BRIEFING

Implementation of the European Fund for Strategic Investments

From EFSI 1.0 to 2.0 and beyond

SUMMARY

The European Fund for Strategic Investments (EFSI), one element of the 'Juncker Plan', was proposed in 2015 with the aim of covering part of the investment gap that occurred as a consequence of the global financial and European sovereign debt crises. In the absence of adequate public investment, the plan would mobilise private investment in specific areas through the use of first-loss guarantees provided from the EU budget. It was estimated that, through the provision of €21 billion in guarantees, a total investment of €315 billion would be generated by end-2017. Given its promising start as well as the broadly positive overall evaluations by the European Commission, the European Investment Bank and EY, it was soon decided to extend EFSI's duration and guarantees, allowing the fund to unlock additional investment of at least €500 billion by the end of 2020.

EFSI – now called 'EFSI 2.0' – was also amended with a view to improving its governance and transparency. Four years after its inception, EFSI seems to be fulfilling its promise. Indeed, figures from October 2018 show €67.3 billion worth of approved EFSI financing, which is expected to mobilise €344.4 billion in investment. Furthermore, while the total funding generated will only be visible after a few more years have elapsed, the additionality and complementarity of the projects signed bode well. Nevertheless, the picture will be more complete after the end of the ongoing audit by the Court of Auditors. For the period of the next multiannual financial framework (2021-2027), EFSI 2.0 will be replaced by a yet broader programme, InvestEU (subject of a separate EPRS briefing), which is expected to generate an additional €650 billion over the period.

In this Briefing

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Introduction

Launched in November 2014 as a flagship initiative of the European Commission, the Investment Plan for Europe (IPE), commonly known as the Juncker Plan, was a policy response to the consequences of the financial and sovereign debt crises and specifically to the investment gap (estimated at €430 billion) that had built up by 2013.[1]

The IPE builds on three mutually reinforcing pillars, which respectively aim to, a) mobilise finance for investment (through the European Fund for Strategic Investments), b) make finance reach the real economy (through the Commission-managed European Investment Project Portal and the EIB-managed European Investment Advisory Hub), and c) improve the investment environment (the responsibility for addressing this falls on individual Member States, which are tasked with removing administrative and regulatory barriers to investment).

The European Fund for Strategic Investments

The original EFSI consisted of a portfolio guarantee provided by the EU budget to the EIB Group (i.e. the European Investment Bank (EIB) and the European Investment Fund (EIF)) and a capital contribution from the EIB. It aimed, among other things, to support investment in infrastructure; research, development and innovation; information and communication technologies; and the energy sector. Additionally, it aimed to ease access to finance for SMEs (of up to 250 employees) and mid-cap companies (of up to 3 000 employees). The first and last objectives were also reflected in EFSI's two investment windows: the infrastructure and innovation window (IIW) implemented by the EIB, and the small and medium-sized enterprises window (SMEW) implemented by the EIF.

In the context of the original EFSI Regulation, it was expected that the €16 billion guarantee and the €5 billion EIB contribution would generate €60.8 billion of additional financing by the EIB Group. This, in turn, was expected to mobilise €315 billion in total investment in the EU, by July 2018. The €16 billion guarantee was distributed to the IIW (€11 billion to a debt portfolio and €5 billion to an equity-type portfolio) while the €5 billion EIB contribution was distributed to the SME window (€2.5 billion to back up the increased EIB risk capital resources mandate and €2.5 billion for SMEs/mid-caps).

The implementation of EFSI

In spring 2015, the EIB Group started carrying out investment activities under EFSI, even before the fund's legislative framework had been established. A transition period was put in place, with the Commission assuming the obligations of the EFSI Investment Committee and authorising the inclusion of the EIF instruments and the projects approved by the EIB Board in the EFSI guaranteed portfolio. During 2015, the EIB Group started pre-financing projects eligible for EU support under EFSI and approved more than 170 transactions in 22 EU Member States, expected to trigger close to €60 billion of related investment. The EFSI Steering Board, which was set up by July 2015, endorsed over the rest of the year a few key documents and methodologies.[2] In parallel, the EIB Group appointed the EFSI managing director and his deputy, as well as the eight independent members of the EFSI Investment Committee.

Meanwhile, the EIB Group took specific actions to deploy EFSI efficiently at a fast pace. Among other things, to fully use the fund's additional risk-bearing capacity, it developed various new products allowing for higher risk-taking, such as subordinated debt, equity-type financing, and risk-sharing instruments with banks). Furthermore, it reviewed its credit risk policy guidelines to allow for increased flexibility, including higher risk limits. The EIB also adapted its own rules as regards the eligibility of projects, to make them consistent with the eligible sectors under the EFSI Regulation.

