Briefing
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European Parliament

Cornerstone of the Commission's Investment Plan – European Fund for Strategic Investments (EFSI)

SUMMARY

In its November 2014 Investment Plan for Europe, the Commission announced the establishment of a new European Fund for Strategic Investments (EFSI), to bridge the EU investment gap.

EFSI would be financed by an initial €21 billion: €16 billion from the EU budget in the form of a guarantee to the European Investment Bank (EIB), and €5 billion from the EIB's own resources. Through a multiplier effect estimated at 15:1, a total of at least €315 billion would be mobilised in additional investment over the next three years. The EU guarantee for EFSI will, in part, be financed through cuts in the Connecting Europe Facility (CEF) and the Horizon 2020 programme, as well as from the unused margins in the EU's annual budget.

In their joint report, the European Parliament's Economic and Monetary Affairs and Budgets Committees backed the plan, but opposed the planned cuts in CEF and Horizon 2020, and called for extended parliamentary control over EFSI's governance as well as over the project selection criteria.

In a trilogue meeting on 28 May 2015, the Parliament and Council reached a compromise agreement on the proposed EFSI regulation. Under this agreement, the cuts in the budgets of CEF and the Horizon 2020 programme would be reduced.

In this briefing:

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Glossary

Additionality: EFSI support 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 and existing EU financial instruments, without EFSI support.

Small and medium-sized enterprises (SMEs): Companies with fewer than 250 employees.

Small mid-cap companies: Companies with up to 499 employees that are not SMEs.

Mid-cap companies: Companies with up to 3 000 employees, that are neither SMEs or small mid-cap companies.

Multiplier effect: The ratio between the total financial volume of the projects generated as a result of the intervention of EFSI and the initial public money mobilised to set up the Fund. It enables small initial amount of EU money to generate a much bigger financial volume of projects.

Guarantee fund: A fund established as a liquidity cushion, from which the EIB would be paid in the event of potential losses resulting from EFSI activities. The guarantee fund will gradually reach a target level of €8 billion. This will make up 50% of the total guarantee under the EFSI regulation.

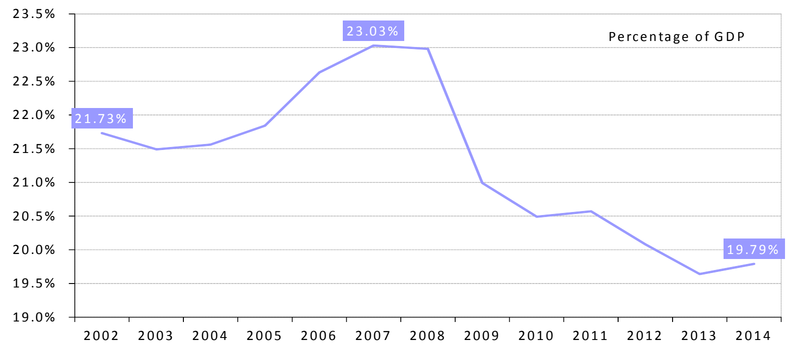
National promotional banks: Institutions whose purpose is to advance the public policy objectives of a Member State government, predominantly through the provision of promotional loans on a non-competitive, not-for-profit basis. The loans that such institutions grant are, directly or indirectly, partially guaranteed by the central government.

Unused margins in the EU budget: The difference between budgeted payment appropriations and the annual payment ceiling and the difference between the budgeted commitment appropriations and the expenditure ceiling per heading. The annual budget is adopted within the Multiannual Financial Framework (MFF) and usually remains below the MFF expenditure ceilings, to retain some margin to cope with unforeseen needs.

