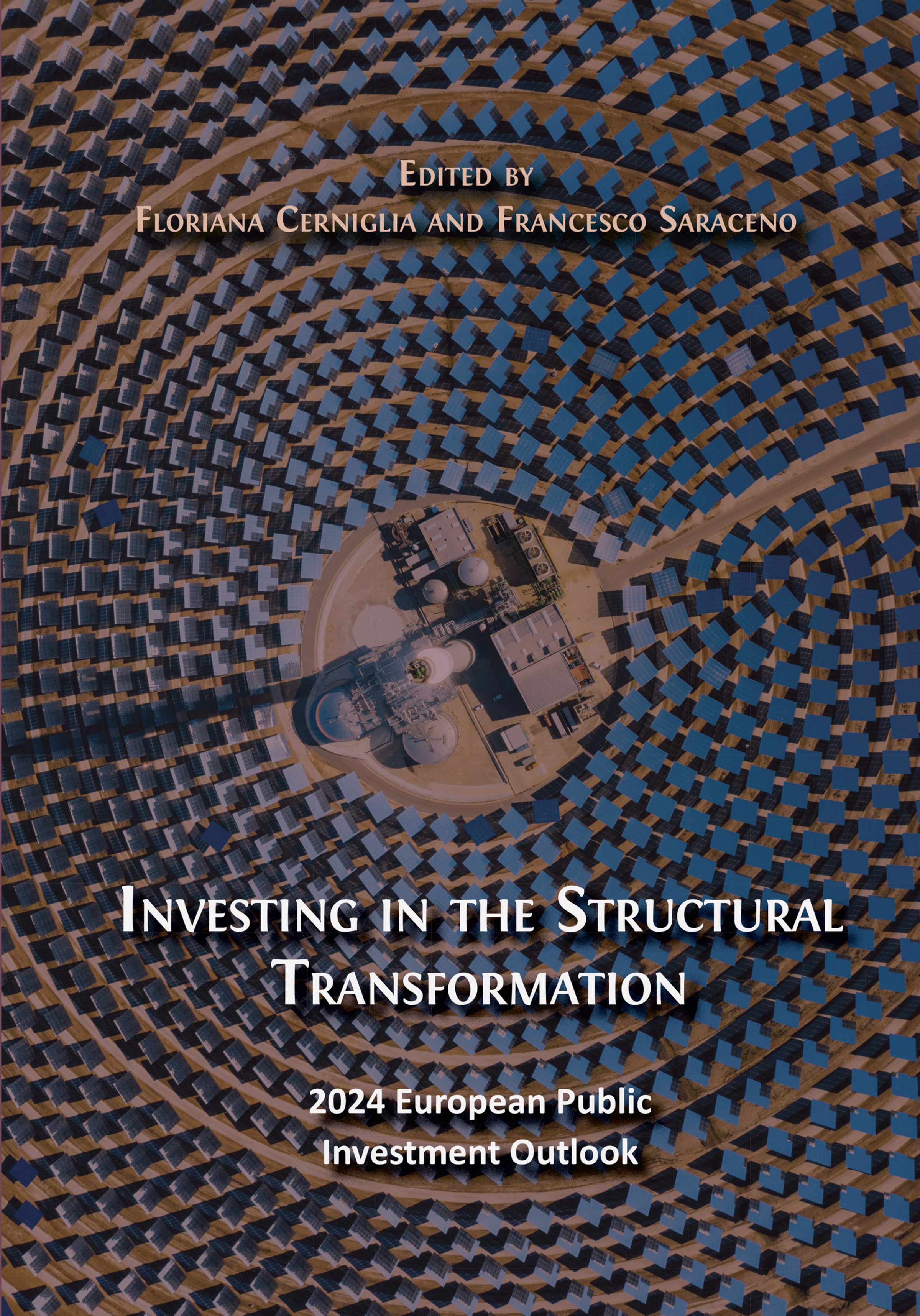

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Investing in the Structural Transformation

2024 European Public Investment Outlook

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11. Financing Structural Investment after 2027

Sophie Barbier[1] *and Helmut von Glasenapp*[2]

An investment can be described as structural if it contributes to financing the structural transformation of the economy and thus making it sustainably competitive. Experience shows that private investments alone are not sufficient due to externalities associated with this type of investment. A mixed public and private financing method is essential and it will help to accelerate the transformation. The challenge of the next European Union (EU) Multiannual Financial Framework ("post-2027") will be to promote the development of this financing method. In this respect, the European budget will have to rely on four pillars: prioritize and plan, activate expenditure, decentralize implementation and strengthen steering. It is on this basis that Europe will be able to finance its structural investments and achieve the structural transformation necessary to maintain and develop its long-term competitiveness within the framework of a new European Competitiveness Pact.

11.1 Introduction

The European Union has faced an accumulation of crises (i.e., financial crisis, pandemic crisis, geopolitical crises, energy crisis), partly interconnected, as they are symptomatic of a crisis in the development model at the global and European levels.

