, that come to asking for financing tool. Remember, this is the year 2000. You ask "What do you want us to fund?". They reply "We want to create an encyclopaedia. It's going to be a site on the Internet. Everyone can create an entry, everyone can come and edit that entry and write whatever they want".

Who do you think will be funded? The first group, because that was our concept of encyclopaedia. The second is what we call Wikipedia and has become the dominant concept of an encyclopaedia. But until Wikipedia existed, if you would tell anyone mainstream to fund, to put lots of money in it, nobody would have done it because that was not the concept of what an encyclopaedia would be.

This tells us a lesson about the nature of innovation, including social innovation, about the extent of obstacles in terms of path dependency, of cultural bias that need to be overcome. And in order to overcome them what we really need is a holistic approach that works at the level of different institutional variables in order to create the institutional cultural change that we need to set up the ecosystem that is friendly to social innovation and impact investment.

There are decisive elements in this ecosystem. You need more cooperative mentality to fight the silus culture that is dominant in the public sector, but is also dominant in the way that companies work. You need a cooperative mentality. Specialisation is great but increasingly you need to balance that better with cooperation. You need more openness to experimentation and risk-taking. You need a more meritocratic culture, more focus on measurable results and metrics to assess them. And you need – as the previous speaker also mentioned – much more focus on a smaller scale, on decentralisation. The idea is that you can succeed in areas of innovation by starting with a smaller scale, then generalising then expanding it.

It is with this in mind that in Portugal we created our social innovation program and in that program we stressed a lot the instruments that aim at promoting cooperation between actors but also more integrated governance. We also stress very much capacitation, very strong emphasis on that. Also tremendous importance is given to developing new metrics, developing measurable indicators and that in an area such as social innovation and impact investment is a novelty because you don't measure results simply by market return, but because you want to measure other positive externalities which are created, how do you measure that financially?

This is a crucial working where we have to invest much more. And our program also has a tremendous focus both on scalability and sustainability. It has four pillars in this respect.

The first one is what we call capacity building for social investment. We give grants of up to 50.000 EUR to each actor who has a project funded. This money can be used

only for capacitation. So the idea is that with the money to fund a project comes a specific funding that is only to be used for capacitation, to strengthen the managerial capacity, to prepare these actors to receive the impact investment.

The second pillar is what we call venture philanthropy matching program. The purpose here is to promote a pipeline of stronger and more sustainable projects. Basically what we do here is we match the founding that comes from foundation, corporations and also other public entities, that are provided for impact initiatives in a logic of venture philanthropy. And the idea is to grow the critical mass of these projects, to then allow them to be in a better position to benefit from the additional two pillars that we have in our program, that are the most substantial.

So these first two are meant to reinforce the capacity of the system to then receive and make use of the two most important instruments. These two most important instruments are one related to innovation on public policies. And it is the social impact bonds. The State or public entities contract with NGOs but can also be private companies, can also be local authorities and often what we have the indication from the first project is that you have a consortium of local authorities and NGOs. Aimed for example at reducing academic failure, drop out rates from school. And what our program does is that, it measures the benefit, the social benefit from the reduction in the drop out rate. This is given a certain value, which is measurable in financial terms; and if that goal is achieved by that program, the State through our program pays to the investors who have an economic return, an economic profit from the investment they have made in pursuing that social goal. So this social impact bonds is the instrument that we have in promoting innovation in public policies. And our expectation is that these projects will be multiple, but on a smaller scale, often at local level. And where a project such as that will work in the area of education, but we also have other areas such as health, employment, social inclusion, then can be generalised for other areas of the country.

The fourth and final pillar that we have is the fund for social innovation. This is actually the first financial instrument for social innovation set up with means of the European Union structural fund. This fund will work at the wholesale level. In the form of equity or partial equity or financing of loans. Through entities that can be banks, can be foundations and often again what we see here is that there are groups forming with banks, foundations, NGOs, social actors, that they will be the retail entities that will contract with Portugal Social Innovation and will provide funds in terms of impact investment.

Now, these are the four pillars through which we try to cover the full range of potential that we have in the area of social innovation and impact investment.

But it's not enough to set up an ambitious program like this one. We have many challenges that we have ahead, many challenges that we have not only at the level of my own country, Portugal, but also Europe. I trust tremendously in the potential of social innovation and impact investment. And I trust very much in this potential to help us addressing the challenges that we have in reconstructing the conditions for the social contract that have been the basis of our society.

But I want to conclude highlighting some of the challenges and the risks that we have implementing this strategy.

The first are political risks. I was a politician for some years so I am well aware of what you have to gain or to lose in investing on a topic like this. This is reason for me why politicians very rarely, particularly in Europe, have not assumed ownership of the idea of social innovation and impact investment. It hasn't been given by politicians often the importance. You have certainly the United Kingdom and the United States, but outside these two countries very rarely it has been taken as a flag, as something that could be politically valuable. And you need politicians to think that it is politically valuable for them to assume ownership and lead and pursue this agenda.

And for me the reason is the complexity. It is very difficult to explain this to people. The advantages, the consequences… What does it mean to internalise in the economy social goals? What does it mean exactly social innovation? What does it mean impact investment? It is not something that you can go to a television and present in a thirty seconds statement. And in fact, if you say "I give 150 million to traditional in the form of subsidies to social actors" you can get, but if you say "I give 150 million to social innovation and impact investment, it's going to be leveraged by financial institution and used to support projects that will produce social goods" that's more difficult to understand.

This complexity means it is difficult to sell but moreover it means something else too. It means it is very easy to manipulate. In Portugal, when we presented this, either we have almost no attention from the media or, when we have, is because someone started to say "Oh, this is the beginning of a privatisation, this is a new form of privatisation" And that's it. You have the label privatisation and immediately you are in trouble. So, the first challenge that we have is how to sell it politically. How to make it politically attractive. And this should be the focus of those that work on this agenda. And I think the goal, the starting point is this. What we say is that we want to create a market economy that is more socially friendly. That's the starting point that acts more in accordance with social values, that's how to pursue this agenda politically.

The second challenge that we have is competition with traditional areas such as philanthropy or the way in which traditionally social actors have played.

In the beginning in Portugal we had many suspicions, reservations from traditional social actors. This is a new area, is not the way we traditionally do things where you got the subsidy to produce a certain social service. The idea of sustainability of a social project is contradictory of the idea how they are perceived. You get money to provide a service. You don't get money to produce something which then gives you a financial return. So, the risks of division, of competition of those who say "No, we shouldn't invest in philanthropy, we shouldn't invest in impact investment" is a very strong one.

And here, again, the focus has to be that these two things are not in opposition they are complementary. Social innovation and impact investment have a plus compared to other traditional areas. They are a system to mainstream social values into all areas of the economy, including when you act for profit.

The third challenge is demand. I often say in Portugal "we have no problem in funding". My fear is, do we have projects with the quality necessary that will justi-

fy the funding to be provided? Or do we have investors ready to come with their money to make use of these new financial instruments? This is basically the challenge resulting from the fact that we are creating a new market where it does not exist. And therefore the focus that we have put in Portugal in terms of capacitation and in terms of creating a set of actors that we call activation actors, not to be passive but to be proactive in the search fro example to help the traditional circle of social actors t make use of these new possibilities. Because there is a lot of potential from which you can pull but you need to reform and to capacitate those actors.

And very important in this respect – this leads me to my final point – is visibility. As said, social innovation, impact investment often is on a smaller scale, should start on a smaller scale. But on the other hand, in order to be successful in facing the challenges that I mentioned, it needs to be part and be supported by a broad narrative. In my view, and this is the point that I tried to make at the beginning, this narrative is and could be the role that social innovation and impact investment can have in allowing us to face the challenges for the social contract, in terms allowing us to rebuild the social contract on which society has been founded.

ETHICS IN FINANCE: THE EXPERIENCE OF SUSTAINABLE FINANCE IN ITALY

Davide Dal Maso*

The relationship between ethics and finance is quite complex and can be addressed from different perspectives. I see at least three aspects worth investigating:

- the first is if the principles of business ethics have a specific application in the financial sector;
- the second is how ethical principles steer the decision of financial actors in relation to the purpose of debtors' (borrowers or investees) economic activities;
- the third (on which I will focus more) is to what extent ethics influence society's preferences and become a competitive factor for debtors in the market.

1. Like in any other business environment, moral or ethical problems arise from time to time and professionals have to deal with them, both at individual and organisational level. One might argue that in an over-regulated sector such as finance, it's the law that states what is right and what is wrong and, therefore, an organization that behaves in compliance with law is on the safe side. Unfortunately, it is not that simple. We know that law and contracts are incomplete. There is always room for expectancies that cannot be regulated by formal rules. In this grey area that law cannot cover, it is ethics that is supposed to guide decisions.

The business of finance is particularly sensitive to conflict of interests. Insider trading is a classic. But let's take a very ordinary case, such as lending, and let's apply it in one of the noblest example of business driven by values, the cooperative banks: here, the principle of mutuality, the internal democracy, the [theoretical] alignment of interests of different stakeholders (a person can be at the same time shareowner (member of the cooperative), client (both depositor and borrower), employee and member of the board) can create either a magic formula or a complete mess – and it's ethics that makes the difference, not the rule of law.

Another example comes from the news about the role of banks in tax evasion that emerged from the Panama Papers: one of the most respected Nordic financial institutions, Nordea, has been alleged to have helped some of its clients to hide their wealth. The bank regretted that it did have procedures earlier to ensure clients pay the necessary taxes and its CEO added "Compliance is the bank's absolute top priority". Still, Denmark's minister for culture and ecclesiastical affairs, Bertel Haarder,

* Secretary General of the Italian Forum per la finanza sostenibile.

said "ethical conduct will be an important competitive parameter in the future. It won't be enough that a transaction is legal. It also needs to be morally defensible." This statement clearly demonstrates that compliance with law is a necessary but not sufficient condition to run a business. In order to achieve the licence to operate, a company must do more than respect the basics; it has to move beyond and to fulfil the legitimate expectations that come from the society.

For banks and financial institutions in general, social legitimacy is particularly hard to achieve. Historically, lenders do not have a good reputation. The practice of making money with money (as opposed by earning it through labour) has always been very controversial and many religions disapprove interests on lending. In more recent times, the big crisis that (symbolically) started with Lehman Bros bankrupt has been attributed to the opportunistic behaviour of Wall Street greedy bankers. Clearly, it is a rough simplification – but it witnesses how long is the way that financial institutions have to walk to regain public confidence.

In this perspective, codes of ethics are perceived as a further level of regulation that create smoke rather than provide an efficient and credible tool to prevent misconducts. Instead, I believe that they are one of the most effective means that financial institutions have to regain trust: acknowledging the existence of conflicts and clearly stating how they are treated is the basis of the social contract with stakeholders. Companies (and financial institutions make no exception) tend to make very general statements on the importance of their stakeholders, i.e. that they are all equally esteemed: the organisation wants to create value for shareholders and customers and employees and communities and future generations and … – which is simply impossible: every person with common sense knows that in any organisation some stakeholders are more important than others, even if it might be politically incorrect to admit. But not to say who is more important than who just generates the conditions for arbitrariness and ambiguity – that is exactly what an organization should avert. Codes of ethics are not there to create verbose and useless superfluity and to make things more complicated – exactly the opposite: an honest code of ethics helps people to solve problems. It's not by denying the existence of ethical dilemmas that organisations can overtake tangles, but rather by dealing with them with transparency and frankness.

2. What I said above might concern, mutatis mutandis, any business. But in terms of applied ethics, the financial industry has a peculiarity that poses specific questions, which is that its impacts are mainly indirect. Finance is an enabler for someone else's business – that, in turn, generates economic, social and environmental effects. It is not the financial activity itself that emits, say, greenhouse gases, but banks' corporate customers might do. The question then is: is the bank responsible of the consequences of its customers' activities? Legally speaking, in most cases the answer is not. But, as we learned, compliance with legal standards is not enough. The ethical principle of responsibility suggests that one should consider also the repercussions of the activities it makes possible. And, in fact, financial institutions are bitterly criticised for supporting companies that run controversial businesses (armaments, al-

cohol, pornography …) or manage a "normal" business in way that undermines social or human or environmental capital (for example, violation of human rights along the value chain).

This debate is at the origin of what we call "ethical finance", i.e. a particular way to act as a financial institution that is steered by an ethical purpose. An ethical bank does not finance any business whatsoever, but only those that produce outputs in line with its values. In other words, ethical finance expresses a clear view of the society it wants to pursue. Its mission is to make it real by funding only the economic actors who share this vision. The real innovation of ethical finance is that it overcomes the idea of "neutrality" of financial activity and extends to the capital supplier the responsibility for the effects of the underlying business. Finance is not a goal itself, but a mean. The social legitimation of finance is not given for granted; it needs to be justified by the extent to which it contributes to the achievement of an ethical economy.

Of course, we know that the concept of ethics is relative, not absolute. Ethics is a system of moral rules that are recognised by a homogeneous community. When we speak of ethical finance, we should always clarify which ethics we are referring to. Catholic ethics differs from Islamic one – but both are applied by financial institutions that define themselves as ethical. If we push the concept up to the extreme, also mafia expresses an ethical vision (a set of stringent rules, fully respected by its members) and its financial activity is ethical in the sense that it is coherent with the mafia values (maximisation of profits at any cost, code of silence …) – but it is clearly a paradox.

3. We are witnessing a vast phenomenon of change in moral values in the society. After years when economic growth was perceived as the only goal, worth any social cost, today people feel that a new balance has to be found in the economic system and in the society. People's new awareness, raised by social and environmental crises, generates effects in several directions: citizens-voters push their representatives in the political arena to pass more stringent regulations – that, in turn, penalize (or reward) corporates' social or environmental policies; citizens-consumers use their purchasing power (the so-called 'vote with the wallet') and determine the success of companies' business strategies; citizens-employees transfer their values in the organisations they work for, promoting the change from the inside. Like a tide, the new social sensitivity instils the seeds of change at any level.

Finance is not immune to this development – and Sustainable and Responsible Investment (SRI) is possibly the phenomenon that better synthetises it.

SRI consists in the integration of Environmental, Social and Governance (ESG) issues in the investment processes. This means that investors, when deciding asset allocation, not only consider the economic fundamentals (solidity, profitability …) of investees, but also the quality of their ESG policies and practices. In practice, this happens through the use of a set of indicators that measure how the invested company manages the relationships with its key stakeholders (shareholders, employees, customers, communities, suppliers …).