In 2016, the Steering Board approved the reallocation of €500 million from the EU guarantee from the IIW to the SMEW, increasing the size of the SMEW to €5.5 billion, to further benefit SMEs and mid-caps, given the high demand. By the end of 2016, the EIB Group, under both the IIW and the

SMEW, had reached more than half of its investment target of €315 billion as regards operations approved (more than €30 billion of EIB Group financing, with a related investment of close to €164 billion).

Under the IIW

During the transition period from 1 January 2015 to the end of that year, the EIB approved 42 operations under the IIW, for a total of €5.6 billion worth of EIB financing under EFSI; this amount was expected to trigger almost €23 billion[3] of related investment.[4] Subsequently, this amount increased to a total of €22 billion of approved EIB financing, which was expected to mobilise €94.4 billion of related investment until end-2016 (taking into account the EIB operations approved during the previous year) and a total of €39.3 billion of EIB financing with €166.7 billion of related investment in 2017, respectively.[5]

Under the SMEW

In 2015, more than 130 EFSI transactions were approved under the SMEW, reaching €37 billion (50 % of the initial €75 billion investment target under this window). Due to the strong market demand, the maximum volume of the EU Guarantee coverage for the SMEW increased from €2.5 billion to €3 billion in 2016, thus bringing the total under the SMEW to €5.5 billion. As at end-2016, more than 115 EFSI transactions under the SMEW were approved and 142 were signed,[6] for an estimated investment of €69.5 billion related to approved operations.

In the initial phase of SMEW deployment, the EIF concentrated on the acceleration of the COSME[7] and InnovFin[8] programmes while also deploying the full EIB contribution to the SMEW in the form of investment into equity, to benefit SMEs and mid-caps via private equity and venture capital funds. In December 2016, the EIF included the acceleration of the EaSI Guarantee in the SMEW. In addition to guarantee products, since mid-2016 the EIF has been implementing a new set of equity financial instruments under the SMEW;[9] these instruments have a capacity exceeding €2 billion and provide support to social enterprises, social sector organisations and micro-enterprises across the EU.

The first evaluations and the proposal for extension

Over the course of 2016 – the first year of EFSI implementation – its progress was closely monitored, resulting in three evaluation reports: from the Commission, the EIB and EY.[10] The evaluations concluded that EFSI was largely on track in terms of its key objective. At the same time, all evaluations concluded, among other things, that EFSI must aim for better sectoral and geographical coverage, as well as for more transparency regarding the additionality[11] of projects financed.

Based on the promising results of the projects examined during the evaluations – but despite the opinion of the European Court of Auditors that there was little evidence that an extension of EFSI was justified – the Commission proposed to the European Parliament and the Council to extend EFSI beyond the initially envisaged three-year period, in order to address remaining market gaps and failures and to continue mobilising private sector financing.

The extension of EFSI

The Commission proposal for EFSI '2.0' envisaged an increase of the EU Guarantee from €16 billion to €26 billion, and of the EIB Group nominal contribution from €5 billion to €7.5 billion. The proposal also increased the Commission's target to mobilise at least €500 billion of investments, and extended EFSI's lifetime until end-2020 (covering the period of the current MFF). Other changes included a 'reinforced' definition of additionality, new eligible sectors for support,[12] increased transparency, more targeted assistance by the EIAH and a focus on climate action. Lastly, it was agreed that the Parliament would delegate one expert as a non-voting member of the EFSI Steering Board. In October 2018, the Parliament nominated former Commissioner, László Andor, as its expert.

Operations in 2017

By the end of 2017, EFSI had reached €51.3 billion in approved financing (of which €37.6 billion signed), which was expected to mobilise a total of €256.9 billion (or 82 % of the initial investment target of €315 billion).

Under the IIW

By the end of 2017, the 35 investment platforms[13] had been approved by the Investment Committee under the IIW, allowing the aggregation of public and private financing and to support pools of projects across sectors and countries, with a focus on national promotional banks and institutions (NPBs/NPIs). This move also allowed public authorities to act as platform sponsors or promoters.[14] In addition, a total of 26 IIW operations approved and signed benefitted from other EU instruments and funds, compared to 12 as at end-2016. Fifteen of these operations benefitted from the European structural and investment funds (ESI funds) and the rest from other EU grants or financial instruments.