Background

The economic and financial crisis has resulted in a drop in the level of investment in the EU of about 15% from its peak in 2007. This has negative consequences for economic recovery, job creation, long-term growth and competitiveness. Even if savings and financial liquidity levels are significant, investments are inhibited by uncertainty about the economic situation, high levels of public and private debt, and the credit risk associated with debt. A substantial number of viable investment projects remain unfunded, as shown by the examples given of different projects – in areas such as research and development, Energy Union, transport, social infrastructure, and resources and environment – in the Final Task Force Report prepared by Member States, the Commission and the EIB to identify investment possi-bilities in the EU. In its

Figure 1 – Total investment to GDP ratio in the EU28



Data source: Eurostat.

Communication of 26 November 2014, An Investment Plan for Europe, the Commission announced the establishment of a new European Fund for Strategic Investments (EFSI). In its conclusions of 18 December 2014, the European Council endorsed the plan and invited EU legislators to agree on a legislative proposal, by June 2015, to enable the activation of new investments from mid-2015.

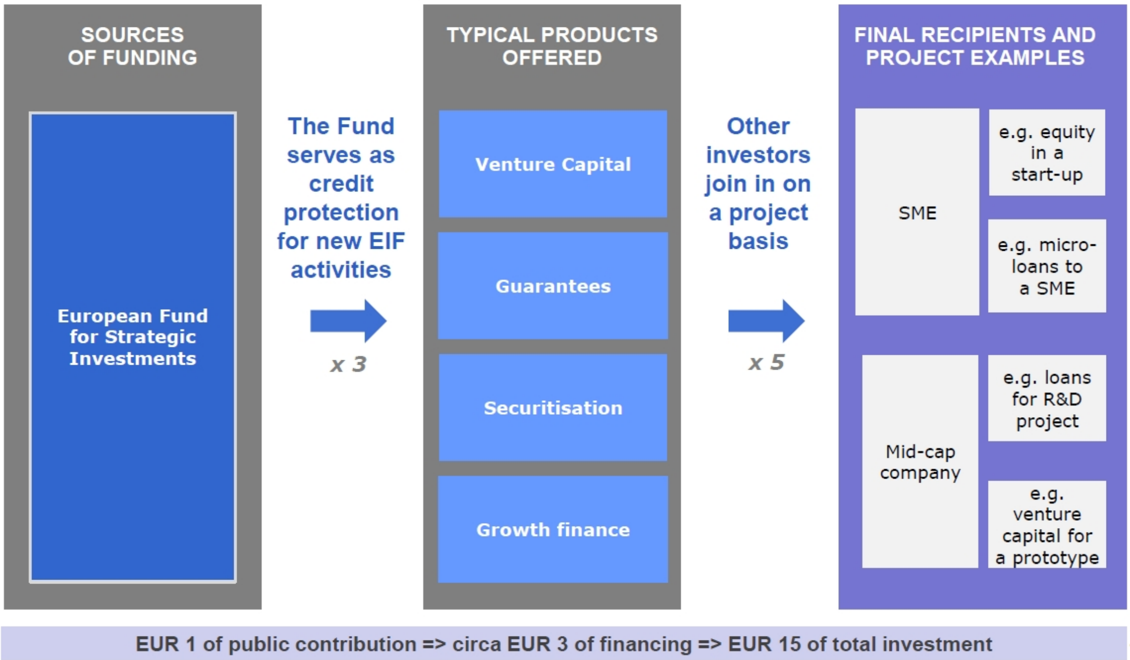
In line with the European Council conclusions, several Member States have announced that they will contribute voluntarily to the fund: Germany (€8 billion), Spain (€1.5 billion), France (€8 billion), Italy (€8 billion), Poland (€8 billion), Slovakia (€400 million) and Luxembourg (€80 million). Under the Commission's proposal such contributions would not be counted when defining the fiscal adjustment required of the Member State concerned under the Stability and Growth Pact.