SRI can take different shapes, according to the goals that the investor wants to achieve. Eurosif, the European reference organisation in this domain, defines seven possible approaches:

- Sustainability themed investments cover a wide range of themes from climate change and energy efficiency to for– ests and water. Investors' motivations may vary greatly, but it is typical to support particular industries transitioning to more sustainable consumption and production. This can be combined with a belief that a particular theme will outperform the rest of the market over the holding period, or may provide some degree of de-correlation to other investments.
- Best-in-Class assets typically involve selecting the top percentage of companies within a sector using ESG criteria. For example, within the consumer goods sector, in companies eligible for portfolio selection, a portfolio manager might restrict the investable universe to the top 50% based on an ESG rating screen. The relative allocation to the portfolio of the selected companies may then depend on purely financial criteria, but can also be made using a combination of financial and ESG analysis. Other Best-in-Class methods also exist (e.g. Best-in-Universe, Best-in-Effort), and the strategy is also referred to as positive screening.
- Norms-based screening is a strategy that involves assessing each company held in the investment portfolio against specific standards of ESG performance. These standards are based on international norms set by organisations or institutions such as the United Nations Global Compact (UNGC), the OECD Guide– lines for Multinational Corporations and International Treaties. Investors will often use one or a combination of these standards, or they may construct their own standard based on these initiatives. Once companies in the portfolio have been identified in breach of these standards, investors will perform a deeper analysis and take action. This action typically falls into two categories: exclusion from portfolio or engagement with companies.
- Exclusions or negative screening is a strategy that involves removing companies or sectors from the investible universe of the portfolio. There are a number of different motivations and applications of this strategy, from risk management to values-based investing (moral, ethical or mission-based requirements). The exclusion of certain controversial activities is becoming common among European investors. This often includes those prohibited by international conventions, such as the 1997 Ottawa convention on anti-personnel landmines and the 2008 Oslo convention on cluster munitions.
- ESG integration is defined as the explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This strategy can be further articulated into three sub-types:

  - non systematic ESG Integration, when ESG research and analyses made available to mainstream analysts and fund managers;

  - systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers;
  - mandatory investment constraints based on financial ratings/valuations derived from ESG research/analyses (exclusions, under-weighting, etc.).

- Engagement and voting on ESG issues, driven in large part by the view that shareholders are stewards of assets who are accountable to their beneficiaries for how they manage those assets. Policymakers and other stakeholders are propagating this view through initiatives like Stewardship Codes and legislation such as the EU Shareholder Rights Directive.

Despite the difficulties in understanding such a fast-evolving market, all studies demonstrate that SRI, however defined and applied, is gaining momentum and it is growing in terms of size and quality. The undisputable success of SRI can is explained by at least two reasons – that, in fact, are two sides of the same coin: market demand and solid business case.

The former is easier to interpret: like in many other sectors, consumers' preference is moving towards products and services that are perceived as 'sustainable' – whatever the final client intends with it. People more and more buy organic food, child labour free garments, hybrid vehicles, eco-certified travels and so forth. Of course, savers do not buy a mutual fund exactly with the same logic the use for a fairtrade banana, because the social dimension of finance, as said earlier, is indirect and therefore less immediate to catch (not surprisingly, SRI more diffused amongst the highly educated and conscious targets). It will take a while to move from the niche to the mass market, but it is only a matter of time.

SRI is in minimal part driven by retail investors. The vast majority of SRI assets come from institutionals. Why do they go for SRI, provided that they don't have to fulfil an intimate moral imperative? The answer brings us to the latter reason of the success of SRI: it works. Empirical evidence from a huge bulk of academic studies shows that there is a positive correlation between ESG and financial performance. This statement would require a lot of reasoning and statistics to be accepted and this is not the place where to do this exercise. But, to remain on the ground of intuition, we can affirm that the more a corporate strategy is aligned with society's values, the more is likely to achieve success. From this viewpoint, having a good ESG score means being able to prevent [market, legal and reputational] risks and to catch the opportunities created by the new demand of sustainable products and services. In a word, because sustainability is the new competitive factor for success, sustainable companies are less risky and eventually more profitable. Institutional investors don't go for SRI because they are good in a moral perspective, but because, by doing so, they protect their assets and fulfil their fiduciary duty towards their clients.

Now, going back to the initial questions, what is the relation between SRI and ethics? Is it really different from what we called 'ethical finance'? My answer would be that the purpose of SRI is not ethical – or not necessarily. But ethics, in a way, is what makes SRI possible: in a rough simplification, ethics is what people feel is right

or wrong. If, in a given social context, polluting the atmosphere with greenhouse gases is perceived as 'bad', those companies that do not reduce their impact will be considered as anti-societal; their licence to operate will be questioned. In this sense, there is a convergence between economic interest and societal interest. An ethical conduct can be economically sensible because is rewarded by the society (and vice-versa). Ethical behaviour is convenient – but behave ethically because is convenient is not ethical. What makes an [economic] action morally valuable is its purpose: the same action has a different moral value depending on the aim for which it is taken.

Here lies the distinction between a [responsible] for-profit business and a social business: the former's mission is to maximise profits and it will take into consideration other stakeholders' interests to the extent in which it creates value that can be, directly or indirectly, monetized; the latter is there to create social value and it is driven by intrinsic motivations. In times of crisis, the former will compress any investment that affects profitability; the latter will reduce margins, but will try to preserve social value creation. In other words, the former considers ethics as a constraint in its objective function; the latter looks at moral goods as a goal to pursue.

INVESTING IN SUSTAINABLE FINANCE AND SOCIAL INFRASTRUCTURE: CO-PRODUCING CREATIVE SOLUTIONS

Jonathan Watson*

INTRODUCTION

There are too few public resources now available to address the social infrastructure 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 governments 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. Long-term sustainable investment in social infrastructure is one way to face up to the long-term challenges confronting us.

For social infrastructure this means that the focus of investment is not simply on building a hospital or school or road or water plant, and the return on investment to be expected from that. It is also to ensure that that the entire lifecycle of a project, from concept, funding, construction, going operational and periodic reviews take account of social, economic and environmental performance and so maximise the added value in monetary and non-monetary terms. How this can be achieved requires consideration of several factors. What this chapter focuses on is how to generate more engaged dialogue and consultation between stakeholders in co-producing innovative solutions for meaningful investment by briefly exploring six interrelated dialogue issues:

1. Widening engagement in the new investment culture
2. Informed connection between private capital and public value
3. Reinventing how investable propositions are created
4. Generating dynamic propositions using the 'Living Lab'
5. Trade-offs and synergies
6. Shared responsibility for investment decisions.

* Managing Director of the Integrate Think tank.

WIDENING ENGAGEMENT IN THE NEW INVESTMENT CULTURE

A recent OECD report made clear that moving from the current mindset to a longer-term investment environment requires a transformational change in government and investor behaviour. But, what is largely missing from the dialogue shaping this new investment culture are the public authorities (regional, city, municipality) and public services (health, education, affordable housing) who will seek funds for social infrastructure investment.

Ensuring a coordinated approach between investors, regulatory bodies, public authorities and public services industry will be essential in realizing this new "investment culture". Unfortunately, the agendas and priorities of these stakeholders rarely seem compatible. That they have different goals is natural but negotiation for social infrastructure investment requires a degree of informed collaboration. Even the basics of communication suffer because they do not talk adequately with each other. In consequence, this potential business cannot grow as it should or in an appropriate way. Investable opportunities might be available, but investors don't understand the field, intermediation is underdeveloped, and market infrastructure beyond intermediaries to support investment in social infrastructure is underdeveloped as well.

So, while it's good to get your own house in order, what is it that needs to happen in the house down the street if you are going to work together to build a vibrant neighbourhood? At present there is little work being done to remedy this situation. So the question that naturally arises is…is it feasible to invest for the longer term in social infrastructure? A positive answer might seem automatic, since there is a huge potential market. But, there is a need to move beyond traditional methods and tools to "extract" this potential (for example see Case 1 below).

Case 1: Financial models for social housing in Scotland
A recent report for Homes for Scotland, Attracting new sources of funding to expand a growing market (2013)[1] identified several reasons for lack of investment in social housing: investor mandates within financial institutions that do not include residential property and building specifications which do not meet the specific requirements of the private rented sector. Equally, the different stakeholders often speak different 'languages', even when talking about core issues such as the meaning of planning and development risk, determinants and interpretation of yield, and the implications of legislative change.
In considering ways forward this same report shows several financial models that are currently being developed to provide routes to financing rental housing. Four approaches where there are functional models in place were identified: leasing models; direct purchase models; aggregated bond financing models; and those that harness the borrowing powers of local authorities and housing associa-

1. Scanlon K, Whitehead C, Williams P and Gibb K (2013). *Building the Rented Sector in Scotland: Attracting new sources of funding to expand a growing market*, A report for Homes for Scotland by LSE and Cambridge Centre for Housing & Planning Research, December.

> tions. Most of these involve some form of subsidy or guarantee, at least initially. They are therefore most suited as means of expanding the provision of social or intermediate rental products, where there is a growing need for additional submarket but low-subsidy provision (Homes for Scotland 2013: 27-34).

The interface between investors and end-users has to avoid treating the need for financial innovation in isolation. Although PPP remains an attractive source of finance for capital investment, some work is needed to improve how investors, regulatory bodies, intermediaries and end-users work together and what these players bring to the 'negotiating table'. A common challenge is how do we develop effective systems and tools for service intensive PPPs that capture their public purpose?

As the Initiative for Responsible Investment in the USA has shown, attention is needed to:

1. The capital absorption capacity of places (regions and municipalities) and sectors, including their ability to generate an active pipeline of buildable projects;
2. Improving the dynamics of effective capital partnerships, including an equitable sharing of risks and rewards. It is the relative capacity of places and sectors to negotiate socially useful PPPs that achieve their social goals effectively that is the issue here.

PRIVATE CAPITAL AND PUBLIC VALUE

We can't simply say we are running out of traditional funding options so lets unlock the assets held by pension funds, re-insurance companies and others. They have fiduciary responsibilities and so cannot shoulder the burden of addressing the social infrastructure gap in the EU alone. That said, they do have the potential to play an important part in reframing how economies address these challenges. For this to happen, there is a basic need for more informed dialogue and new ways of behaving between Institutions that carry out maturity transformation for savers, intermediaries who act as a conduit for funds, and end-users that place investments in physical and human capital. In short, investors, intermediaries need to be more proactive in delivering patient and productive capital while public authorities and services need to create pipelines of good quality investable propositions that are sustainable.

For institutional investors this is not about using them as shock absorbers against some of the macro-trends mentioned earlier. There is a basic need for more informed dialogue and behaviour between Institutions that carry out maturity transformation for savers, intermediaries who act as a conduit for funds, and end-users that place investments in physical and human capital. In short, in a networked and shared economy, investors, intermediaries and end-users need to be more proactive in delivering patient and productive capital.

That said, the first step between private capital and public value is knowing 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[2]. In this context, infrastructure in general will be an important asset class for channeling private capital to public purpose if it can be done well. There are conventional challenges here but the key ones that need attention are: (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 to be addressed 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. And this, in itself, is a challenge if it is simply used to drive 'more of the same'.

IMPACT METRICS TO MEASURE PUBLIC VALUE

Case 2: The triple bottom-line as practiced by Impact Infrastructure LLC
The TBL means the financial, social and environmental attributes associated with a given undertaking (TBL results). TBL Analysis can be affordable especially for public authorities and NGOs that often represent demand-side interests – thanks to advances in technology. Technology including cloud based computing allows access to and efficient analysis of vast amounts of high quality, infrastructure and community specific data (much of which is available in the public domain, free of charge and in real time). That data includes peer reviewed research and meta-analysis studies (studies of large numbers of studies) that address the majority of concerns related to sourcing adequate amounts of objective information on which to base comprehensive assessments. In addition, advances have been made in the development of sector specific metrics and analytical tools. Those tools account for geographic specificity including market factors like labor, real estate, energy prices, and carbon valuations. Thanks to the minimal cost of applying BCE analysis, comprehensive TBL based business cases can be utilised at each step in the project development process from the initial TBL case of early planning to revisions at conceptual, preliminary and final design, throughout construction and long term operations. Cases can be run and re-run each time key decisions are made so that the certainty associated with the case and project improves as additional data becomes available.[3]

2. Watson J, Otero AB, Felli F, Wright S, Wood D and Scione L (2014), *The unexpected business within social infrastructure*, INTEGRATE Briefing Paper 1: 18.
3. Williams JF, Valuing long-term public benefits of investments in infrastructure. In: Garonna P and Reviglio E (eds.) (Pending) Investing in long-term Europe: re-launching fixed, network and social infrastructure. FEBAF/CdP, Rome.

In May 2014 the Rockefeller Foundation ran a seminar in Bellagio on Sustainable Infrastructure. This was attended by two INTEGRATE Advisory Board/Scientific Committee members. Three interdependent needs were identified in relation to metrics in order to build an industry that is defined not only by risk and financial return, but also by social and environmental impact:

1. Management information systems for fund managers and other data aggregators, who otherwise often rely on a patchwork of Excel spreadsheets to track impact data on their portfolios;
2. Impact ratings (performance standards) for asset managers and owners, who reported lacking the tools needed to assess their pipeline and active portfolios on the basis of non-financial performance;
3. Standardized definitions of impact performance measures that serve as building blocks for the above as well as enable benchmarking.

Responding to the various macro-trends and financial insecurity exposes the ultimate performance signifiers for public authorities and related long-term investment in social infrastructure projects: adaptability and resilience. You need to show added value from your service and investments and when and how to adapt to changing circumstances. As discovery conversations about investment in social housing in Scotland showed, stakeholders saw added value being realised in three obvious ways: (i) the public value that LTI can and should generate (ii) aligning complementary impact investments with the life cycle of long-term investment projects (iii) that both (i) and (ii) deliver concrete contributions to addressing policy priorities. In the case of Scotland, how the approach to social (and other forms of) housing in Scotland can contribute to creating the social and economic resilience by helping tenants to feel safe and secure; vibrant communities with economic life; social housing designed to help meet climate change targets.

RE-INVENTING HOW INVESTABLE PROPOSITIONS ARE CREATED

Institutional investors have voiced concern that while they have funds to invest in social infrastructure, the pipelines that have traditionally generated investable propositions have been spluttering or become completely blocked. These pipelines have become increasingly sclerotic and are no longer ‘fit for purpose’. They operate like the production line of a manufacturing industry with the storyline – and therefore the parameters of what needs doing to generate a viable business proposition – shaped by financial intermediaries and adopted by governments and regulatory bodies. Stakeholders who quite frankly have little energy to challenge the storyline and the particular competencies and tools needed to meet the standards required. So, the hardening of the arteries of those pipelines is not just a product of poorly scoped, ad hoc and incoherent investment propositions. These are a symptom and not the cause. The cause is that the process of generating investable projects has become over-

ly technical and the storyline increasingly divorced from the circumstances that create the need for investment.

There is a need to re-invent how investable propositions are created: requesting new money coherently while also meeting the need to offer a slightly higher rate of return. This goes beyond shifting from generating ad-hoc or isolated deals to building pipelines of investable projects through a coordinated process that can sustain itself over time.

GENERATING DYNAMIC INVESTMENT PROPOSITIONS USING THE 'LIVING LAB'

Reinvention requires long-term planning, associated risk assessment, innovation and quality project management. But on top of these foundations should be platforms where institutional investors and the end-users can come together to experiment. Identifying a problem and exploring answers to the question "how might we?"

These platforms are emerging as 'Living Labs' to redefine urban space and its practices including reconfigured public services in a people friendly city. A Living Lab is in innovation environment in which real-life user-driven research and innovation co-designs new products, services and social infrastructure. This human-based involvement enables the development of useful new services and products. A Living Lab takes advantage of pools of creative talent, socio-cultural diversity, and the unpredictability of inventiveness and imagination of end-users.

These co-designers involve changing combinations of public authorities and services, business and science parks, incubators, universities, investors, companies and, of course, the end-user communities, both non-professional and professional.

Living Labs use real world testing by end-users in an authentic digital, physical, and social environment. For Living Lab partners, this process ensures that compatibility between emerging technologies, the innovative products and services they enable and the social infrastructures that can utilise them, are fully developed before they reach the market.