To face these crises, the European Union (EU) proves particularly vulnerable due to a chronic investment deficit over the past years: as European savings, although abundant, do not allow for investment in Europe, it is a Europe weakened by years of underinvestment that must now undergo profound transformation. The needs in terms of investment—to face the climate crisis, to increase the continent's strategic independence, to strengthen the competitiveness of the European economy—therefore

1 Caisse des Dépôts (CDC) Group.
2 European Long-Term Investors Association (ELTI).

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appear all the more considerable as they follow years of chronic underinvestment. For instance, the European Commission (EC) estimates that additional investments of over €620 billion annually will be needed to meet the objectives of the Green Deal and REPowerEU.

These sums also appear particularly massive in comparison to the amounts of available resources today—with national and European public budgets under strong constraint and a majority of private savings invested in liquid assets or outside Europe, notably in the United States. The question of how to finance these investments, which are essential for the structural transformation of the European economy and society, is therefore becoming increasingly acute. The next Multiannual Financial Framework (2028–2034), already under preparation, must imperatively provide an answer to this question, in order to enable Europe to develop and preserve its long-term competitiveness. As underlined by Enrico Letta in his recent report (2024: 26), "Addressing this funding dilemma is essential for the EU to advance its aspirations and maintain its leadership role on the global stage, ensuring that its ambitious agenda can be transformed into tangible actions and outcomes".

In this chapter, we will start by revisiting the concept of structural investments and highlighting their main features. From this, we will deduce some major principles on which to build the next multiannual budget: prioritize and plan strategic investments, based on documented assessments of externalities and democratically constructed political choices; activate public expenditure, ensuring that it plays a role in driving and guiding non-budgetary, public and private, financing; decentralize the implementation of this policy in favour of strategic investments in order to adapt them to local, regional, and national needs; manage these investments by their results in order to strengthen their effectiveness and democratic legitimacy. This is the foundation on which we can build the new European Competitiveness Pact which the European Council calls for (2024: 5): "In the face of a new geopolitical reality and increasingly complex challenges, the European Union is committed to acting decisively to ensure its long-term competitiveness, prosperity and leadership on the global stage and to strengthen its strategic sovereignty".

11.2 Revisiting the Concept of Structural Investments

This *European Public Investment Outlook* provides an overview of the investments necessary for the structural transformation of the European economy—as clearly indicated by the title of this year's edition. One way to define "structural investments" is therefore to define them as investments that enable the transformation of the structure of the European economy, to make it greener, more autonomous, more resilient, richer in growth and employment, more inclusive—in short, more competitive, in the sense that the European Union defines competitiveness (a competitive economy is an economy whose sustained rate of productivity is able to drive growth and, consequently, income and welfare). Consequently, structural investments are meant to have long-lasting impacts on the structure of the European economy and to contribute to shape it in the long term—be they green investments to face the challenge of climate change, investments in infrastructure that increase potential growth and economic resilience, investment in defence that ensures that we can live in a peaceful environment, and so on.

These structural investments are the consequence of political choices—we will return to this later in the chapter—but they have one common economic feature: they generate long-term positive externalities for the European economy. Therefore, we can propose a second definition of structural investments, as investments generating high positive externalities in the long term. Usually, externalities are defined as the indirect effect of one agent's activity on the well-being or economic activities of other agents. In the case of structural investments, they may generate private returns, but they also produce additional indirect effects by increasing European competitiveness. In this respect, despite being highly desirable for the whole society, private initiative will not spontaneously achieve the optimal level of structural investments, as amply demonstrated by economic theory (and common sense!), since their private return is lower than their total (private and social) return... When externalities come into play, public intervention is necessary to ensure the proper level of investment, even if such measures alone may not be sufficient. The European Council emphasizes this point (2024: 6): "Investments in key strategic sectors and infrastructures require a combination of both public and private financing working together".

In this conceptual framework, structural investments must therefore be partly financed by public resources—only partly. This is fortunate because, regardless of the exact scope chosen to define them, these investments represent amounts that far exceed the capabilities of public budgets, both at European and national levels, which are placed under severe constraints (creating new resources or increasing public debt are not viable solutions considering the investment needs we are facing). But we want to emphasize here that the transformation challenge attached to these investments makes this mix between public and private resources necessary because what is at stake is a massive redirection of investment flows towards projects for transforming the economy. Far from being just the consequence of a necessity linked to budgetary realities, the use of private financing in addition to public financing is imperative in terms of efficiency: what is the point, for example, of channelling public budgets towards green investments, if private resources continue to invest in polluting projects? The concept of structural investments also carries the idea that it is the very structure of investments as a whole that needs to evolve.

The concept of structural investments having been clarified, we are left to address our initial question: how is it possible to finance these investments that are essential to long-term European competitiveness, and what role can the EU budget play in this funding?

11.3 Prioritizing and Planning

The EU budget should be part of a more general framework of incentives and constraints, that provide the private actors with visibility and clarity as far as long-term objectives are concerned. As underlined by the recent paper by Jacques Attali (2024: 16), "a genuine transformation of our society requires the integration of the long-term into the behaviour of everyone: citizens, financial intermediaries, public authorities". And this change in behaviour requires clear signals from public authorities that help economic agents to adapt to a new context and to make the transformation objectives their own.