European Commission proposal

The Commission's proposal for a regulation on EFSI, published on 13 January 2015, aims to create the necessary legal framework and provide budgetary allocations for the first two of the three strands[1] of the investment plan, namely (1) the mobilisation of at least €315 billion in additional investment over the coming three years, and (2) targeted initiatives to make sure that this extra investment meets the needs of the real economy. Creating the European Fund for Strategic Investments (EFSI) and the establishment of a European Investment Advisory Hub (EIAH) will be steps in meeting those goals.

EFSI is the vehicle through which the additional investment would be mobilised. The Fund, established through an agreement between the Commission and EIB, would be financed with an initial €21 billion: €16 billion from the EU budget in the form of a guarantee to the European Investment Bank (EIB), and €5 billion from the EIB's own resources. Using a 15:1 multiplier effect, the Commission has estimated the total amount of investment would reach €315 billion. According to the proposal, the guarantee of €16 billion would be backed by an EU guarantee fund based on existing margins in the EU budget (€2 billion), the Connecting Europe Facility (CEF) (€3.3 billion) and the Horizon 2020 programme (€2.7 billion).

Figure 2 – Support to SMEs and mid-cap companies, including the multiplier effect



Source: European Commission, 'The investment plan in graphs'.

Small and medium-sized enterprises, as well as mid-cap companies, would be a key beneficiary of EFSI support, notably through the European Investment Fund (EIF), part of the EIB Group. The financing or investment operations should promote objectives such as infrastructure development (in the areas of transport, energy interconnection and digital infrastructure); investment in education and training, health, research and development, information and communications technology and innovation; expansion of renewable energy, and energy and resource efficiency; infrastructure projects in the environmental, natural resources, urban development and social fields; and provision of financial support to SMEs and mid-cap companies. Support should also be granted to dedicated investment platforms and national promotional banks, via the EIB.

EFSI would be governed by a Steering Board, determining the strategic orientation, the strategic asset allocation and operating policies and procedures. Initially, the board would consist of EU and EIB representatives, with an allocation of members and votes based on the respective size of their contribution. According to the proposal, other parties – including entities in third countries – may become contributers to the EFSI, with members and votes of all participants recalculated according to the size of their contributions. The proposal states that no decision can be adopted if the Commission or the EIB votes against it. The board would appoint a managing director responsible for the day-to-day management of the EFSI.

An Investment Committee, composed of six independent experts and the managing director, would be responsible for examining projects that could potentially be eligible for support. A European Investment Advisory Hub would provide advisory support for investment project identification, preparation and development across the EU. The Commission and EIB, with assistance from the Member States, would also create a European investment project portal, where information on current and potential future investment projects would be accessible.

The proposal provides for half-yearly or annual reporting from the EIB and Commission to the European Parliament, as well as for the managing director to participate in parliamentary committee hearings and to answer questions from the Parliament to EFSI.

European Parliament position

In their joint report (rapporteurs: José Manuel Fernandes, EPP, Portugal, and Udo Bullmann, S&D, Germany), adopted on 20 April 2015, the Economic and Monetary Affairs (ECON) and Budgets (BUDG) Committees backed the plan for a European Fund for Strategic Investments, but at the same time introduced substantial changes to the proposal. The Connecting Europe Facility and Horizon 2020 were no longer mentioned as elements for financing the guarantee. In addition, the Committees opposed budget cuts for those two initiatives and held that the Commission should find alternative resources to finance the guarantee fund.

The report detailed and extended the general objectives of the regulation to include areas such as environmental protection, eco-system services and sustainable development, cultural and creative industries, and energy infrastructure, in particular interconnections, smart grids at distribution level, energy storage and the synchronisation of markets. It also included financing of projects which are in line with the objectives of Horizon 2020 and the Connecting Europe Facility. When it comes to

beneficiaries of EFSI support, the report gave priority to SMEs and small mid-cap companies. It stressed the importance of the additionality provided by EFSI.