For example, INTEGRATE has been talking with the Amsterdam Institute of Advanced Metropolitan Solutions (AMS – see Case 3 below). AMS is working with the city council to turn Amsterdam into a global living lab with initial priorities focused on mobility and water transport. This living lab will be used to test innovative ideas and can become the basis for the city to sustainably generate investable propositions for social and harder infrastructure that address priorities for integrated long-term solutions that help Amsterdam remain competitive and an attractive place to live and work while being resilient to macro-trends such as climate change.

Case 3: The Amsterdam Institute for Advanced Metropolitan Solutions (AMS)[4]
AMS puts into play the 'living lab' research concept. A living lab is a user-cen-

4. http://www.ams-amsterdam.com/category/research-programs.

tered, open-innovation ecosystem, often operating in a territorial context (e.g. city, agglomeration, region), integrating concurrent research and innovation processes within a public-private-people partnership. In this way, AMS seeks to develop a deeper understanding of the city – sense the city –, design solutions for its challenges, and integrate these into the city. Amsterdam will be the AMS living lab to develop and test these metropolitan solutions – especially involving the Amsterdam citizens as testers, users and co-creators. Current projects include:
- Urban Pulse (Understanding resource flows and dynamics in Amsterdam).
- Urban Mobility Lab (Unraveling transport flows in Amsterdam).
- Rain Sense (Citizens preparing Amsterdam for future weather).

Case 4: 100 Resilient Cities[5]
Pioneered by the Rockefeller Foundation (100RC) is dedicated to helping cities (currently 67) around the world become more resilient to the physical, social and economic challenges that are a growing part of the 21st century. 100RC supports the adoption and incorporation of a view of resilience that includes not just the shocks – earthquakes, fires, floods, etc. – but also the stresses that weaken the fabric of a city on a day to day or cyclical basis. Four dimensions of urban resilience provide a focus: health and wellbeing, economy and society, leadership and strategy, infrastructure and environment. Each dimension has three drivers. One critical problem that 100RC helps cities overcome is the difficulty of sharing information about more and less successful initiatives and practice, which prevents existing resilience solutions from scaling. Early in 2015 they launched a Chief Resilience Officer (CRO) Network Exchange Program through which member cities have the opportunity to co-create immersive learning experiences around common resilience challenges they face.

The potential of using living labs to test ideas for social infrastructure and translate this into a dynamic investment proposition is intriguing. It is not intended to produce a constantly changing proposition, but rather, one in which scenarios can be explored in real world settings. Scenarios that test the flexibility and resilience of the proposed infrastructure to how the macro-trends mentioned earlier play out in local communities. While the 'Living Lab' is the experimental platform, a parallel initiative (100 Resilient Cities – see Case 4)) provides good practice examples and insights that can help critically appraise answers to the "how might we?" question before exploring sustainable solutions.

5. http://www.100resilientcities.org/pages/about-us#/-_Yz45MDY4NydpPTEocz5j/.

TRADE-OFFS AND SYNERGIES

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

But to get close to that ideal, social infrastructure investment needs to be done in a way that the Initiative for Responsible Investment at Harvard calls 'taking the high road'. This means design, build and operate infrastructure in ways that go beyond short-term capital costs and minimum service requirements[6]. The critical high road standards are about resilience and long-term economic, environmental and social performance. That means: safe, secure, cohesive and vibrant communities; contribution to employment and growth and flexibility when faced with the varying impact of climate change. The bottom line in thinking of sustainable responsible finance for social infrastructure is about investment in social infrastructure that is adaptable and resilient.

It takes lots of political/cultural work to shape how money moves, and right now the people who make money from the moving do that work. The usual targets for infrastructure investment are asset-rich transport, energy, environment and telecommunications. If our economies and societies are to become more capable and resilient then service-rich social infrastructure should gain the same central role. To get to this point, public authorities (regions, cities and municipalities) and public services need to find ways to create project bundles or portfolios in order to reach minimum financing thresholds. If not, then the size of typical social infrastructure projects is a problem as the expense of project financing is preclusive until bundling is available.

SHARED RESPONSIBILITY FOR INVESTMENT DECISIONS

One approach that might help regain the trust of policy makers and public is to improve the governance of PPPs. This was an issue for the recent Dutch EU Presidency. Coincidentally, the Department for Civil Engineering at the University of Hong Kong put forward a possible solution. Their starting point is that there is currently no systematic mechanism governing how social concerns should be captured at different stages of a PPP project. They say

7. We should think about establishing a process framework that put people as a major stakeholder for PPP schemes.
8. The framework would embrace bottom-up participative strategies for infrastructure planning. Perhaps somewhat similar to the participatory budgeting initiative for Paris residents that Anne Hildago put in place when she became mayor.

6. High Road Infrastructure Working Group (2015), *Unlocking the market for more and better infrastructure*, Draft Report for the Ford Foundation, August.

9. With this new framework, decision-making power moves towards a shared-powered network.
10. Arguably, it would better handle changing public aspirations and demands for infrastructure planning[7].

Transparent standards are tools with which to coordinate inputs into investable projects and would be essential for monitoring how the mechanism advanced by the University of Hong Kong behaves. From the perspective of the public sector, standards can define what kinds of social and environmental benefits are required to justify public participation and subsidy in infrastructure projects. From the (responsible) investor's perspective, standards can help determine how environmental and social performance can help mitigate different kinds of risk and ensure long-term value in project development and operation. From the perspective of civil society, a transparent set of standards – and ways to evaluate potential projects against them – can prove important to building project legitimacy and mitigating political risk. In sum, core performance standards – on issues including carbon mitigation, climate resilience, labor standards, social equity, human rights, governance mechanisms, and so on – can help public authorities, public services and the communities they serve to prioritise which investments deserve the time, attention, and resources necessary to bring typically complex deals to fruition[8].

CONCLUSIONS: DOING THE ZEN CIRCLE 'THING'

Brief coverage of the issues in this chapter show several challenges and possible solutions for unlocking public value from private capital investment in social infrastructure. But, there is a Zen essential to the challenges – the lack of a virtuous circle. This also applies, for example, to what is being saved and what Pension Funds need to payout. That cycle is breaking. One of the consequences of 2007-2009 is that most societies cannot conceivably grow fast enough to pay off the promises they have made for debt repayments and pensions.

A study by Bridgewater Associates[9] estimates that, due to near zero percent interest rates and financial repression, that public pension funds will earn an annual return of 4% or less in the coming years. They suggest, in turn, that this would cause bankruptcy for 85% of public pension funds within 30 years. The funds would need an annual investment return of about 9% to meet those obligations, the report says.

7. Ng S Thomas, Wong James MW, Wong Kelwin KW (2013), A public private people partnerships (P4) process framework for infrastructure development in Hong Kong, Cities 31: 370-381.
8. Watson J, Wood D, Mair C, Dhaene G, Dowdeswell B and Wright S (pending), Matching institutional investor needs and public sector competencies, INTEGRATE Working Paper 3.
9. Reported in http://americasmarkets.usatoday.com/2014/04/09/report-85-of-pensions-could-fail-in-30-years/.

Many pension plans assume they will earn 7% to 8% annual returns, an assumption that is too high. There is a shortfall (maybe 20%) between what is being saved and what pension funds need to payout.

What these and other institutional investors should, in part, strive for are alternative investment options that facilitate new virtuous circles in which they work with public authorities and public services as co-producers of adaptable and resilient social infrastructure aligned to long-term planning priorities: an approach in which value is found in sustainable ROI while maximising public value.

REDUCING LOSSES BY BUILDING RESILIENCE TO DISASTERS

Paola Albrito*

I would like to start my contribution by sharing with you a few numbers and statistics.

Globally, disaster losses have increased to $250-300 billion a year, over 80% of economic losses from disasters are due to weather-related hazards.

Last year in Europe, the number of hydrological disasters showed a 45% increase compared to its decennial average. Damages from disasters in Europe in 2014 amounted to $7.8 billion. The 2014 flooding in Serbia which proved to be one of the costliest disasters with damages running up to $2 billion put the country into recession.

If we couple these considerations with climate change, we know unfortunately that there will be an increase in extreme weather events translating into an increased risk and slow on set disasters.

These numbers highlight an important consideration: reducing such losses by building resilience to disasters is a key contribution to countries and society sustainability.

Who is suffering for this? Vulnerable people and populations share the highest cost of these disasters but no one is spared – business, financial services markers and investors are also losing. A practical example: Sub-tropical storm Sandy triggered the evacuation of thousands from the East Coast of the US, leading to the shut-down of national and local transport systems and severely disrupted electricity and communication supplies with power cuts affecting an estimated 8.5 million homes and businesses. Of the refineries in the East Coast of the US, 70% had to be shut down for days. Equity trading on all markets was cancelled for 2 days.

Not paying attention to disaster risk reduction can lead to serious deterioration of the economy and ecosystems and a loss of trust by the population and investors. Frequent small and medium-impact disasters and single intense events can severely disrupt community lifelines—the systems that provide food distribution, water supply, health care, transportation, waste disposal, and communications—locally and with the rest of the world. Business and private investors may shy away from cities with a perceived indifference to acting to reduce disaster risk.

To overcome the perception that the disaster risk management budget competes for scarce resources with other priorities, risk reduction must be an integral part of local development. Holistic disaster risk management is more attractive when it

* Head Regional Office for Europe, United Nations Office for Disaster Risk Reduction.

simultaneously addresses the needs of many stakeholders and competing priorities. In general, the incentives are stronger when disaster risk management visibly contributes to improved economic and social well-being.

Analysis on disasters also highlights the critical interdependence between business and the public sectors. Even if public investment may be low (less than 15% of total capital formation in many countries), how that investment is made, managed and regulated is fundamental to business resilience, competitiveness and sustainability. If public infrastructure is vulnerable, business is also at risks.

However, we observe that (adequate) returns and responsible finance do not always go hand-in-hand. The inconvenient truth is that irresponsible finance often comes with larger short-term gains for those who pursue it.

Part of the disaster risk produced through investments in urban development and social infrastructures is spread across communities and sectors to become shared costs. In urban developments these shared costs are produced through large number of individual public and private investment decision and non-decisions taken over the long-term – making it difficult to attribute responsibility.

There is now consensus that the flow of speculative financial capital into the real estate sector in the US led to an over-accumulation of capital in that sector and risks in the financial sector triggered the global crisis that began in 2007-2008.

Public regulations have been ineffective: in many higher income countries, from the mid 1950s to the mid 70s, there was a strong culture of public intervention and investment in government-planned and implemented urban development and land use. But from the mid 70s inward there was a gradual shift in focus to increased private investments. This encouraged speculative development. In Serbia, for example, rapid privatization of housing stock including public housing and public infrastructure that previously have been heavily subsidized by national and municipal government budgets has resulted in the rapid decay of buildings and increased disaster risks.

In urban development identifying these trade-offs is complicated for many reasons. Many intensive risks have long-return periods, meaning that for investors in urban development, the risks have low visibility and are downplayed. When assessed the risks may be ignored given the expectations of a high short-term return on capital.

When regulatory mechanisms do exist there have been challenges to implementation in practice. The 2013 Global Assessment Report on Disaster Risk Reduction provides the example of the UK and how difficult it is to get to the bottom in terms of applications of public regulations. With the floods in 2007 the UK realized that the economic losses sustained were extremely high, leading to a change in the regulations requiring local planning authorities to identify risks posed by floods in new developments. In 2012 the UK was hit again by heavy rains causing losses estimated at about 1 billion pounds. So what went wrong again in 2012? The rate of construction in the floodplain has continued to increase and the existing flood risk "zoning" only accounts for river and coastal flooding. Therefore development can still take place in areas subject to surface water and flash flooding.

More investments in infrastructure and the built environment will be required over the next 40 years than has occurred over the last 4 millennia (70% growth by 2020). How disaster risk is addressed in the construction and real estate development sectors is therefore going to shape the future of disaster risk reduction. It therefore goes without saying that steps towards a more sustainable responsible finance can have a massive impact on economic, social and environmental standards and developments. New approaches to sustainable urban development provide opportunities for engaging private investors and the construction sector in new public-private partnerships for resilient investments.

The opportunity we are faced with is to ensure that in investing in infrastructure developments we do not "build-in new risks"; this important reflection is at the heart of the Sendai Framework for Disaster Risk Reduction, adopted in Japan at the UN Third World Conference on Disaster Risk Reduction. The Sendai Framework outlines seven clear targets and four priorities for action to prevent new and reduce existing disaster risks. It aims to achieve the substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries over the next 15 years.

Let me give you another practical example from the UK on how reducing exposure to flood hazard can be achieved. In Scotland since 1995, new construction in floodplains has been reduced to almost zero as a result of a national planning policy. The Scottish success was the result of working closely with private real estate developers and insures. Planners in local governments were legally obliged to set up Flood Liaison and Advice Groups bringing together private and public sector including property developers, landowners, emergency planners and others. The success of this initiative is undisputed. Only one local authority, Moray, did not engage and continued construction in floodplains. Consequently it now has serious problems with flooding and access to flood insurance.

This is part of the work that UNISDR has been doing, work together with different actors including the private sector on how to increase possibility of sustainability of long-terms investments by knowing risks and ensuring their reduction.

There is a very important point to stress, that whatever action we take in addressing our social infrastructure we have to be mindful of principles and values. How to translate these into practice includes: ensuring informed risk decision, empowerment of local authority and communities and shared responsibility.

Europe is going through a number of financial reforms and we know that reforms are targeting financial requirement. Many of them are related to critical infrastructure: hospital, schools, but also power plants. Let's ensure that the decision taken will be risk informed – this would be a solid step in helping their sustainability.

One last element that became very clear during the Third United Nations World Conference for Disaster Risk Reduction in Sendai is that implementing decisions inclusive of disaster risk reduction considerations helps social and human gains. Let us think of schools, hospitals and also "other" important and unique components of our society and history: cultural heritage. If we do not preserve it we are going to lose a tremendous reminder of the beauty, inspiration and richness of our identity.

TOWARD A BIG CHALLENGE FOR FINANCIAL OPERATORS

Gian Franco Giannini Guazzugli*

ANASF has always paid attention to the protection of savers and has always encouraged awareness about investment choices and fund managing.

By virtue of that commitment, ANASF handles relations with national and European institutions. Furthermore, the Association is actively involved in the consultations that may have an impact on the financial advisor profession, but also on investors. Among the various topics discussed, there is 'sustainability in investments' and ANASF has always stressed in its position papers sent to the Authorities, the sensitivity of retail customers towards these issues and called on the legislator to create targeted instruments that encourage investment in sustainable products. It is particularly important to overcome the prejudice that sustainable investments are not profitable, and that there is a trade-off between ethical and sustainable choices and economic return. The assessed economic results, for the same investment sector, by the finance SRI tools, show absolutely satisfactory results, often with a return in two digits.

Given the economic and ethical value of the SRI investments, today it is necessary that the lawmaker introduce tools and practices able to promote among the investors the adoption of the right behavior.

Some recent surveys conducted on a sample of financial advisors on SRI issues have found how it is necessary to push on demand, helping savers to support sustainable investments with traditional investments. Every client interested in ethical and sustainable products has given a positive feedback and has proven a positive attitude to these types of investments.

However, there cannot be a diffusion of responsible investments without a proper training, both for savers and operators, that must also have access to useful tools in order to propose this kind of products to savers. To carry out this activity in the right way, financial intermediaries and other general institutions should identify plans encompassing all aspects of ethical finance.

There is still much to do in this area, but in these last years the interest of savers for SRI investments has gradually increased. For financial advisors it is therefore necessary to be able to respond to these needs by providing adequate information to investors to make ethical and responsible investment decisions. The financial advisor can have a decisive role to select the tools that meet these new needs, helping savers to take the right decision.

