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WORKING DOCUMENT

on ECA Special Report 3/2019 (Discharge 2018): European Fund for Strategic Investments: Action needed to make EFSI a full success

Committee on Budgetary Control

Rapporteur: Marco Valli

Summary

The European Fund for Strategic Investments (EFSI) was set up in 2015 as part of the "Investment Plan for Europe" designed to tackle the investment gap that emerged following the financial and economic crisis, which began in 2008, with the goal of mobilising an additional €315 billion, by July 2018, of strategic investments in infrastructure and SMEs, covering most EU policy areas and all Member States.
The EFSI is not a separate legal entity from the EIB but it has a distinct governance structure and its investment operations take place within two thematic areas i.e. the Infrastructure and Innovation Window managed by the EIB and the SME Window managed by the EIF.

The Court assessed whether EFSI was effective in raising finance to support additional investment within the whole EU, the audit covering the EFSI operations from its launch in 2015 until July 2018.

According to the ECA's assessment of the EFSI's performance, EFSI has been effective in raising finance to support additional strategic investments in the EU.
However, the reported estimate of investment mobilised does not take account of the fact that some EFSI operations replaced other EIB operations and EU financial instruments and the fact that a part of the EFSI support went to projects that could have been financed from other sources of public or private finance under different conditions.
The audit also revealed that even though the EFSI support has enabled the EIB to quadruple the volume of its higher risk lending activities compared to 2014, the value of these financial operations signed remain lower than expected.

The Court further considered that the methodology used to estimate the investment mobilised overstated, in some cases, the extent to which EFSI support actually induced additional investment in the real economy.
The lack of comparable performance and monitoring indicators for all EU financial instruments and budgetary guarantees diminishes transparency and the ability to assess results.

In addition, the Court stated that action needs to be taken to improve the geographic spread of EFSI supported investment. The EFSI portfolio at the end of 2017 was within the indicative limits set for investing in specific policy sectors.
The Court noted that the countries with the highest EFSI uptake were those with the most developed and active National Promotional Banks and Institutions, which highlights a real need for providing technical assistance to Member States with less developed structures.

In the light of its findings, the Court made the following recommendations for:

- promoting the justified use of higher-risk EIB products under EFSI;
- encouraging complementarity between EU financial instruments and EU budgetary guarantees;
- improving the assessment of whether potential EFSI projects could have been financed from other sources;

- estimating better the investment mobilised;
- improving the geographical spread of EFSI supported investment.

Recommendations by the Rapporteur

The European Parliament:

1. Welcomes the Court's Special Report entitled '*European Fund for Strategic Investments: Action needed to make EFSI a full success'*, which is an important step to evaluate the EFSI effectiveness and funding model as part of the 'Investment Plan for Europe' and sets out its observations and recommendations below;

2. Reiterates that the underlying rationale of the EFSI, which is supported by the EU budget, unlike other current EIB financing instruments, is to provide additionality by identifying additional and innovative future-oriented sectors and higher risk projects;

3. Highlights the importance of the additionality criteria, which entail the need to support operations that are only eligible for EFSI support when addressing clearly identified market failures or sub-optimal investment situations and that could not have been carried out to the same extent or in the same timeframe without the EFSI;

4. Considers thus that deepened preliminary needs assessments in various sectors are of primary importance (i) for detecting investment gaps and barriers in different Member State or regions, (ii) for adequately assessing the nature and magnitude of market failures and (iii) for designing the most appropriate approach/programmes for mitigating these investment gaps;

5. Calls for an objective overview of the additionality and added value of the EFSI projects, as well as their consistency with Union policies or other EIB operations in order to become more policy driven than demand driven;

6. Underlines therefore the need for steadily refining the ins and outs as regards the principles of additionality and added value;

7. Considers that any overlapping should be avoided in terms of objectives, eligibility criteria, target sectors and types of beneficiaries in order to avoid double counting resulting from the financing of investments through several different channels;

8. Calls on the Bank to seriously take into account statements from local stakeholders or civil society in order to avoid questionable investments;

9. Is of the opinion that the EIB should systematically pay attention to mid and long-term economic, social and environmental effects when defining the rationale of its investment, particularly when cross-border investments or projects of systemic importance in the long term are at stake for creating added value at regional and EU level;

10. Points out that the soundness of funded projects should by definition be assessed not only in terms of economic relevance but also with an equally strong focus on environmental and social sustainability;

11. Deplores the fact that the list of projects chosen to receive funding under the EFSI included infrastructure installations with serious environmental impact and dubious additionality, such as biorefineries, steelworks, regasification and gas storage facilities and motorways; is concerned by the fact that in many cases the EIB has failed to take action on reports from local authorities, stakeholder communities and civil society groups, concerning environmental and social issues; considers that the EIB claiming that it was not its responsibility to carry out the necessary investigations is not a proper explanation;

12. Recalls the need to provide clear and accessible information on the economic, social and environmental impact and added value achieved by EFSI funded projects; stresses that the additionality assessment of all EFSI-supported projects should be duly documented;

13. Notes that the indicative geographical concentration is based on the total of expenditure in Member States; strongly believes that an overview of investment volume based on the GDP per Country could give a more realistic assessment of the impact of EFSI;

14. Encourages a better synergy between EFSI and national promotional banks as the coordination with NPB and investment platforms is a recurrent effort that could contribute to the overall EFSI's effectiveness;

15. Believes that lessons learnt from the EFSI 1.0 and EFSI 2.0 should be duly taken into account in the upcoming InvestEU programme, especially when considering the rationale of bringing together under one umbrella the multitude of EU financial instruments and for the sake of generating positive synergies.