European Fund for Strategic Investments (EFSI): set-up and EU budget contribution

European Parliament (EP) and Council negotiators have reached a political agreement on the rules creating and governing the European Fund for Strategic Investments (EFSI). Proposed by the Commission as part of the 'Juncker plan' and backed by a guarantee from the EU budget, EFSI will aim to foster job creation and growth across the EU, by triggering investments worth an estimated €315 billion over three years. The agreed text now needs to be adopted by the EP, with plenary due to consider it on 24 June, and the Council in order for EFSI to become operational.

EFSI, a significant component of the Investment Plan for Europe

Last year, presenting his political guidelines for the new European Commission to the EP, Jean-Claude Juncker pledged to make strengthening the EU's competitiveness and stimulating investment, to support job creation, his first priority. In November 2014, the Commission put forward an Investment Plan for Europe (also known as the 'Juncker plan') to address the reduced level of investment that the EU has been experiencing since the crisis, and which is hindering job creation and long-term growth in the area. According to the Commission, while abundant financial liquidity is now available in the system, it is not reaching the real economy efficiently enough. To tackle this gap, a significant component of the strategy is the creation of a **European Fund for Strategic Investments (EFSI)** by mid-2015, which should promote additional public and private investment in strategic projects and improve access to finance for businesses with up to 3 000 employees. The Commission has named the European Investment Bank (EIB) as its strategic partner to implement the strategy, with EFSI to be integrated into the EIB Group. According to the Commission, the overall Investment Plan could support the creation of **up to 1.3 million new jobs** over three years.

Proposal for the EFSI regulation

Legislative proposal

In January 2015, the European Commission submitted its proposal for a regulation establishing EFSI to the EP and the Council (under ordinary legislative procedure). The initial financial allocation of EFSI would amount to **€21 billion**, based on a €16 billion **guarantee** created under the **EU budget** and a €5 billion contribution from the **EIB's own resources**. The idea is to maximise the impact of public resources, by addressing market gaps and mobilising private investment in strategic projects through a range of financial instruments (such as loans, guarantees, credit-enhancement products and equity-type products) offered by the EIB Group. The Commission estimates that, over three years, the initial EFSI allocation alone (to which other public and private investors would be able to add) would trigger total investment worth at least **€315 billion**. This amount is around twice the annual EU budget, which EFSI is expected to complement.

Proposed EU budget contribution

The regulation would create the €16 billion guarantee under the EU budget and the related **Guarantee Fund**, which backs it up to 50% with EU resources to ease the orderly payment of potential guarantee calls by the EIB. This means that, under the proposal, the provisioning of the Guarantee Fund would require **€8 billion** in **commitment appropriations**, to be financed gradually over the 2015-18 period. The Commission proposed that these resources come from the Connecting Europe Facility or CEF (€3.3 billion), Horizon 2020 (€2.7 billion) and unallocated margins of the EU's Multiannual Financial Framework (€2 billion). Likewise, **payment appropriations** from the EU budget would be gradually phased in over the 2016-20 period. In practice, these resources would be earmarked for the Guarantee Fund, but used only in the case of guarantee calls by the EIB, thus providing a buffer for the orderly implementation of the EU budget.

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Governance of EFSI and creation of a single advisory hub for project financing

Under the proposal, a **Steering Board** would be in charge of the strategic orientation and the strategic asset allocation of EFSI, as well as of its operating policies. An **Investment Committee** accountable to the Steering Board would assess potential projects to decide whether they should receive EFSI support, irrespective of their geographical location. Eligible projects could stem from a wide range of strategic sectors. In addition, building on existing expertise, a **European Investment Advisory Hub (EIAH)** would be set up within the EIB to act as a single technical advisory hub for project-financing within the EU, helping with investment project identification, preparation and development.

Political agreement on the EFSI regulation

The EU's institutions have actively cooperated to have the EFSI rules into force by mid-2015, as planned. In December 2014, the European Council endorsed the Investment Plan. With the Commission acting as broker, Parliament and Council have carried out intensive trilogue negotiations on the EFSI regulation. Their respective standpoints were based, on the one hand, on the report (rapporteurs: José Manuel Fernandes, EPP, Portugal, and Udo Bullmann, S&D, Germany) prepared jointly by the EP's Committees on Budgets (BUDG) and on Economic and Monetary Affairs (ECON), and on the other hand on the Council's negotiating stance.

On 28 May 2015, EP and Council negotiators reached a political agreement on the EFSI rules. As regards the **financing of the EFSI Guarantee Fund**, the agreement increases the contribution of unused margins of the EU budget by €1 billion, to €3 billion, correspondingly reducing the redeployments from the transport component of the CEF (to €2.8 billion) and the Horizon 2020 programme for research (to €2.2 billion). The EP's negotiators have already declared that the Parliament will seek to further reduce the cuts to both programmes in the coming years through the annual budgetary procedure.

In addition, the compromise text **has augmented the rules on the governance, functioning and democratic accountability of EFSI**. For example, it provides for the appointments of the Managing Director and Deputy Managing Director of the EFSI Investment Committee to be approved by the EP following hearings (Article 7.6). The general objectives of EFSI now include the objectives of Horizon 2020 and the CEF, so as to enhance EFSI's contribution to results in the policy areas covered by the two programmes that play a role in provisioning the EFSI Guarantee Fund (Article 9.2). The negotiators have laid down eligibility criteria for EFSI support, which include consistency with EU policies and quality job creation (Article 6). The EFSI Investment Committee is to provide an independent and transparent assessment of the possible use of the EU guarantee by using a scoreboard of indicators, which the Commission is empowered to adopt through delegated acts (Article 7.14). The expertise of the EIAH will be available at capped fees for small and medium-sized enterprises (one third of the cost of the technical assistance they receive) and free of charge for public project promoters (Article 14.4). The Commission is to work with the EIB to create a European Investment Project Portal, with a view to ensuring transparency and visibility of current and future investment projects (Article 15). Reporting, accountability and evaluation obligations (Articles 16 to 18) for the Commission and the EIB have been set out in more detail. In particular, before the end of the three-year investment period, the European Commission must submit an independent evaluation of EFSI to the EP and the Council, and propose on the basis of this assessment either to continue the scheme (if necessary, with changes to the Regulation to address identified weaknesses) or to terminate it (Article 18.6-8).

The agreed text now needs to be adopted by the EP, with the plenary due to consider it on 24 June, and the Council in order for EFSI to become operational. Meanwhile, seven EU countries (Germany, Spain, France, Italy, Luxembourg, Poland and Slovakia) have already said that they will contribute to EFSI.

Amendment to the 2015 EU budget

If the agreed text is adopted, the following step will be to translate its budgetary implications into the 2015 EU budget, with Draft Amending Budget (DAB) No 1/2015 (rapporteur: Eider Gardiazábal Rubial, S&D, Spain) currently scheduled for examination by the EP plenary in July. The overall impact of DAB No 1/2015 is neutral for the **2015 EU budget** with regard to expenditure and revenue. The main proposed modifications are: 1) the creation of **three new budget articles** related to EFSI; 2) the **provisioning of the EFSI Guarantee Fund for 2015**, by reallocating **€1.35 billion** in commitment appropriations; and 3) the provision of the **2015 EU contribution to the financing of the EIAH**, by reallocating **€10 million** in both commitment and payment appropriations.