* Italian association of financial advisors/tied agents – Anasf.

The majority of clients, in fact, may not be aware of sustainable and responsible products or may not be able to recognize their particular terminology, even though they could be interested in investing in social and environmental challenges.

Furthermore, helping the saver in investment decisions can foster a deep relationship with the financial advisor, who will be able to better advise her/his client.

The management company plays another important role in Sri investment, representing a trusted figure in proposing and selecting adequate investment solutions.

As I said, that there is still much to do on the side of training. Well, let's not forget that general financial education is very low among Italians. In fact, they rank at the last place in financial literacy. This lack of knowledge often results in risky investment choices. Those who do not receive assistance and advice from a qualified operator carry out hasty and reckless financial operations, often with negative repercussions on their savings. The goal can only be one: the investor must become a prepared and awarecitizen, and to achieve this aim it is necessary to promote a dialogue between all stakeholders: investors, operators, institutions, lawmakers. This dialogue is necessary to create a saving culture, even sustainable.

A first tool, designed to strengthen saver protection, is certainly represented by financial education initiatives, realized by institutions, but even more by private bodies, including our Association. The usefulness of such initiatives emerges in relation to the possibility of spurring the individual citizen's ability to orient themselves in the provision of financial services, in search for solutions that best respond to the specific characteristics and needs.

So what do we wish for the future? There are many tools available for operators in order to promote sustainable finance. Surely pension funds, but also the mutual funds, can become the link between savers and SRI investment. It is important to create a relationship between the investor and the real economy. The savings should encourage businesses, especially SMEs, with long-term goals. Companies could thus rely on long-term loans to promote their business. At the same time, savers can benefit from long-term sustainable investments, which are generally less exposed to market volatility.

To promote their diffusion it is essential that these products will provide an advantageous tax system that allows to reward those who invest in the real economy, in a sustainable way and for a long-term. The lawmaker should take action as soon as possible in order to foster long-term savings.

Communication is also a key feature and requires influential examples. We must spread the meaning and the importance of sustainable finance. Finance does not mean a frantic search for profit, because it is the result of a long-term planning activity help every citizen to improve their future life.

We must make it clear to savers that the quality and characteristics identified for SRI differ from the general ones in terms of attention to the values underpinning the search for sustainable performance, beyond pure financial results.

Let’s not forget that this component may also allow the financial advisor to consolidate over time the relationship of trust with her/his customers. We are going to face a big challenge.

INVESTING IN SUSTAINABLE FINANCE AND SOCIAL INFRASTRUCTURE

Valeria Ronzitti*

Public services are represented within CEEP, as we defend interests of public services providers at EU level. Our members are providers of both physical, such as energy, transport and water networks, etc. and social infrastructures, like healthcare, social services, housing, etc.

I would like to begin by painting a more positive image of the European action when it comes to investments, compared to the one often given by other stakeholders within the public services' community.

I might be too much of an insider, but having been present in Brussels since the start of the financial and economic crisis and calling since then for more investment at EU level, I can now see a more favourable European climate, at least from a policy-making point of view.

We are realistic and know that the "Juncker Plan" cannot solve everything. However, it brought investment back into the European agenda, which is in itself already an important first step. Also, in this positive climate, I wish to mention that the 2016 Annual Growth Survey, which the EU Commission uses as a basis for its recommendations to the Member States, recognizes for the first time a strong need for the Member States to invest more in social infrastructure and to boost social investment.

This is a clear signal. In previous years, Annual Growth Surveys were nearly exclusively focused on strict fiscal consolidation. There is a progress at EU level. It is now up to each player to grasp the opportunities provided by this new setting.

I think each player has a responsibility in this context. When we talk about social infrastructure, the most important responsibility has been, is, and should remain, on the shoulders of policy-makers, both at national or local level. Investment in social infrastructure will not increase if the legal framework does not encourage private investors to consider social investments. This could be done through tax relief, like the Government of the United Kingdom did in 2014; by setting up trading platforms; by encouraging flexible legal structure for social impact investment actors. The United Kingdom also initiated a reduction of transaction costs, which for instance prevented strong actors like pension funds to invest in social infrastructures.

Then there is a key role to play by public investment banks. The European Investment Bank has a strong experience in financing major transnational infrastructure

* European Centre of Employers and Enterprises providing Public Services– CEEP.

projects, such as the rail- or highways. The EIB has a major role to play when it comes to social investments, but the institution is still not used to investing in such infrastructures. It needs to learn, to get more acquainted with the role of social infrastructures, and to really start putting in place tailor-made investment platforms: investing in social infrastructure is different from investing in road and energy networks. Dedicated technical assistance needs to be put in place, as there is a lot of ignorance on the social promotors' side, and they need help.

Private investors also have a role to play. However, it can only be a limited one, without major responsibilities. We can expect them to think a little bit out of the box, to see "prosperity" and not only "growth" and "competitiveness". You can refer to corporate social responsibility and sustainability models. But, in the end, if the policy makers do not put the right framework in place, I think there is little that private investors can do alone.

Once identified the different stakeholders we need to speak about the operational side of the plan and in this context an issue of prime importance is the need to aggregate projects. As a matter of fact, childcare, housing or hospitals operates at a local level; usually, such promotors can only present modest-sized projects. They need to be supported in order to bring small-scale projects together and reach a critical mass to become eligible for financing. This is becoming a matter of urgency. This is even truer if seen in the context of the current refugee crisis. Schools, hospitals and housing services, operating at the very local level, will be at the centre of attention, welcoming and integrating migrants and refugees in Europe. The national promotional banks are already doing an important job to favour this integration. Now, institutional investors, pension funds need to start thinking outside of the box. As I speak, this is a reality in The Netherlands, where pension funds are very active in this field. It is far from being widespread elsewhere. I see the Dutch model as a very good example in this case.

Finally, the only criticism I can think of about the Junker Plan is that it strongly relies on the idea that private investors can relaunch investment by themselves. When it comes to social infrastructure, I think that private investors alone cannot do much. There is also a strong responsibility on the side of providers of social infrastructure. There is a lot of work we can do in changing mentalities. I think it is very much of our responsibility to help policy-makers achieve what is really essential, and help those who provide social services and social infrastructure to measure their social impact. It is not a simple task, but there are ways to do it. It is a precondition for investors to understand that there is a return on social investment.

Public-private partnerships (PPPs) can also be an interesting tool, but it remains a difficult concept for many providers of public services. It is therefore our responsibility to shape PPPs in a positive way, for them not to be caricatured as "privatisation through the backdoor".

Finally, there is a very important model which should be more developed: the social impact bonds' model. On this issue, there is a very positive example from the Netherlands, and I am happy to see that it grows in Portugal. That is the direction we have to follow.

I can now come to my conclusion. There should be a stronger cooperation between providers and policy-makers to simplify the complexity of social infrastructure and give them more visibility and better communication. At the end of the day, the final responsibility should remain in the policy makers' hands. They should be the ones shaping the proper framework, as I cannot see private investors leading the way alone when it comes to social infrastructure. Those are to me some of the key elements of the recipe we would call for to boost social infrastructure, even at European level.

INVESTMENT FOR POVERTY ERADICATION
AND SUSTAINABLE DEVELOPMENT

ACHIEVE THE GOALS OF SUSTAINABILE DEVELOPMENT AND REDUCING RISK

Margareta Wahlström*

The most puzzling thing for me over this years is people's individuals behaviour, risk perception we talk about, to social contract. Our assumption is always good will so we assume that business will be involved, we make assumptions but there is a territory where we all have a common goal that we would like to achieve.

I was hoping to be able to say but I have not get the message yet that the Paris accord has been agreed but I will in any case say what I have read from one of the commentators yesterday. He or she said that the ultimate measure of what the Paris pact is whether is a success or a failure is whether it will send a market signal for investors to take their money off the fossil fuel and put them to zero carbon energy sources. That is a big assumption but yes, I think that's what ultimately needs to happen and all the negotiations, the efforts to include all of society, business of course, what you have heard about the past years has been leading us to making the assumptions that that indeed will happen, that the market signal is the right one and if that happens – I am going maybe to see some limitations to it – many of the things that needs to be achieved through the global policy which has been set in 2015 are achievable.

What we are doing in the risk reduction work sounds like it would be a limiting part in the global development agenda. Without being an environmentalist I would say if we could only afford one global instrument, that would be the instrument because member states, communities, ever since they realised that disasters risk is not about disasters but is about sustainable development – and this is about 40 years ago – they have taken a very wide approach to the topic and they basically say unless you deal with knowledge in its broadest sense, governance, people, the entire social sphere that we were just discussing, and of course the capability to deal with disasters and of course rebuild after disasters, we are not going to be able to continue to believe sustainability as continuous but of course better balance growth is possible.

So they were shameless about this and over the past years member states become even more shameless about the scope they have given themselves.

In March this year, countries agreed on this in Japan and considerably widened the scope. This is not about natural hazards anymore, it's about biological, pandemic hazards, it's definitely inspired by the consequences of the Fukushima consequences – the tsunami and the earthquake – and it also says, uses a code word for

* Special Representative of the Secretary-General for Disaster Risk Reduction, United Nations.

conflicts: manmade hazards. As you know, in the global policy agenda conflicts is not really a popular word.

In the development goals we speak about peaceful societies, that's a positive expression. But the mix here in the Sendai framework – we are trying to incorporate every possible hazard, every possible risk to societies. I think this is extremely ambitious, the challenge is how we make countries going to use this.

The second point from the global policy perspective is, these last few years there has been a word that has been uttered all the time and this is coherence. And what did we mean at high level? What we meant is, all these instruments which have been negotiated need to speak to each other and reinforce each other. There is no sense in asking which is the most important, which come first, but the reality that there has been a high degree of ambition but less a degree of success. If I tell you that one of the negotiators in Paris said a few years ago, in public "Sustainable development has got nothing to do with climate change".

So we have Sendai, the Addis Abeba accord, which is a very critical instrument, we have the New York outcome and Paris will come. So what conclusions would I draw from this? The four priorities for action in Sendai are: understanding risk, disaster risk governance, investing in people and in preparedness national response– this is national capacity building. I think the most challenging part of this is the governance piece. Governance not only as our institutions but also precisely as how do we work together, how do we agree on setting goals. Just to go to our business agenda in the private and public sector, when we about five years ago, when we said that if we are ever to achieve the goals of sustainabile development and reducing risk: climate risk, disaster risk – I actually wanted to have financial risk in that framework but I realised that was not going to fly so I took it back but I think it's coming back through the discussions I hear – if we are able to do something that truly has an impact we have to have the private sector in its broadest sense: business, finance, institutions including which is a bit more difficult the philanthropic associations which are the least and last regulated entities because we cannot really tell them how to invest but we can only motivate them.

The entry point with the private sector, their expectation is that we come and we ask for money. So I decided to say that we don't want your money, we want to change your behaviour. Can you be motivated as businesses to look at your own business resilience and believe that disaster is a threat to your long-term viability and even medium-term viability? Is disaster risk for you? When we started asking that question together with the private sectors supporters, it was extremely difficult to find someone to talk to. I think they needed endless months to get into the companies, not even the boardroom, but senior executive level. And the answer was "not really". But then come 2011, Japan, the floods in Thailand, the impact on global GDP from the disruption of the supply chain and the conversation started changing. It's not yet fully there of course, but the combination of risk form climate, political instability and from some general "environmental risk" – it doesn't matter how they call it, it's the impact that is really on the agenda. So on that basis we invited we have these negotiation going on, what do you want? Do you want to be seen and heard?

And with cooperation of many, many actors from the private sector – they have a very strong role to play in the implementation of this framework. If you look at it one day you will see that there are calls for every part of the business but in particular for the financial institutions to step forward and to play their role.

Europe in itself – as I think OECD has helped us to see – comes third in the world annual ranking of impact on GDP of disaster losses. That's not the place for Europe to be but that's basically because of lack of infrastructure and other issues, lack of risk perception and risk management. But what does it mean for small island states? Maybe you hear that some think that they will sink in the sea when the sea level rises but well before they do that they might get wiped out by a cyclone. Well before that some of them lose well over 100 of annual GDP through a cyclone and as cyclones happen frequently they never manage to recover from the previous one.

The World Bank have shown us that the most indebted countries in the world are small island states in the Caribbean because of the cycle of hurricanes and the losses and the loans they need to take, private sector loans which are not free of charge because they are middle income countries to rebuild infrastructure and sometimes even before they have started the project the new airport gets wiped out.

This cycle of missed development opportunity but there is also a cycle of national of what we try to achieve, of poverty being one of the consequences. So if you ever see a claim that there is an economic growth peak after a disaster this is a very short term peak. The long-term impact, the medium term impact is that people have a negative economic and social impact. Far too little research, I always try to call for more interest in research on the social and economic consequences of disasters. Even medium-term there is a lack of understanding.

But what exists and some is my personal conversation, I go back to disasters that happended 10, 15 years ago and ask people "What happended to your life?". And two things that still recall is the first one is maybe real but a little less tangible "No one really cared about us." Does not matter what the world thought about us but the feeling of abandonment was there.

The second one is loss of economic opportunity. Unemployment and when employed again for less economic benefit than before. And even long-term unemployment ultimately leads to less success in life or less perception of success in life. So these are some of the very concrete things that has come out of understanding why although still we call it disaster risk reduction is fundamentally sustainable development, it must be included in countries' development plan as a risk.

It must be mainstream. Disaster risk reduction is not a sector. The only purpose is to include risk in every sector in society, be agriculture, education, health. And the second perspective is, and I come back to the issue of governance. The vision that has been built over the years is, if you leave this risk arena to one institution you are unlikely to be successful. Today we understand very well that the biggest risks occur when none is watching.

What about flash floods in the UK? Regulators can regulate the floods of the river or the seaside, but the water that falls down from the sky, no one had really thought about that as a risk. And we see many, many examples like that.

The problem with Fukushima was that the people in charge of earthquakes and tsunami had absolutely no idea about risks in the nuclear industry and the people in charge of risks in the nuclear industry never talked to the people in charge of floods. So institutional issues and lack of collaboration created many risks.

If I describe to you that the Sendai framework does not only give you four priorities for action but also outlines where action needs to be taken you will not be surprised if you see that most of the action is at local level, a lot at national level. And the more you go up the hierarchy the more vague the action is and the less there is to do.

This is the answer form very large communities that we work with. The more we allow us to trust the local and to ensure that there is capacity the higher degree of possibility for success. And this is true not only for people but also for business. The most successful partnerships for sustainability we have seen them at local level. Local government with local communities, local businesses, this is where everything seems to be happening now.

But there are few pieces of slight limitation. One is everyone will see that it is there. There is actually a very severe distrust between government, people, governments, businesses. If this distrust wasn't there, we would have been able to do what needs to be done.

This is the question we have asked ourselves in our work. "If everyone knows that prevention is better than cure, why can't we move the prevention agenda much more forcefully?" What are the limitations? The limitations – you just say the word and you already have a different conversation – is the trust gap. Which seems to get more severe and not less severe. And the gap between multiple perspectives is not only between the governments and the people.

And this is also a difficult time. A lot of people in Europe talks about changing from a maternal paternal State to a State that demands, much more private initiative from its citizens. It is not just a statement but something that falls on people and personally coming form one of these Welfare States I noticed a very peculiar attitude of my co-citizens in terms of what they still expect from the State that it does not provide anymore. And that seriously limit people's personal innovation. Because we know that of course if you do not have any provider for yourself you become very entrepreneurial and active. How do we get that mixed signals in a territory where people get the message of being empowered?

