Social infrastructure finance and institutional investors

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Article based on "Social Infrastructure Finance and Institutional Investors: A Global Perspective", Inderst, G. Inderst Advisory, September 2020.

Social infrastructure has endured a long period of neglect in most developed and emerging countries, with chronic underinvestment exposed by the coronavirus crisis 2020. The financial crisis 2007-08 led to a slow revival of economic infrastructure policies, and a growing involvement of institutional investors. In contrast, private sector investment in social infrastructure has widely fallen back over the last decade. **Will the next decade see a renaissance of – public and private - social infrastructure investment?**

From the fragmentary evidence available in various regions, current investment in social infrastructure is estimated at about 0.4-0.6% of GDP in the health and education sectors combined. Substantially more will be needed in future – in both developed and developing countries - but estimates of investment gaps vary widely between 0.3% and 1.5% of GDP.

The public sector tends to be the dominant financing source in social infrastructure, especially in education. Institutional investors have become increasingly active since the financial crisis 2007-08, raising investment volumes in private/unlisted infrastructure to about $600bn globally. This is still only around 1-2% of institutional portfolios worldwide.

The investment characteristics of social infrastructure assets are potentially **attractiv**e, such as non-cyclical demand, steady income and low correlation to other asset classes. However, they can also be small and fiddly, very heterogeneous with outputs difficult to measure, and subject to political and renegotiation risks.

Recommendations

For policy makers and investors

1. Consistent infrastructure policies with a clear, stable regulatory framework and good public governance are essential for "quality infrastructure" (
2. Strengthen the public sector capabilities not only in central government but also at the important sub-national levels (where it is most needed, especially in social sectors).
3. Creation of a public-private EU fund for social infrastructure and "mission-oriented" state investment banks

For infrastructure and financial industries

1. Adequate governance and clear accountability in both private and public sector. Health, education, care, prisons, public spaces etc. are particularly sensitive areas (IDB 2015).
2. Improve transparency and disclosure on infrastructure projects, companies and investments
3. Start more cross-border, regional investment activities in social infrastructure. Combine local sector knowledge and standards with foreign investor experience and discipline.
4. Better data availability, transparency and quality would be a public good in itself - much room for improvement for both public and private data services providers