Under the SMEW

The positive trend for the SMEW continued in 2017, with a total amount of 355 EIF-approved and 328 signed transactions since the window's inception, worth almost €12 billion of financing supplemented by related investment of €90.2 billion. Further, in November 2016, the Commission and the EIF had launched a call for expressions of interest for the Pan-European Venture Capital Funds-of-Funds Programme ('VentureEU'), with the aim to boost investment in innovative start-up and scale-up companies across Europe. After the due diligence process, negotiations between selected intermediaries and the EIF started in late 2017. In April 2018, the first two of six planned signatures with fund-of-fund managers took place.

Table 1 EIB Group financing under EFSI (in € billion)

	31/12/2015	16/06/2016	31/12/2016	16/05/2017	31/12/2017	15/05/2018	09/10/2018
Signed financing	4.7	9.8	21.5	24.2	37.6	41.6	46.3
Approved financing	10.6	17.7	30.2	36.9	51.3	57.5	67.3
Expected investment	**59.9**	**106.8**	**163.9**	**194**	**256.9**	**287.4**	**344.4**

Source: 2015, 2016 and 2017 Report to the European Parliament and the Council on 2017 EIB Group Financing and Investment Operations under EFSI.

The audit brief from the Court of Auditors

At the end of 2017, the European Court of Auditors launched an in-depth audit of EFSI, with the aim to consider whether it is effectively addressing the need to support investment within the EU. In this context, in October 2017 the ECA published an audit brief with background information based on preparatory work undertaken before the start of the audit. To prepare their audit, the CoA carried out a risk analysis of the policy areas or programmes it intended to examine and identified possible risks related to: the additionality of EFSI to traditional EIB activities; the coherence and complementarity of EFSI with traditional funding instruments under the EU budget; the measurement and reporting of the public and private investment mobilised; the involvement of national promotional banks and national promotional institutions; and the promotion of investment platforms in the Member States. The audit is yet to be published.

The 2018 evaluations of EFSI

In June 2018, the EIB's Operations Evaluation Division published an evaluation of the operations of EFSI. It assessed i) the rationale and design of EFSI; ii) the results achieved so far, with emphasis on additionality; iii) the degree of complementarity and coordination of EFSI with other EU programmes; and iv) the adequacy of the inputs mobilised for the implementation of EFSI.

With regard to the needs in the EU, the evaluation found that while cyclical investment gaps varied between Member States, the EU-28 still suffered from structural investment gaps, especially in RDI and transport infrastructure, while SMEs – especially small or young companies – also faced structural issues in accessing finance. While the evaluation found that EFSI was adequate in responding to structural investment gaps and increasing access to finance for SMEs and mid-caps, it also concluded that it was less adequate in addressing cyclical investment gaps.

Relative to mobilising investment, the evaluation estimated that by July 2018, EFSI would have mobilised €315 billion in terms of approvals and roughly €256 billion in terms of signatures. It also noted that EFSI has succeeded in mobilising primarily private financing: overall, almost 80 % of the financing brought in as of 31 December 2017 by the EFSI-backed EIB Group financing has been private. In terms of beneficiaries supported, EFSI has been successful in mobilising financing for smaller companies and energy/digital/social infrastructure suffering from market failures and capable of having a structural impact on the EU economy. In terms of geographical distribution as of end-2017, the evaluation found that around 4/5 of all signatures have gone either to 'vulnerable' or to 'cohesion' Member States. The evaluation found that the operations financed provide additionality and are complementary to existing programmes (COSME, InnovFin, ESIF and CEF) and national institutions (national promotional banks and national promotional institutions).

While the evaluation report notes that EFSI had missed its initial target of mobilising private funding by six months,[15] it cautions against the risk of focusing on volume targets at the expense of additionality. Indeed, it points out that it will take time for investments to have an impact on the economy, that the volume of investment mobilised is merely an estimate, and that it is additionality that matters to achieve a structural, long-term impact on growth and employment.

In addition to the EIB evaluation, consulting company ICF and partners were commissioned by DG ECFIN to conduct an independent evaluation of EFSI (1.0), which was a necessary step before proposing the InvestEU programme (Article 18(6) of the EFSI Regulation). The final report was published in June 2018. It concluded that EFSI is relevant in mobilising private investment and in contributing to reducing the overall investment gap, both overall and in specific sectors; that its actual multiplier effect is broadly in line with the original assumption (13.5 against 15);[16] that the products created in this context are relevant and sophisticated enough to meet the diverse needs of specific sectors and countries; that EFSI's governance structure works well, overall; that its economic impact, in terms of job creation, has not been negligible (115 000 permanent and over 500 000 temporary jobs have been created), and that a high level of coherence with other centralised financial instruments has been achieved eventually. The report also recommended:

- **with regard to EFSI:** to clarify the concept of sub-optimal investment and the definition of additionality based on a response to market failure; to enhance the approach and transparency of measuring EFSI's economic impact; to strengthen the ex-ante assessments of market failures and needs, so as to avoid overlaps between products; and to design key performance indicators so as to ensure that the pursuit of volume is not more important than meeting additionality.
- **relative to the EU guarantee:** to include the effect of default contagion in the current model for the IIW and to improve the credit model for the IIW debt portfolio.
- **with reference to the European Investment Advisory Hub (EIAH):** to improve awareness of the hub, to further intensify the collaboration with NPBs and NPIs, and to adopt proactive approaches with a view to increasing the number of projects supported.

- **with respect to the European Investment Project Portal (EIPP):** to improve the checks run against investors who are granted access to the portal, so as to avoid scams; to increase the cooperation between the EIPP and the EIAH; and to enhance communication.

EFSI 2.0 is set to run until the end of the current multiannual financial framework, i.e. end-December 2020. For the period corresponding to the next MFF, the Commission has proposed a new programme – InvestEU – which builds on the existing EFSI and will 'bring under one roof a large number of financing instruments' (COSME, InnovFin), in order to mobilise an additional €650 billion worth of investment in sustainable infrastructure, research, innovation and digitisation, small and medium-sized businesses and social investment and skills, over the programme period. For more information see a separate EPRS briefing (forthcoming).

MAIN REFERENCES

European Investment Bank, 2015 Report to the European Parliament and the Council on 2015 EIB Group Financing and Investment Operations under EFSI (2016), followed by the EIB's 2016 report (2017) and 2017 report (2018).

European Court of Auditors, The European Fund for Strategic Investments (EFSI), audit brief, October 2017.

EY, Ad-hoc audit of the application of Regulation 2015/1017 (the EFSI Regulation), November 2016.

ICF and partners, Independent Evaluation of the EFSI Regulation, June 2018.

ENDNOTES

1 European Commission, Why does the EU need an investment plan, factsheet 1.

2 Among other things, the EFSI strategic orientation, the EFSI multiplier methodology for the IIW and the SMEW, and the methodology for key performance and monitoring indicators for EFSI.

3 The investment mobilised figures take into account the cancellation of two projects in Q1 of 2016.

4 Of the 42 warehoused (pre-financed) operations, 13 were approved by the Commission in 2015; of these, ten were also signed by the end of 2015, for a total amount of €1.2 billion, with a related investment of almost € 5.5 billion.

5 Of these, a total of 278 EFSI operations have been signed for an amount of € 27.4 billion of EIB financing under EFSI.

6 Bringing the total number of transactions approved to 245 and signed to 225 since the inception of the EFSI SME window.

7 According to the EIB report, a significant part of the EU programme for the Competitiveness of Enterprises and SMEs (COSME) is dedicated to financial instruments aimed at improving access to finance for SMEs. Through the programme's Loan Guarantee Facility (LGF), the EIF offers guarantees to banks and leasing companies, among other things, 'to help them provide loans and leases to SMEs, which they would otherwise not support'.

8 The InnovFin programme is part of the EU Horizon 2020 programme. The programme's SME Guarantee is a guarantee on debt financing that the EIF provides to financial intermediaries (e.g. banks) in order to improve access to finance for enterprises with up to 499 employees. The guarantee aims to cover for potential losses (up to 50 % of the loss) on each new eligible loan, bond or lease that is originated typically during a two-year period.

9 EFSI equity instrument – under the IPE umbrella, the Commission, the EIB and the EIF have pooled together resources and further aligned their objectives in support of the European equity ecosystem across various equity products.

10 EY refers to the global organisation and/or one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

11 According to the EFSI Regulation, 'additionality' means 'the support by the EFSI of operations which address market failures or sub-optimal investment situations and which could not have been carried out in the period during which the EU guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments without EFSI support'.

12 Sustainable agriculture, forestry, fishery, aquaculture, as well as less-developed regions and transition regions.

13 The legal forms of IPs can be diverse, ranging from co-financing arrangements to layered fund structures.

14 The total amount of operations approved and signed involving NPB/NPIs was 20 in 2016 and 39 by end-2017.

15 The authors note that the target of €315 billion of investment mobilised (in terms of signatures) is expected to be reached by the beginning of 2019.

16 This number is important, as in the proposal for the InvestEU programme, the Commission accordingly adjusted its expected multiplier to 13.7x.

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