About five years ago around the time of the Fukushima disaster, every country Australia, New Zealand, Japan, China, UK, United States etc, they all said "Well, citizens, the cost of disasters and the frequency is so high now, the State cannot carry this cost anymore and you need to take more responsibility for yourself". That was the end of the conversation, they did not say "And therefore we will do that and that". No, you need to take more responsibility for yourself.

But it's a very interesting message and it came at a very interesting time. I think all the policymaking now – probably including Italy – is driving that agenda but not very explicitly.

There is a big opportunity where the governance model that we are being invited to develop here – because the Sendai model says governments are primarily re-

sponsible but they can't do it alone, they need all of society to engage. So the question that I have now launched with many, many people, groups, interested individuals, "This is very good. This is a promise, but the government is not going to call us. We shouldn't sit and wait to be invited." We have to develop the idea, the model and reach out to them and offer the collaboration that creates the sense of common purpose. Because the rest model – and I've seen a lot of it – governments but only governments – international institutions as well – We come up with all the answers and then we say "Ah, we should consult". "We came up with this, what do you think?" And that's probably not the type of consultation that will generate the type of collaboration and the sense of common purpose really building on what is feasible to do.

So we have suggested perhaps that type of governance model needs to include a mechanism and a political willingness that involves all of society in defining what the problem is, what the solution is and defining what the respective roles can be.

Valeria said before cannot really demand from the private sector or expect them.

I think one can demand from the private sector. Not through regulation but just through their self-preservation because if only 75 per cent of the risk scenarios that HPSCC tells us that we can show you, if only 75 per cent comes through the long-term viability of mainstream business is as much in jeopardy as my individual life and welfare.

So I do believe that there is a territory to expect a bit more. And if it isn't we have reason to be pessimistic

But then there is, and this is my final point; i have heard a lot, you have heard a lot, about this enormous amount of money that are slightly passive today an they are just waited to be released because of the climate agreement. We are talking about trillions and trillions of dollars, I do not know where they are, and sometimes I have asked: 'is this real money or just virtual money?'

If I ask to this money to see them we learn one behaviour to show me the money. I asked a university Professor and he says: 'No, I agree with you, I think it is only virtual money'.

This is a very scaring thought. Because our whole system is build on this money, from the Paris agreement and be released in investment that will be the foundation for the sustainability unsafety of our own civilization. Actually do exist, I mean I am not going a bit beyond the UN positions in this regard, but all this questions come up as we try to understand the space where, yes, the public sector cannot continue to be a different type of State and, yes, the private sector can play a much more significant role in responsible function, but that famous level playing wrong that the private sector has asked for now over 10 years of negotiations, needs to be better defined and this requires both the public sector and private sector.

And the final point is important issues around communication, education, all fully agree on them. There is also a need for, and that is probably one the most complicated thing, is a easy think to say. A couple of years ago I was on a panel about global responsability, on the panel there were two former prime ministers, there was a parlamentarian from the European Parliament, there was somebody else an then

there was me. All these gentlemen said that the problem was the lack of leadership. Two former prime ministers, a parlamentarian. What is wrong with this picture? Aren't you those who are supposed to provide that leadership?

Call for an ethical leadership in a very complicated world. Very soppresed between different forces but also generally with, I think, a very worrying perspective.

Well that ethical moral leadership that is communicated as a position clear and straightforward and not vacillate for short-term benefits.

We hear Pope Francis being the leading Twitter in the world and I think he provides the kind of ethical and moral leadership, that we do need a lot more of, otherwise, what we already know we will have difficulties driving that implementation.

My final and personal, very personal is that when we get to 2030 I hope we'll have the wisdom to say maybe we just need only one instrument. Just make our work easier, let's not have sustainability development, the climate one, disaster risk reduction one, financial one, let's integrate them into one. One instrument that guides the sustainability of development, of all societies.

THE MISSION OF THE WORLD BANK IN POVERTY ERADICATION

Sergio Lugaresi*

The world met the Millennium Development Goals (MDG) target of halving the global poverty rate in 2010, five years ahead of schedule. In many ways, development has advanced more rapidly over the 15-year MDG era than at any other time in human history.

Still poverty remains unacceptably high, with an estimated 900 million people in 2012 living on less than $1.90 a day. Poverty also is becoming increasingly concentrated in Sub-Saharan Africa. Furthermore, the MDGs were successful in reducing income poverty, but they were less successful in ameliorating non-income deprivations, such as access to quality education or to basic health services. In 2013, over 5 billion people in developing countries were breathing polluted air.

Last year, the United Nations have adopted the new Sustainable Development Goals (SDGs). The SDGs aim to scale up impact through a more integrated approach to development. Meeting SDG investment needs to shift from "billions" in official development assistance to "trillions" in investments of all kinds, unlocking, leveraging, and catalyzing public and private resources.

In this framework, the mission of the World Bank Group is to eradicate poverty. These mean to reach three objectives: 1) to end extreme poverty globally by 2030; 2) to promote shared prosperity, i.e. a steady increase of the income of the bottom 40 percent of the population of each country; 3) to reduce inequality of opportunities, i.e. the non-income dimension of poverty, investing in human resources.

To reach these objectives, the World Bank Group provides mainly project finance and technical assistance. It has built up knowledges in many various fields of development. Knowledges and competences are grouped in four areas:

1) Equitable Growth, Finance and Institutions, which includes Finance & Markets, Governance, Macroeconomics & Fiscal Management, Poverty & Equity, Trade & Competitiveness; in particular, policies that encourage the geographic expansion of the financial sector and broaden access to banks and other intermediating institutions may help channel savings to investments in small and medium enterprises, as well as underserved regions.
2) Human Development: Education, Health, Nutrition & Population, Social Protection & Labor; robust insurance mechanisms are needed to protect the extremely poor

* World Bank.

from destitution and the vulnerable against evolving risks, including climate change; income poverty is typically accompanied by inadequate access to Education, Health, housing, employment and personal security – areas where improvements would increase the chances for escaping poverty.

3) Sustainable Development: Agriculture, Energy & Extractives, Environment & Natural Resources, Social, Urban, Rural & Resilience, Transport & ICT, Water;
4) Crosscutting solutions: Climate Change Fragility, Conflict & Violence Gender Jobs Public-Private Partnerships (PPP).

Let me expand a little bit on Climate Change and on a few sectors that are most affected and need huge investments: 1) Agriculture, 2) Energy and extractives, 3) Transport and ITC, 4) Water, 5) Social, Urban, Rural and Resilience. At the end, I will mention how the World Bank intends to mobilize Public and Private resources and what are the business opportunities for Italian companies.

CLIMATE CHANGE

No country will be immune from the impacts of continued warming and increasing damage from weather-related disasters, but it will be the poor – those least responsible for the damage – who will suffer the most. In Sub-Saharan Africa and South Asia, the number of exposed poor could grow to 325 million by 2030. Globally, urbanization is increasing the number of people in slums, which frequently form in the highest-risk areas, exposing the poor to greater risks from heat waves, flooding, mudslides, and disease.

Among the World Bank's priority actions:

1) Building low-carbon, climate-resilient cities by mobilizing direct finance and expertise and helping fast growing cities avoid locking in carbon intensive infrastructure.
2) Moving forward on climate-smart agriculture through building an Action Alliance to realize the triple win of increasing yields and income, making farms more resilient to climate change, and helping to sequester carbon in the soil.
3) Working with others to accelerate energy efficiency, investment in renewable energy, and universal access to modern energy.
4) Laying the groundwork for placing a robust value on carbon, including a push for innovation in carbon markets.
5) Supporting the removal of harmful fossil fuel subsidies.

These actions require innovative ways to mobilize resources from both the public and private sectors. The International Finance Corporation (IFC), through its work with the private sector, supports renewable power, energy efficiency, green buildings, and other climate-smart solutions for developing countries, and has invested more than $11 billion in climate-related projects since 2005. IBRD and IFC are also the wor-

ld's largest issuers of green bonds to support low-carbon projects, with $5.3 billion issued by the World Bank Treasury in 61 bonds and 17 currencies, and $3.4 billion by the IFC, including two $1 billion benchmark offerings in 2013.

AGRICULTURE

Agriculture is vulnerable to climate change and it is, with associated deforestation, the largest contributor to greenhouse gases. Ending extreme poverty and boosting shared prosperity cannot be achieved without more and better investment in agriculture, food security, and nutrition. Seventy-five percent of the world's poor live in rural areas, most are involved in farming. At the same time, food production must increase by at least 50% to feed 9 billion people by 2050.

Agriculture can help to stop a 4°C warmer world: it is the only sector that can suck carbon out of the atmosphere. Climate Smart Agriculture has the potential to deliver a "triple win" of increased productivity, enhanced resilience, and lower emissions.

ENERGY AND EXTRACTIVES

An environmentally and socially responsible approach to energy and extractives is critical to attain sustainability objectives. The energy sector contributes about 40% of global CO_2 emissions, making the transition to a more sustainable energy mix critical for climate change mitigation. World Bank Group energy teams play a critical role in this process. At the same time, providing reliable electricity to the unserved and inadequately served people of the world is central to efforts to eradicate extreme poverty and create shared prosperity.

The World Bank's priorities are:

- Achieving universal access to reliable modern energy: generation, transmission, electrification, clean cooking solutions.
- Shifting energy systems to a more sustainable path: renewable energy, natural gas, energy efficiency.
- Improving the investment climate for energy: sector reform and governance, strengthening utilities, enhancing investment framework and encouraging private sector participation, rationalizing subsidies.

TRANSPORT AND ITC

Virtual and physical connectivity is a critical factor of competitiveness and economic growth. However, a third of the world's population lacks access to an all-weather road, and two-thirds of people in developing countries are more than one hour away from

a large city. Sixty percent of the world's population lack internet access, and even where broadband service is available, many of the poorest cannot afford it.

The WBG is the largest provider of development finance for transport globally, with an active portfolio of $47 billion; 74% of Bank projects include an ICT-related component.

WATER

Around 2.5 billion people lack access to improved sanitation and 748 million lack access to improved water supply. One in 3 of the poorest 40% do not have access to improved drinking water and 4 in 5 do not have access to improved sanitation. Degradation of water quality due to poor water management is reducing the amount of freshwater, degrading land, affecting ecosystems and affecting the health of millions of poor. In perspective, energy demand will increase 35% by 2035, increasing water use by 15%: by 2050, developing countries will need to double food production with less water allocated for irrigation. Coastal cities could see $1 trillion in damages due to climate-change related floods by 2050.

SOCIAL, URBAN, RURAL AND RESILIENCE

1 billion people live in slums today and poverty is urbanizing. 1.5 billion people live in countries affected by repeated cycles of violence. In the past decade, the number of people affected by natural disasters tripled to 2 billion.

Although 80% of GDP is generated in urban areas, social exclusion and inequality are rapidly growing in cities. Since 1980, low-income countries have accounted for only 9% of the disaster events but 48% of fatalities. Increasing the resilience of cities, villages, and communities is critical because the burden of disasters, conflict, crime, and violence falls disproportionately on the poor and the bottom 40% of the population.

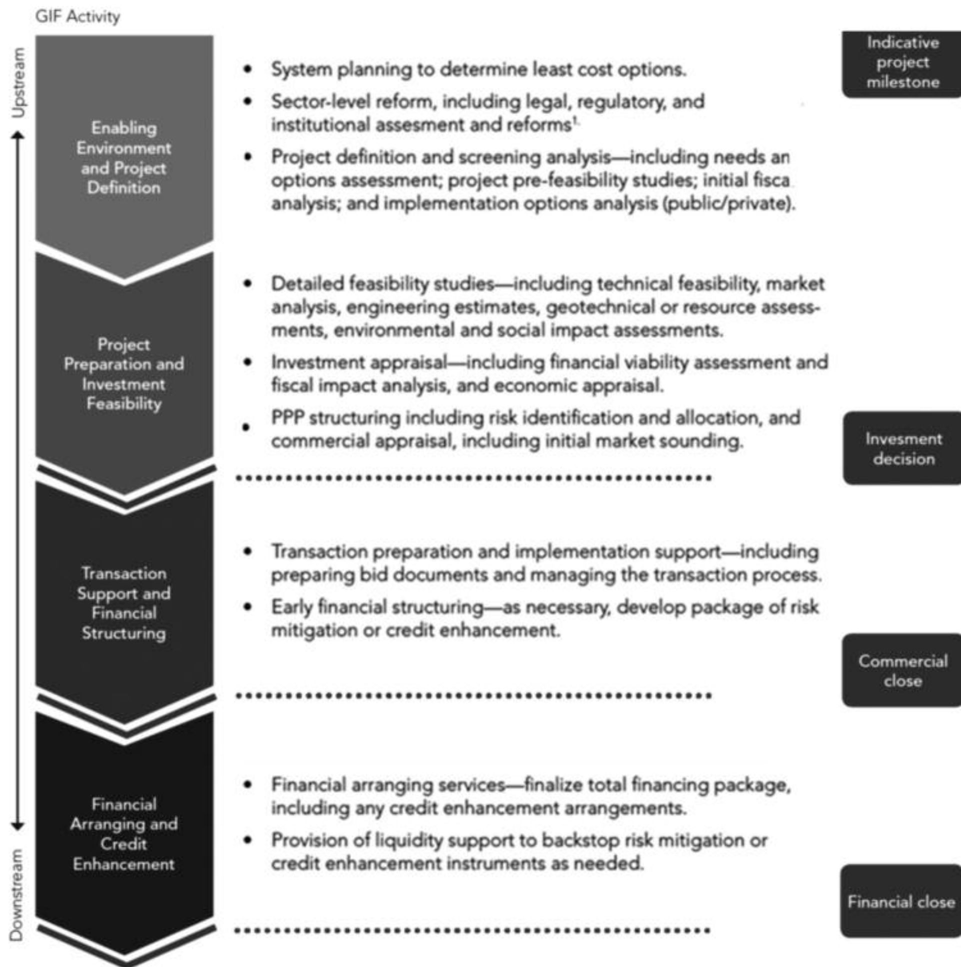
1 billion people are expected to move to cities by 2030. The growth path of cities, human settlements, and rural areas has local and global implications for sustainability and climate change. Ensuring that the marginalized and vulnerable segments of society have a say in defining their development path is indispensable.

PUBLIC-PRIVATE PARTNERSHIP (PPP)

In PPPs, risk can be allocated between the public and private actors according to their capacity to manage it. PPPs also leverage scarce public funding and introduce private sector technology and innovation to public services.

The challenge of project financing is not a fundamental lack of capital, but rather a shortage of investment grade projects. Governments need to pay more attention to the selection, quality and management of infrastructure projects.

For this reason, the World Bank has set up a Global Infrastructure Facility (GFI): a global open platform to facilitate the preparation and structuring of complex infrastructure PPPs.



HOW TO TRACK OPPORTUNITIES

UN-Development Business (UNDB) contains all projects financed by the WB, and other Multilateral Financial Institutions. Development Gateway Market (European Commission dgMarket) includes also projects financed nationally. E-Consultant2 is the WB data bank for consultants. The World Bank website (www.worldbank.org) contains country frameforks, operational summaries, information documents. In particular the procurement page (www.worldbank.org/procure) contains the procurement framework, standard bidding and procurement documents, a guide to business opportunities and much more.

THE POVERTY CURE: A MARKET APPROACH

Kishore Jajabalan*

There is a moral crisis, there is a lack of faith, of trust, in institutions. Populism is on the rise because they feel that we or you leads.