As we have seen, the concept of structural investments covers a potentially very large field of sectors and projects and makes prioritization and planning necessary. This prioritization process is the result of technical assessments of externalities, but also the consequence of choices that are, in the last resort, of a political nature—in the sense of collectively constructed democratic choices. The European Union naturally resorts to multi-year strategies, plans, and programs. Therefore, it is not the absence of planning that is an issue at this level, but rather the lack of overall coherence and insufficient selectivity between multiple—sometimes contradictory—priorities and objectives. In this respect, competitiveness could become the key word for the European action of the new institutions that are being established and lead to the adoption of a Competitiveness Pact that could provide the overall framework for the policies that the new Commission will roll out in the five next years and thus, for delimitation of the field of structural investments at the European level.

This framework must reflect collective choices in terms of long-term growth and the European model—which implies both taking into account the opinions of citizens represented by legitimate intermediary bodies, ensuring ownership of these decisions once made, and maintaining ongoing education about the choices and their implications. This issue of sharing is all the more important in today's context of mistrust of institutions and significant uncertainty. Prioritization and planning can offer clear perspectives and guide investment directions, extending beyond public investments directly managed by European authorities.

11.4 Activating Spending

As we have highlighted above, activating spending responds to a dual imperative: to leverage private funding to supplement limited public means; but, above all, to use public means to guide private funding in the service of a structural transformation of the economy. This is why the next multiannual financial budget should prioritize, whenever possible, public spending that plays an incentive role in relation to private funding and, to do so, select instruments that increase the crowding-in effect induced by public spending. This principle is in line with what the European Union has started doing in the current framework (2021–2027), notably with the setting-up of instruments like the InvestEU program or the CEF Blending (AFIF) instrument.

This activation involves three key actions. First, the financing of technical assistance, which supports project owners and thus promotes the emergence of a pipeline of viable projects consistent with identified priorities. Second, the establishment of guarantees: implementing first-loss instruments or equity uses public funds to facilitate risk-taking by investors. Third, the offsetting of externalization: this involves the "internalization of externalities" through "blending" instruments, i.e. targeting subsidies on the part of the return not reflected in prices. The remaining financing would be provided by public and private investors (this could be easily achieved by systematically injecting a blending component into EU-managed grants).

Such tools already exist but deserve to be developed within the scope of the next budget. The current InvestEU program, which already includes a guarantee component and a technical assistance component, could be complemented by a "blending" component, and especially benefit from a larger scope and budget via a shift of envelopes currently spent in the form of "pure" grants—without leverage effect (i.e., no non-budgetary, public, or private associated funding) and without return for the European budget (i.e., no repayment, no remuneration, or valorization of the funds spent).

11.5 Decentralizing Implementation

The prioritization of strategic investments centralized at the European level, when they have a European dimension, must be accompanied by a decentralized implementation in order to reconcile the coherence of the objectives pursued with the consideration of territorial specificities. In other words, competitiveness—a common European good—which determines the choice of strategic investments to be promoted at the European level, involves the selection of projects necessarily rooted in ground realities and adapted to local, regional, and national needs—a guarantee of the social and territorial cohesion that accompanies the competitiveness of the European model.

To do this, the European Union must rely on specialized intermediaries, capable of deploying financial instruments at the different scales of community action, both at the European level (international financial institutions such as the European Investment Bank, the European Bank for Reconstruction and Development, the Council of Europe Bank) and at the national and local level (banks and promotional development institutions such as KfW in Germany, the Caisse des Dépôts Group in France, the Cassa Di Depositi in Italy, etc.). These actors serve as effective intermediaries for the deployment of these instruments because they operate at the frontier between the public and private spheres, in support of public policies but in connection with private funders. This role is already recognized since most of them are implementing partners of the European Commission.

To strengthen their role in the future, the next Multiannual Financial Framework should systematically "open" the programs to this multiplicity of implementation partners. Consequently, any European program in favour of investment should be open to the plurality of implementation partners—either directly, in their capacity as partners, or indirectly, as a financial intermediary. The Commission must, in the future, be able to systematically mobilize the network of partners that now covers the entire territory of the European Union, in a logic of subsidiarity which will provide efficiency and simplification. Against the background of the significant funding needs, all European policy fields should benefit from this approach.

11.6 Strengthening Steering

Finally, to achieve this structural transformation of the European economy, it is essential to compare the selected priority objectives with the concrete achievements. This approach not only fosters democratic control and encourages public debate but also enhances the efficiency of action taken. This steering requires a change of approach in the controls exercised and the reports produced, which must now focus more on the achievement of objectives than on compliance with procedures: it is on this condition that the steering of structural investments will be effective. Such an approach to steering is all the easier to envisage as the Commission relies on implementation partners whose process requirements it has checked ex ante (via the pillar assessment): when implementation is entrusted to entities whose processes have already been audited, it indeed becomes possible to lighten audit and control procedures and to focus monitoring and reporting on results reported to objectives, much more than on processes, making reporting more meaningful. This would be in line with the overall policy goal of the European Commission to simplify EU rules, reduce unnecessary burdens, and rationalize reporting requirements with a view to reducing them by 25%.

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