When you take pools of what concern people most; things like climate change, system development are very low, immigration, terrorism now, all this issues are much bigger.

As Mark Valley said, the reason why that will be no change is that the people who stand to lose from change has got all the power and, the people who stand a gain from change, has none of the power. That describes the global aid system today.

We need to stand over because for how things are now, there will be no change.

So, to stand over, we made a movie, called poverty, inc.

It is subtitled: 'why fighting poverty is a big business?'

It shows you how the most well intentioned charible activities can actually harm the poor.

Help comes from a good heart, people gives food, gives shoes, they encourage others to get. The problem is: it does not work. What poors need is to no longer be exclutled. They have way to get out of it, to fix it.

The donations have an unpredictable impact on the local economy, because why would poors buy something that they can have for free.

An interesting example able to describe the failure of the aid system is what is happening now in Haiti.

Some of the disincentives that have been created by the development aids, charible organizations, for example when it came to adopting children.

It turned out that there are aided children in the orphages in Haiti, that actually have parents. They have being send to the orphages, so they can be adopted and send money back home.

This is not planned but this things happen, because people respond to incentives, and, that way of thinking about economics, is what we try to do in our Institute.

This movie describes even countries as Italy or Greece, showing us how interconnected we are.

They are countries where there is no growth, no trust in institutions and where the elite is out of touch.

* Acton Institute.

All these matters are becoming universal, so we hope to show this movie, especially in northern Europe: in Geneva, in Brussel, in London; these are the centres of this global power.

All we want to do, is to start a conversation. To re-examine the very primisis of the aid system and of the global trade system.

SUPPORTING GROWTH: THE KEY ROLE OF INSTITUTIONS

Claudio De Vincenti*

Growth of course is a key issue at the global level, but let me start by emphasising that growth is the key to the survival of the European social model. The last century as widely demonstrated that reasonable degree, distribution, and fairy economic system is sustainable only in the present of sufficient rhetor rules. Without growth, society has become increasingly intolerance, intolerance for diversity, social immobility that in a long arm may be destroyed the very basis of our model of life and question even the democratic way of government.

ECONOMIC PROGRESS IS LINKED TO SOCIAL AND POLITICAL PROGRESS

Economic theory has identified the most important drivers of the growth. One way or another, any of this driver, de facto, is a forum investment on innovation, infrastructure, productive capital and even human capital. As Keynes, noted investment depends on expectations. The risk we are facing in Europe in the coming decade is that Europe is perceived as a no growth area where the climate for investment is bad and retards are relatively low. This would practically deliver the expectations in reality. It is the duty for government to restore conditions for positive expectations; many governments around the world have long understood the critical injunction in which we are. We need appropriate positive expectations to restore positive expectations. Italy does not ask for weekening budget, but on the contrary, we are committed to rigorous budget policies, but together with discipline in budget policies, at national level, and expensive macro economic policy is necessary at Union level.

Europe has not to wait, that some other country in the world, as United States or others behaves as the engine of the international economy, Europe has to be the engine for itself and for the world and for its citizens. The economic and social progress, not the austerity, has to be the future of the Europe of course a macro-economic policy has to be an answer for reforms at institutional and economic level.

About institutions, a strategy to restore positive expectations and to restore growth must start with stable institution that can credibly committed to pro growth policies. Of course, what we need is not more institution, but if anything, less but better institution and more effective institutions, that is institution able to take credibly com-

* State Secretary to the Prime Minister of Italy.

mitments to worlds about a large scape public investment plan and an investor friendly policy in all the main areas of interest. We must find at European Union and Eurozone level a different equilibrium between national sovereignty and EU identity, and in the research we must be bold, because both national policies and EU policies are at risk of lacking the necessary degree of credibility without a framework of continuum deepening of the intra EU relationships.

The very complex of European instituition that has so long provided a framework from which many countries, including Italy, have gain stability to deliver a credible reform program that may convince investors that Europe is not able to deliver a strategy for the long run, some radical thinking is necessary here.

In Italy we have tried to be radical in several ways. For instance with the constitutional reform and the new voting system we are providing the basis for stability of future governments and to improve the effectiveness of a democratic decision-making.

Lack of investment has often be in the past the product of uncertainty about policies and regulation, now we are giving stability to rules and improving our regulation system.

POLICIES, FIRST OF ALL THE JUNCKER PLAN.

Investment needs not only credible institutions, but policies as well. in an uncertain environment, especially for long run investments, public intervention is necessary. I am proud to claim that the central rule that Italy has played in shaping the new commissions commitment that was the investment plan for Europe and kick-start of the European plan for strategic investement.

We are also so far through to 'Cassa Depositi e Prestiti', one of the main contributors to the investment plan. The Juncker plan and the European fund is the appropriate instruments as it provides high level and impartial scrutiny over the quality of projects.

Policies, structural reforms. Another pillar to ensure larger investment in Europe is of course structural reforms, Italian governments has been engaged in the past years into structural reforms ranging from market liberalizations to labour market reforms. This is completely new, considering that fiscal stability in the past has been achieved often through tax increases now we are obtaining fiscal stability, reducing tax. Competitiveness is crucial to delivering increased strategic investments, in this field the government can and will pursue policies to improve the regulatory environment and we are, as I said before, announcing the regulatory framework in order to give stability and to give commitment to worse stability of rules.

INFRASTRUCTURE INVESTMENT

We have improved the project evaluation and decreased the number of programming investment. It may seen to an outside observer that this means less investment, on

the contrary. The past programs were only artificially inflating the number of projects. We are now concentrating resources on a credible number of projects.

This is an announcement of the investment capacity of Italian institutions, central and local governments.

Finance. Due to the consistent reform effort in the last year, I could verify a revenued interest of international investors on Italy which I think is due to the appreciation for a productive system. We consider finance not part of the problem but part of the solution. The Italian government action has been aimed at creating more opportunities for investment of different intermediates expand the range of instruments available to firms and investors and increasing the equity participation in Italian firms. Some example: new forms of financing, for instance mini-bonds reforms, were encouraged.

The market for financing firms have been opened to long-term investors, like pension funds and the insurance firms. A whole coherent regulatory and incentive for innovative start-ups has been released. Of course, we expect financial investors more interested to productive investment rather than speculation.

In the last years a wave of new regulation has improved dramatically the transparency and capital requirements of the credit intermediaries.

Credit intermediaries exist for a purpose, producing information and monitor firms.

We need efficient and effective financial intermediaries and we need rules, which encourage this subject to support growth.

LIST OF AUTHORS

PAOLA ALBRITO
Head of Regional Office for Europe of the United Nations Office for Disaster Risk Reduction

In her current role, she supported the Europe region preparatory process and delivery of the Sendai Framework for Disaster Risk Reduction 2015-2030, which was endorsed at the Third UN World Conference on Disaster Risk Reduction. Paola joined UNISDR in 2004 during the preparations for the Second UN World Conference on Disaster Reduction, contributing to the conference the Outcome Analysis Document on the status of risk reduction implementation at the global level.

Between 2005 and 2008, Paola worked on policy issues related to building resilience to disasters, including the development of guidelines on indicators assessing disaster risks, and the mainstreaming of disaster risk reduction into sustainable development policies and programmes.

Her previous work experience includes the coordination of Common Country Assessment and the United Nations Development Assistance Framework (programmes addressing sustainable development issues) in Djibouti as part of the UN Resident Coordinator Office (1999-2003); supporting the UN Country Teams in developing sustainable development policies as part of the United Nations Staff System College in Turin; and conducting programme evaluations as independent consultant at the International Labour Organisation.

ANGELO FEDERICO ARCELLI
Partner in Oliver Wyman and Director for Government Relations (Europe) of Marsh and MacLennan Companies

He is a partner in, a global strategic consulting firm. As a part of his assignment in Oliver Wyman he also serves, since 2014, as a director for government relations (Europe) of Marsh and MacLennan Companies

He has served as adviser to the vice president of European Investment Bank (Luxembourg, 2004-2008) and then adviser and member of the executive board of the World Bank (Washington, DC – USA, 2008-2009). In 2009-2010 he has been adviser in the Independent Evaluation Group (IEG), part of the World Bank Group. He has been a member of the Consultative Committee ("Osservatorio") on the European Constitution in Italy's Ministry of EU Affairs (2002-2004).

In the private sector, he held positions in IMI Bank, McKinsey & Company and Accenture.

Having held several academic position, in the US and Europe, he is currently non-resident fellow at the Center for Transatlantic Relations of SAIS Johns Hopkins University – Washington, DC – USA (resident in 2012-2013).

He holds a degree (MSc) in economics from Bocconi University (Milan) and a PhD in economic history from the same university.

FRANCO BASSANINI
Special Adviser to the Prime Minister and President of the Long-term Investors Club

Franco Bassanini, former Italian Cabinet Minister for Public Administration and Regional Affairs (1996-2001) and Professor of Constitutional Law at the First University of Rome, is now President of Astrid Foundation, an Italian think tank gathering

together about 350 scientists and experts in the field of European and National institutions, public policies, public administration's reform, market regulation and e-government (www.astrid.eu). He has also been, and currently is President of the Supervisory Board of Condotte d'Acqua Inc., Chairman of the Executive Boards of Metroweb Italia Inc., Metroweb Sviluppo Inc. and CDP Reti Inc.(holding controlling Snam and Terna Inc.). He has been member of the Italian Parliament from 1979 to 2006, Chairman of Cassa Depositi e Prestiti (the Italian National Development Bank) from 2008 to 2015 and recently Chairman of the Long-Term Investors' Club.

ALBERTO BABAN
President of Confindustria Piccola Industria

Born in Venice in 1966. Since 2013 Alberto Baban is the President of Confindustria Piccola Industria, the organization of Confindustria for SMEs, and Vice President of the Confederation. He is also Vice President of BUSINESSMED, the Union des Confederations Méditerranéenne d'Entreprises. President of Tapì Group. Located in Massanzago (Padua), the company produces technical and synthetic plastic corks for wines and spirits. Founded in 1998, since 2000 the company became a corporation and nowadays has 5 production sites in Italy and abroad with commercial relations with 60 countries. Alberto Baban is also the majority shareholder of GTA Moda, a company active in the field of fashion for men's trousers. Alberto Baban is also co-founder of VeNetWork Spa, a company shared by 50 entrepreneurs. VeNetWork Spa operates in the funding and development of new businesses and exploits the networking advantages to start new investments in companies based in the Veneto area. Starting from this experience, Alberto Baban works to promote the industrial development and growth of Italian excellences in all Italian regions. Since 2014 Alberto Baban is Member of the Executive Board of Unicef Italy.

MAREK BELKA
President, Narodowy Bank Polski, and Professor of Economics

Born in 1952, Marek Belka specialises in applied economics and contemporary economic thought. He has served, among others, as Deputy Prime Minister, Minister of Finance (twice) and as Prime Minister of the Republic of Poland. He has worked as Chairman of the Council for International Coordination for Iraq, as Director of Economic Policy in the Coalition Provisional Authority, and as Executive Secretary of Economic Commission for Europe. Before he was appointed President of Narodowy Bank Polski in June 2010, he was Director of the European Department at the International Monetary Fund.

JOCHEN BIEDERMANN
Senior Advisor, Frankfurt Main Finance

Jochen is an experienced consultant in the financial industry and beyond. Based in Frankfurt and Hong Kong, he supports financial centres, stock exchanges, regulatory authorities and corporates in Europe, Asia and the Middle East. On behalf of the financial centre of Frankfurt he takes care of development and implementing partnerships between Frankfurt and other international financial centres, as well as of positioning Frankfurt as an Offshore Renminbi centre among German and EU companies to ease their business with China. Additionally, he helps leading financial centres like Frankfurt to develop themselves into global FinTech hubs, establishing vibrant start-up ecosystems and supporting young companies with new business ideas in finance & technology.

CHRISTIAN BUCHMANN

Committee of the Regions, Chair of the ECON Committee

Mr. Christian Buchmann was born in Graz on 27th of September 1962. He is graduated at Carnerigasse grammar school of Graz, afterwards compulsory military service in the Austrian Federal Army. He studied at the University of Graz and University of California, Los Angeles (UCLA). He holds a master's degree and a doctorate in Social and Economic Sciences. He started his career in 1982 at Styrian Federal Economic Chamber. Member of the City Government Graz, was responsible for Economic Affairs, Science and Culture. From 2005 to 2010 was appointed as Minister for Economic Affairs, Innovation and Finance in Styria and from 2010 to 2015 covered the position of Minister for Economic Affairs, Europe and Culture. Since 2015 he is Minister for Economic Affairs, Tourism, Europe and Culture in Styria and, also, President of the Commission for Economic Policy (ECON) of the Committee of the Regions. Since 2011 Mr. Buchmann is Member of the Committee of the Regions of the European Union. Since 2012 is Vice president of the Automotive Intergroup of the Committee of the Regions.

FEDERICO CORNELLI

Head EU Regulatory Affairs at ABI – Italian Banking Association. Federico holds a degree in Economics at Bocconi University and a PhD in finance. Fellow at Cambridge and German Bundeskultur Ausstaschdienst at Wuerzburg, he started his career as financial analyst and then corporate banker in 1990 at Banco di Roma and then Arab Banking.

Corporation in London, Bahrain and Milan. In 1994 he joined BNL – Banca Nazionale del Lavoro as corporate banker, economist, head of financial market analysis and strategies and in 2003 head of marketing – financial institutions.

In 2005 he was named head of financial analysis department and member of the Surveillance Committee at Consob of Italy, the Italian financial market regulator.

In 2007 he served as expert for the US Department of State.

In 2009 he joined Federcasse as Chief Operating Officer and as General Manager of the institutional cross guarantee fund of the Italian credit cooperative banking system.

DAVIDE DAL MASO
Secretary General Forum Finanza Sostenibile

Mr. Dal Maso has worked for years as a business consultant, specialising in environmental management and innovation. Among the founders of the Milan-based Avanzi – a think tank for sustainability, he has focused his studies on the relationship between financial activities and sustainable development. He currently runs research and consulting activities for the design and the implementation of strategies and management systems for corporate social responsibility. Davide is President of Make a Cube3, an incubator that assists start ups with high potential for creating social and green value, by providing comprehensive business support services, including back-office, governance expertise, access to knowledge and financing.

He is Secretary General of the Forum per la Finanza Sostenibile (the Italian Social Investment Forum) – a non-profit multistakeholders organisation whose mission is to enhance the awareness of Italian financial community on sustainability. In this capacity, he is also member of the Board of Eurosif, the European Sustainable Investment Forum. He is member of the board of the Italian CSR Manager Network, the association of CSR professionals, as well as of Make a Change, the Italian Movement for the promotion of the values of social business. He has been until 2011 director and Head of SRI Department at Vigeo Italia (formerly Avanzi SRI Research), the first Italian social rating agency, providing ESG research and consulting services for institutional investors and financial professionals.

EDOUARD-FRANÇOIS DE LENCQUESAING
CEO, European Institute of Financial Regulation/Paris-Europlace

Edouard-François de Lencquesaing after being a consultant with ACCENTURE has been a banker with CCF-HSBC,head of transaction banking & IT, ending special advisor of the chairman. He is now a consultant in his own firm specialized on European issues related to the financial industry (Netmanagers) and CEO of European institute of Financial Regulation (EIFR), treasurer of "Confrontation Europe" he was special advisor of Paris Europlace. He is very much involved in European issues & EU-US convergence in finance. He is also business angel. He is Délégué Départemental de l'Ordre de Malte France. He is Commander in the French Navy (reserve).

CLAUDIO DE VINCENTI
Undersecretary of State for the Presidency of the Council of Ministers, Italy

Claudio De Vincenti is a professor of economics. On February 28, 2014 he was appointed Undersecretary of Economic Development, while, on June 25, 2014 he was designated Deputy Minister. Then, form April 10, 2014 was chosen as Undersecretary of State for the Presidency of the Council of Ministers with the function of Secretary of the Council of Ministers. In the past he has covered the position of Undersecretary to the Minister of Public Development. His professional activity involves various lines which include: intensive research and teaching as a Professor of Economics at the Department of Economics and Law, University of Rome "La Sapienza"; regulation activity in public utility services; Economic Advisor to the Presidency of the Council, the Ministry of Economy and Finance and the Ministry of Health; participation in national and international consultation committees and organizations. He is also author of numerous scientific publications in Italian and international jour-

nals. His activity of research includes Macroeconomics and its microfoundations, Public Economics, Welfare Policies. He held numerous positions among which he was President of the Scientific Committee of the Prices Observatory of the Ministry of Productive Activity; coordinator of the Technical and Scientific Council of the Family Observatory for the Presidency of the Council of Ministers. Member of the Board of Directors of AIFA (Italian Drugs Agency). He was also member of the Evaluation Committee for the social security spending in the Ministry of Labour. He is also the member of the Executive Committee of the Foundation Astrid, Member of the Executive Committee of the Foundation Nens and Member of the Scientific Committee of the "European Research Centre" in Rome.

NICKY EDWARDS
Former Director of Policy and Public Affairs, TheCityUK

Nicky Edwards joined TheCityUK in December 2013 as Director of Policy and Public Affairs, where she leads a team which engages with UK policymakers, EU institutions and other Member States to present the evidence of the importance of financial and related professional services to global competitiveness. TheCityUK produced, in its role as a partner in the International Regulatory Strategy Group (IRSG), the report 'Long term finance for infrastructure and growth companies' (March 2015), providing recommendations to Member States, the European Commission, the financial services industry, central banks and regulatory authorities, and the EIB and the EIF on how best to bring about increased investment in infrastructure and removing barriers to long term growth. She was previously at Just Retirement, where she managed the group's public affairs programme during its initial public offering and listing on the FTSE 250 and developed campaigns on the use of housing equity, retirement finance and care funding. Prior to this Nicky was Head of Public Affairs at both The Law Society and General Social Care Council. In the 2010-2015 Parliament, Nicky served as a member of the Speaker's Advisory Council on Public Engagement, with a special focus on the work of Select Committees.

DARIO FOCARELLI
Director General, ANIA

Dario Focarelli is Director General of ANIA since the 18th of September 2012.

Since 2004 to 2013 he was Director of the Economics and Finance Dept and Chief Economist of ANIA (Italian Association of insurance firms) as well Chairman of the ECON Committee composed by representatives of Italian insurance firms.

From 2004 to 2008 he was Member of the Consultative Panel of experts from the insurance industry, and users and consumers (CEIOPS). From 2004 to 2012 he was Member of the Ecofin Committee of the European insurance trade associations (Insurance Europe). Prior to that he was Deputy Director of the Bank of Italy Research Dept. and joined several task forces under the aegida of the Committee on the Global Financial System (BIS) in Basel, the European Commission (EPC) in Brussels, the European Central Bank in Frankfurt. In 2011 he was Member of the Insurance and Reinsurance Stakeholder Group of the EIOPA. From 2011 to February 2015 he was Member of the Advisory Scientific Committee of the ESRB a body of the European System of Financial Supervision. Since 2012 he is Member of the Executive Committee of Insurance Europe.

PAOLO GARONNA
Secretary General of the Italian Banking Insurance and Finance Federation

Full Professor of Political Economy at the LUISS Guido Carli University of Rome, Paolo Garonna was Director General of the Association of Italian Insurers (ANIA), Director General of the Italian National Institute of Statistics (ISTAT) and, from 1989 to 1992, Deputy Director for Labour, Social Affairs and Education at the Organisation for Economic Co-operation and Development (OECD) in Paris. He was also De-

puty Executive Secretary of the United Nations Economic Commission for Europe (UNECE) in Geneva, and Chief Economist of Confindustria from 2003 to 2005. He carried out research in America as Fulbright scholar, and in Cambridge, Great Britain, where he co-operated with the Nobel Prize winner Richard Stone. He has published a considerable number of books and essays on Applied Economics, Statistics and Finance. He has been the Secretary General of the Italian Banking, Insurance and Finance Federation since October 2012.

MARK GARVIN

Vice Chairman for the Corporate & Investment Bank at J.P. Morgan

Mark Garvin is Vice Chairman for the Corporate & Investment Bank at J.P. Morgan.

He is also Chairman of J.P. Morgan Europe Ltd and Chairman of the Supervisory Board of J.P. Morgan AG. Mr Garvin has worked for J.P. Morgan and its predecessor banks since 1978. After serving in various capacities in the Latin American division he became credit officer in Paris in 1982. He transferred to London in 1985 where he assumed responsibility for UK client coverage. In 1988 he was appointed deputy general manager of the London branch and in 1992 became UK Senior Country Officer. In 1997 he was appointed Chief Operating Officer – Europe, Middle East & Africa, and in 2004 became Chairman, Treasury & Securities Services International, a position he held until assuming his current role in 2012. He is Senior Independent Director of Euroclear Plc, Deputy Chairman of The British Bankers Association and a Director of BritishAmerican Business.

ROBERTO GUALTIERI
MEP, Chair of the Committee on Economic and Monetary Affairs

Roberto Gualtieri (born in Rome, 19/07/1966) has been a member of the European Parliament since 2009. In July 2014, he has been elected Chair of the Committee on Economic and Monetary Affairs. He graduated in literature and philosophy (1992) and has a research doctorate (PhD) in contemporary history (1997). Mr. Gualtieri is an associate professor of contemporary history at 'La Sapienza' University, Rome. He is member of the National board of the Partito Democratico (Italy), since 2008.

FRANCO GIANNINI GUAZZUGLI
Vicepresident ANASF

Franco Giannini Guazzugli was born in 1953. He is financial advisor of Fideuram since 1984, in Anasf since 1986. He started his professional career at the Cassa di Risparmio di Roma in 1977, where worked until 1984. Coordinator of Lazio from 1996 to 1998, he was elected for the first time in the National Council at the Sorrento Congress of 1998. He is serving his fifth mandate in the Council. In the four years from 2002 to 2006, he was a member of the Commission to draft the Charter of the Rights of Investors. From 2006 to 2011, he was responsible of the Decentralization Commission the Center Area. From May 2011 to 2015 was Deputy Chairman of Anasf; he was in the Executive Committee before with mandate for Decentralization and then with mandate for Contractual, Fiscal and social security protection Area, with particular impact in the area of taxation. In 2013 he was appointed as representative of the Anasf – Council Forum of Sustainable Finance. He is currently Vice President of the Executive Committee of Anasf.ì

KISHORE JAYABALAN
Director Acton Istitute

Kishore Jayabalan is director of Istituto Acton, the Acton Institute's Rome office. Formerly, he worked for the Vatican's Pontifical Council for Justice and Peace as an analyst for environmental and disarmament issues and desk officer for English-speaking countries. Kishore Jayabalan earned a B.A. in political science and economics from the University of Michigan, Ann Arbor. In college, he was executive editor of The Michigan Review and an economic policy intern for the U.S. Chamber of Commerce. He worked as an international economist for the Bureau of Labor Statistics in Washington, D.C. and then graduated with an M.A. in political science from the University of Toronto. During his graduate studies, Kishore was baptized and received into the Roman Catholic Church by Pope John Paul II in Rome in 1996. He later worked as a student campus minister at the university's Newman Centre, which led to his appointment to the Permanent Observer Mission of the Holy See to the United Nations in New York in 1997. Two years later, he returned to Rome to work for the Pontifical Council for Justice and Peace. Kishore became director of Istituto Acton in 2005 and organizes the institute's educational and outreach efforts in Rome and throughout Europe.

LUCA LAZZAROLI
Deputy Secretary General, European Investment Bank

Luca Lazzaroli holds an Economics and Finance degree from the University of Rome "La Sapienza" where he also pursued his post-graduate studies after studying at the Georgetown University in Washington D.C. – USA. He is a Chartered Accountant ("Revisore Contabile" and "Dottore Commercialista"). He spent the first four years of his

professional career working for The Chase Manhattan Bank, in Milan and London, as a credit officer first, subsequently joining the corporate finance team. He joined the European Investment Bank in 1992 in the risk department. He subsequently moved to the Italian operational department and in the second half of 2000 worked for the Italian PPP Task Force as head of the financial unit. In 2001-2006 he was back at the EIB with the Benelux Division where he was appointed Deputy Division Head. In 2006 he was subsequently appointed Head of Division in charge of lending to infrastructure projects and PPPs in Spain. In May 2011 he became Head of the South-East Europe lending department (covering Romania, Bulgaria, Greece, Turkey and Cyprus). In April 2014 he was appointed Deputy Secretary General in the General Secretariat of the EIB. Since 1 June 2015 he is Director General, Deputy Head of Operations.

JOHN LLEWELLYN
Co-founder and partner Llewellyn Consulting

John Llewellyn, before co-founding Llewellyn Consulting, John Llewellyn was Global Chief Economist and then Senior Economic Policy Advisor at Lehman Brothers.

This followed almost twenty years at the Organisation for Economic Cooperation and Development (OECD) in Paris, where variously he was Head of International Forecasting and Policy Analysis, editor of the OECD Economic Outlook, Deputy Director for Social Affairs, Manpower and Education, and finally Chef de Cabinet to the Secretary-General. Prior to that he spent nearly ten years at the Faculty of Economics of the University of Cambridge, and he was also a Fellow of St. John's College. In 1974 he was appointed Assistant Director of Research in the Faculty of Economics.

John earned his undergraduate degree at the Victoria University of Wellington, New Zealand, and his doctorate at the University of Oxford.

GIORDANO LOMBARDO

CEO and Group CIO, Pioneer Investments and Chairman, Assogestioni

Giordano Lombardo is Chief Executive Officer and Group Chief Investment Officer of Pioneer Investments. Prior to his appointment as CEO, he held the position of Deputy CEO and has been Group CIO, responsible for global investment activities, since 2001. Giordano is also Chairman of Assogestioni, the Italian Association of Fund Managers, Vice Chairman of FeBAF (Federazione Banche Assicurazioni e Finanza) and Vice Chairman of Italy's Corporate Governance Committee. With over 30 years of experience in the asset management industry, including over 20 years with Pioneer Investments, Giordano holds various directorships within the Pioneer Investments group of companies, including Chairman of Pioneer Investment Management SGRpA (Italy) and Pioneer Investment Management Limited (Ireland).

SERGIO LUGARESI

Head of Office, World Bank Office in Rome

Sergio Lugaresi is currently project manager at the Italian Banking Association in Frankfurt and ad interim Head of Rome Office of the World Bank in Rome. He is also member of the Panel of Experts of the International Monetary Fund (IMF). He has been Head of Regulatory Affairs at UniCredit S.p.A. and Chief Economist in Capitalia and Banca di Roma. Previously he had worked as manager at the Italian Statistical Office (ISTAT) and as economist at the IMF and at the Italian Institute for Economic Planning (ISPE). He took his PhD at the University of Modena. He has published several articles and papers on economic and monetary policy, fiscal policy, income redistribution. He was born in 1957, is married and has three children.

MIGUEL POIARES MADURO
Former Minister for Regional Development, Portugal

Miguel Poiares Maduro is Professor at the European University Institute. From 2013 to 2015 he was Portuguese Minister in the Cabinet of the Prime Minister and for Regional Development. At the time of his appointment to Government he was Director of Global Governance Programme at the European University Institute and Visiting Professor at Yale Law School. From 2003 to 2009 he was Advocate General at the European Court of Justice. He has also taught the College of Europe, the Universidades Católica and Nova in Portugal, the London School of Economics, the Centro de Estudios Constitucionales (Madrid) and Chicago Law School. He is a Doctor of Laws by the European University Institute (Florence) and was the first winner of the Rowe and Maw Prize and winner of the Prize Obiettivo Europa (for the best PhD thesis at the EUI). He has been Fulbright Visiting Research Scholar at Harvard Law School. He is Co-Director of the Academy of International Trade Law (Macao).

RAINER MASERA
Dean of the School of Business at the Università degli Studi Guglielmo Marconi in Rome

He served as technical Minister for the Budget and Economic Planning in the Dini Government and was appointed one of the 5 “Wise Men” for the review of the “Lamfalussy” process (IIMG) and Member of the High Level Group of European Commission on Financial Supervision in the EU (Group de Larosière). He was Member of the Board of the Bank for International Settlements and Member of G10 Deputies, Central Director in Bank of Italy (Rome), Managing Director of IMI SpA, Chief Executive Officer and Chairman of the Group Sanpaolo IMI (Turin) and of RFI SpA, Chief of the Italian Delegation of the Franco-Italian Government Committee for the new Turin-

Lyon railway link and Expert Member of the Board of the European Investment Bank. He is currently Chairman of the Advisory Committee on Financial Management of Fondazione Roma.

MARCELLO MESSORI
LUISS School of European Political Economy

Marcello Messori is professor of Economics at the Department of Political Science, LUISS University (Rome) and Director of the LUISS School of European Political Economy. He teaches European Economics and Economia Europea. He taught at the Department of Economics, University of Rome 'Tor Vergata' from mid Nineties to the a.y. 2011-'12. He published more than one hundred and fifty works in Italian, English, French, and German. In the last fifteen years, his scientific activity has focused on four main areas: the evolution of the Italian banking system with specific reference to its allocation of the property rights, the new Keynesian models based on asymmetric information and on financial constraints, the Italian sector of institutional investors, and the economic governance of the European Union. During the same period, Marcello Messori has been the coordinator of national and international research groups and has been involved in various institutional activities.

CARLOS MONTALVO REBUELTA
Executive Director of the European Insurance and Occupational Pensions Authority (EIOPA)

Mr. Carlos Montalvo Rebuelta is the Executive Director of the European Insurance and Occupational Pensions Authority (EIOPA). In his role, he presides over the day-

to-day management of EIOPA. Mr. Montalvo was elected by the Board of Supervisors of EIOPA on 25 February, 2011. His nomination followed a pre-selection by the European Commission. The European Parliament's approval followed an open hearing on 17 March. Mr. Montalvo moved to Frankfurt in November 2007 where he has been Secretary General of CEIOPS, the Committee of European Insurance and Occupational Pensions Supervisors. Prior to his current role, Mr. Montalvo was an insurance supervisor for the the Dirección General de Seguros y Fondos de Pensiones (DGSFP), the Spanish insurance supervisory authority. There he headed the International Area of the Supervisory Department and coordinated insurance groups and financial conglomerates related issues. Mr. Montalvo is a lawyer with a diploma in economics and has carried out both national and international tasks, such as on-site inspections or participation in different legislative initiatives. He has also been involved in qualitative supervision related issues, including the chairmanship of CEIOPS working group on internal control for insurance undertakings (Madrid Group), and has participated as invited professor in different fora.

MARIO NAVA
Director of the Regulation and Prudential Supervision of Financial Institutions, DG FISMA, European Commission

Mario Nava (born Milan, 1966) is currently Director of the 'Regulation and prudential supervision of financial institutions' directorate in the Financial Stability, Financial Services and Capital Markets Union DG (formerly the Internal Markets and Services DG) of the European Commission. Prior to that, from April 2011, he held the position of Acting Director. From November 2009 until September 2013, he was Head of the 'Banking and Financial Conglomerates' unit. Previously in the Internal Markets and Service DG, from May 2004 to October 2009, he was the Head of the ‘Financial Markets Infrastructure’ Unit. From December 2007 to May 2008, he was also Acting Director for the Financial Services Policy and Financial Markets Directorate.

From 2001-2004, he was a member of the Group of Policy Advisers of the EU Commission President, Prof. Romano Prodi. Within the Group he was responsible for economic matters in general and in particular the EU budget and economic policy coordination between the Member States. Prior to joining the Group of Policy Advisers, he worked first for the Commission's Taxation Department (1994-1996), then for the

Budget Department (1996-2000), and then in the Cabinet of the Competition Commissioner, Prof. Mario Monti (2000-2001). Alongside his work at the Commission he is active in research and teaching. He is a visiting professor at Milan's Bocconi University and an occasional lecturer in many universities across Europe.

PIER CARLO PADOAN
Italian Minister of Economy and Finance

Pier Carlo Padoan was appointed Minister of Economy and Finance in the Government led by Matteo Renzi on 24 February 2014. Mr. Padoan was Professor of Economics at the University La Sapienza of Rome, and Director of the Fondazione Italianieuropei, a policy think-tank focusing on economic and social issues. On 1 June 2007 Mr. Pier Carlo Padoan was appointed Deputy Secretary-General of the OECD. As of 1 December, he was also appointed Chief Economist while retaining his role as deputy Secretary-General. In addition to heading the Economics Department, Mr Padoan was the G20 Finance Deputy for the OECD and has also lead the Strategic Response, the Green Growth and Innovation initiatives of the Organization. From 2001 to 2005, Mr. Padoan was the Italian Executive Director at the International Monetary Fund, with responsibility for Greece, Portugal, San Marino, Albania and Timor Leste. He served as a member of the Board and chaired a number of Board Committees. During his mandate at the IMF he was also in charge of European Co-ordination. From 1998 to 2001, Mr Padoan served as Economic Adviser to the Italian Prime Ministers, Massimo D'Alema e Giuliano Amato, in charge of international economic policies. He was responsible for co-ordinating the Italian position in the Agenda 2000 negotiations for the EU budget, Lisbon Agenda, European Council, bilateral meetings, and G8 Summits. He has been a consultant to the World Bank, European Commission, European Central Bank.

FABRIZIO PAGANI
Head of the Office of Italy's Minister of Finance

Fabrizio Pagani is Head of the Office of Italy's Minister of Finance. In this capacity, he supports the Minister on key domestic and international economic and financial issues and heads a team which serves as policy unit for the Minister. In particular, he is leading/spearheading/coordinating the work of the Italian government on public and private investment, finance for growth, privatization, banks and other financial institutions. Since 2014, he is non-executive Director of ENI and Chairman of ENI's Scenarios and Sustainability Committee. In the previous Italian government, he has served as senior counsellor and G20 Sherpa of the Prime Minister. In this capacity, he also led the task force "Destinazione Italia" on the attraction of Foreign Direct Investment. Previously, he has been Head of the Sherpa Office of the Organisation for Economic Co-operation and Development (OECD) and Special Political Counselor to the OECD Secretary-General. From 2006 to 2008, he was Chief of Staff for the Undersecretary of State at the Office of the Italian Prime Minister. He also served as member of the board of SACE, Italy's export credit agency. Formerly, Mr. Pagani held different positions within the Italian government, where he served as senior staff for the Minister of European Policies and for the Minister of Industry, Energy and Foreign Trade, and in academia (University of Pisa, University of York – UK, SciencesPo – Paris).

PIETRO PAROLIN
H. E. Secretary of State, Cardinal of the Catholic Church

Cardinal Pietro Parolin, secretary of State, was born in Schiavon (Vicenza) on 17 January 1955. He was ordained a priest on 27 April 1980 and incardinated into the

diocese of Vicenza. He holds a degree in canon law. He entered the diplomatic service of the Holy See on the 1 July 1986, beginning work at the pontifical representations in Nigeria and Mexico and at the Section for Relations with States of the Secretariat of State. He was appointed Under-Secretary for Relations with States of the Secretariat of State on 30 November 2002. On the 17 August 2009 he was appointed as apostolic nuncio to Venezuela and, at the same time, elevated to the dignity of archbishop and assigned the titular see of Acquapendente. He received Episcopal ordination from Pope Benedict XVI on 12 September of the same year. On 31 August 2013 Pope Francis appointed him as Secretary of State, beginning his mandate on 15 October. Member of the group of cardinals established to advise Pope Francis in the government of the universal Church and to study a plan for revising the Apostolic Constitution on the Roman Curia,'Pastor Bonus'. Created and proclaimed Cardinal by Pope Francis in the consistory of 22 February 2014, of the Title of Santi Simone e Giuda Taddeo a Torre Angela. Cardinal Pietro Parolin is member of various Congregations: for the Doctrine of the Fait; for the Oriental Churches; for the Evangelization of Peoples; for Bishops; he is also member of the Cardinal Commission for the Supervision of the Institute for the Works of Religion (IOR).

EDOARDO REVIGLIO
Chief Economist, Cassa Depositi e Prestiti

Edoardo Reviglio, is Chief Economist at "Cassa depositi e prestiti" (CDP), Rome. He is professor of economics at LUISS Guido Carli in Rome and at International University College of Turin. He is the General Secretary of the Commission to reform the Public Property section of the Italian Civil Code. He is member of the Scientific Board of several Italian and international institutions and Think Tanks (Long Term Investment Club, Integrate, Torino World Affairs Institute, SWFs Lab). In the past he has covered various positions in the public sector, including: Chief Economist and Head of the Research Department at Istituto per la Ricostruzione Industriale (IRI) and Member of the Council of Economic Advisers of the Italian Ministry of Economy and Finance. In 2009-2011 he acted as Economic Advisor to the Italian Minister of Economy and Finance. Prof. Reviglio received his BA, Summa Cum Laude, from Yale College; was Research Fellow at the Mathematical Center Vito Volterra (Università di Roma Tor Vergata, 1988-90); visiting Scholar at Department of Mathematics of Yale University (1990-1992); Post Doctoral Fellow and Research Associate at the Department

of Mathematics of Imperial College, University of London (1992-1994). In 1988 he was a trainee in Finance and Banking at Manufacturers Hanover Trust, NY. His fields of research include: banking and finance, international economics, public finance, economic history and law and economics.

VALERIA RONZITTI
General Secretary CEEP (European Centre of Employers and Enterprises Providing Public Services and Services of General Interest)

Ms. Ronzitti is General Secretary of CEEP since May 2012. She reached this position after having worked for the organisation for nine years. Jurist, she joined CEEP General Secretariat as legal advisor in 2003, after having started her career practicing labour and civil law in a law firm in Italy. In her function as Head of Social Affairs from 2005 to 2009 she represented CEEP General Secretariat in several negotiations. Amongst others: the European cross-sectoral negotiations on the orientations for reference on managing change (2003), the lessons learned on European Work Councils (2005), the autonomous agreement on work-related stress (2004), the autonomous agreement on violence and harassment at work (2007), the joint labour market analysis (2007), the revision of the parental leave agreement (2009). Alongside her functions in CEEP she was also, from 2005 to 2010, Director of HOSPEEM, the European Hospital and Healthcare Employers Association, that she contributed to set up as a sectoral member of CEEP. In that function she negotiated the sectoral agreement on sharps instruments, which was transposed into a directive. In her function as Director from 2009 to 2012 she continued to represent CEEP General Secretariat in European cross-sectoral negotiations such as the autonomous agreement on inclusive labour markets (2010) and the (failed) revision of the working time directive, while also supervising CEEP policy implementation, communication to CEEP members and managing CEEP staff. In her function as CEEP General Secretary she is responsible for managing the organisation, including overall policy making and implementation, external representation, communication to members, management and coaching of CEEP staff.

SALVATORE ROSSI
Director General of the Bank of Italy and President of the Insurance Supervisory Authority (Ivass)

Born in Bari on 6 January 1949. From 10 May 2013, Senior Deputy Governor of the Bank of Italy. In this capacity, he stands in for the Governor during the latter's absence or incapacity; he has authority for the Bank's ordinary administration.

President (and member of the Joint Directorate) of the Insurance Supervisory Authority (Ivass). In 2013 he was called to the "Working Group on Economic, Social and European Issues" (the so-called "Group of Wise Men") established by the President of the Republic Giorgio Napolitano. He joined the Bank of Italy in 1976, where he was first assigned to the Supervisory Unit of the Milan regional office, then, in 1979, to the Economic Research Department. He was Head of the Economic Research Department from 2000 to 2006, Managing Director for economic research and international relations from 2007 to 2011, Secretary General of the Bank of Italy and Advisor to the Governing Board for economic policy matters in 2011, and Deputy Governor of the Bank of Italy from January 2012 to May 2013. He is a member of the Steering Committe of the Italian Strategic Fund, the Foundation Board of the International Center for Monetary and Banking Studies in Geneva, the Einaudi Institute for Economics and Finance, the Istituto Affari Internazionali, the Board of Governors of Fondazione Giovanni Agnelli, the Advisory Board of the Italian Association for Private Equity e Venture Capital, the Advisory Board of Tor Vergata University Economics Foundation and Senior Fellow at the LUISS School of European Political Economy.

DOMINGO SUGRANYES BICKEL
Chairman of CENTESIMUS ANNUS – PRO PONTIFICE Foundation

Born 29 April 1945 in Fribourg (Switzerland). Spanish nationality. Active from 1969 at UNIAPAC (International Christian Union of Business Executives), Brussels. Secretary-General from 1974 to 1981. From 1981 with MAPFRE insurance group in Madrid, Spain; at the beginning of the group's international development. Responsibilities in Reinsurance, Credit and Guarantee Insurance, Corporate Finance and Investors Relations. Managing Director in charge of CORPORACIÓN MAPFRE, the public listed holding controlled by MAPFRE MUTUALIDAD. Since 2000, Member of the Group Executive in charge of Finance. After completion of the demutualization process, Executive Vice-Chairman of MAPFRE Group until retirement from executive office in 2008. Member of the Board of FUNDACIÓN MAPFRE and of several group subsidiaries until April 2015 (statutory age limit). Member of the Board of SOCIETÀ CATTOLICA DI ASSICURAZIONE, Verona, Italy. Past-President of UNIAPAC, International Christian Union of Business Executives (1997-2000). Since 2009, Chairman of FONDAZIONE CENTESIMUS ANNUS – PRO PONTIFICE, The Vatican.

ANTONIO TAJANI
Vice-President of the European Parliament

Antonio Tajani is the First Vice-President of the European Parliament and was elected in July 2014 in the first ballot, with 452 votes. As Vice-President of the European Parliament, he is in charge of Interreligious dialogue, Conciliation, Security, the LUX prize and relations with Latin America. In the European Parliament, he is member of the Industry, Research and Energy Committee, as well as a substitute member of the Economic and Monetary Affairs Committee. He is also a member of the

delegations for relations with Brazil, Mercosur and Chile, as well as a member of the delegation to the Euro-Latin American Parliamentary Assembly. Prior to his current role, he was Vice-President of the European Commission from 2008 to 2014. Tajani was Commissioner for Transport from 2008 to 2010 and Commissioner for Industry and Entrepreneurship from 2010 to 2014. Antonio Tajani was elected Member of the European Parliament in 1994, 1999, 2004 and lastly in 2014 with over 120,000 preference votes. He was the Head of the parliamentary delegation of Forza Italia in the European Parliament from 1999 until 2008. He was also a member of the Convention on the Future of Europe. In 2002, he was appointed Vice-President of the European People's Party, and subsequently re-elected in 2006, 2009 and 2012.

MARGARETA WAHLSTRÖM
Former Special Representative of the UN Secretary-General for Disaster Risk Reduction

In November 2008, the United Nations Secretary-General Mr. Ban Ki-moon announced the appointment of Margareta Wahlström as his first Special Representative for Disaster Risk Reduction. Ms. Wahlström has extensive experience in both disaster relief operations and disaster risk management, with the United Nations system and the International Federation of Red Cross and Red Crescent Societies. Her broad experience spans conflict and nonconflict emergencies, and addressing long-term issues of sustainable development. Ms Wahlström is also the head of UNISDR, the United Nations Office for Disaster Risk Reduction. Margareta Wahlström's previous appointments include, among others, Coordinator of the Independent Panel on Safety and Security of UN Personnel and Premises, chaired by Mr. Lakhdar Brahimi, 2008; Deputy Emergency Relief Coordinator and Assistant-Secretary-General for Humanitarian Affairs, Office for the Coordination of Humanitarian Affairs, 2004-2008, and United Nations Special Coordinator for Humanitarian Assistance to the Tsunami-Affected Communities, 2004-2005; Deputy Special Representative of the Secretary-General for Relief, Recovery and Rehabilitation, United Nations Assistance Mission in Afghanistan, 2002-2004; Under-Secretary-General for Disaster Response and Operations and Deputy Director Operations, International Federation of Red Cross and Red Crescent Societies, 1995-2000.

JONATHAN WATSON
Managing Director, INTEGRATE

Jonathan Watson PhD is Managing Director and co-founder of INTEGRATE a non-profit social foundation for practical thinking for long-term investment in innovative social infrastructure (2012+). INTEGRATE conducted a 'quiet conversation' with key stakeholders (institutional investors, national promotional banks, trades union syndicates, public authorities & services, asset managers, European Commission & European Parliament) between 2012 and 2015. Previous related work has included: led the EUREGIO III project (2009-2011) that explored and assessed the use of Structural Funds for direct health care investment. The project findings directly informed the EU Council Conclusions – Towards modern, responsive and sustainable health systems (6 June 2011); conducted the needs assessment and degree design/content for an Erasmus Mundas funded European Master's degree in Sustainable Regional Health Systems with a partnership of 4 EU-based universities launched in 2008; from 2001-2007 he ran a consultancy in the UK and Europe for Governments/Universities/third sector completing 40 R&D projects. He was Honorary Professor (2010-2013) and Special Professor of Health and Public Policy (2001-2010) at the School of Community Health Sciences, University of Nottingham, Visiting Professor of Health and Public Policy, University of York (1999-2001).

LAURENT ZYLBERBERG
Director of the institutional relations and of European and international cooperation, Group Caisse des Dépôts

Laurent Zylberberg, 53, has a sociology and legal background. He holds a PhD (1992) in sociology. Political adviser for various Ministers (Home office, Defence, Prime Mi-

nister's office, Social Affairs) from 1989 to 1993, in the meantime, he taught at the Sorbonne University in political science and public law. He was then Social Affairs Counsellor at the French Embassy in London until 1996 when he moved to Brussels to head the European's office of the public affairs company "Euroconsultants". Back to Paris in 1998, he joined France Telecom Group as marketing director for public services. In 2002, he is appointed Group Director for public affairs. In 2005, he works as Director for international employee relations then, in 2008, he became Group Employee Relations Director. In 2011, he is appointed as CEO of Orange Vietnam. Back in Paris in 2013, Orange's CEO appointed him as Group Chief Compliance Officer. Since October 1st 2014, Laurent Zylberberg is Director of the institutional relations and of European and international cooperation of the Group Caisse des Dépôts.