With regard to the governance structure of the EFSI, the report reduced the size of the Steering Board to four members, and made a provision that third parties wishing to contribute to EFSI financing would not be granted membership of the board. The Investment Committee, on the other hand, would be extended to include eight members to reflect the EU's geographical diversity and provide a broader range of expertise. The report put emphasis on gender balance in, and the independence of, the Investment Committee. It also assigned an important role to Parliament in the appointment of the managing director and deputy managing director of the Steering Board, as well as of the members of the Investment Committee.

Reporting would be performed on a half-yearly basis, and both the managing director and chair of the Steering Board would be obliged to participate in hearings with the Parliament and to answer questions from the Parliament to EFSI.

In their respective opinions on the proposed regulation, both the Industry, Research and Energy (ITRE) and the Transport and Tourism (TRAN) Committees welcomed the proposal, but highlighted the need to find alternative financing for EFSI and to avoid cuts in Horizon 2020 and Connecting Europe Facility.

Results of the trilogue

The Parliament and the Council reached a provisional agreement on the EFSI regulation in trilogue on 28 May 2015. The agreement was approved by Coreper on behalf of the Council on 9 June 2015. In line with the Commission proposal, financing would be based on unused margins in the EU's annual budget, as well as a redeployment of grants from the Connecting Europe facility and the Horizon 2020 programme. However, in comparison to the proposal, the agreement includes an increase of the share of funding coming from unused margins (€3 billion), while the redeployment of grants from the Connecting Europe Facility and the Horizon 2020 programme would be reduced by €500 million each, to €2.8 and €2.2 billion respectively.

The initial investment period would be three years. Before the end of this period the Commission would submit a report to the Parliament and Council on the application of the EFSI Regulation, with a proposal to either set a new investment period or terminate the fund.

In line with the ECON and BUDG Committees' report, the Members of the Steering Board would come from the Commission and EIB only, and the Investment Committee would consist of eight independent members. Contributions from the Member States to EFSI could take the form of guarantees or cash, while third parties could make cash contributions only. Neither Member States nor third parties would have any influence over the governance of the fund.

Besides limiting the cuts to Horizon 2020 and CEF, Parliament's negotiators also obtained the creation of an ex-ante scoreboard and the publication of the investment guidelines as an annex to the regulation.

After the European Parliament's vote on the EFSI regulation, schdeuled for 24 June 2015, the Council will then finally adopt it. It is expected to enter into force in the beginning of July, in line with the European Council conclusions, and the first operations under the regulation could be approved in mid-September.

Advisory committees

The European Economic and Social Committee (EESC) adopted its opinion on the investment plan for Europe and EFSI on 19 March 2015. The EESC welcomed the Investment Plan and appreciated the change of tone away from austerity and fiscal consolidation. It considered the plan to be a step in the right direction but underlined that it faces a number of serious questions e.g. when it comes to its size the high degree of leverage expected, the potential flow of investment projects, the marketing strategy for attracting private capital, the involvement of SMEs and the plan's timescale. The EESC held that it is uncertain whether a pipeline of projects that offer returns attractive to institutional investors can be developed, and it strongly recommended that the social partners and organised civil society be involved in the project-identification process at national level. The EESC welcomes that contributions to the EFSI from Member States will not be included in budget deficit calculations, but called on the Commission to explain why ongoing strategic public infrastructure expenditures are not treated in the same way. The EESC would like to see a more benign European fiscal framework in order to incentivise strategic public investment which underpins present and future economic development. The EESC called on the Commission to take into consideration the International Labour Organization (ILO) recommendations on attracting viable projects from regions with the highest unemployment rates, and recommended that the macro-regional strategies are taken into consideration when identifying and assessing potential projects.

In its opinion on EFSI of 16 April 2015, the Committee of the Regions (CoR) welcomed the EFSI regulation as proposed by the Commission in order to boost investments in the Union. The CoR called upon the Commission to specify the scope of the structural reforms it wishes to promote at European level while respecting the subsidiarity principle, and to explore the possibilities under the EU budget for redirecting available funding to the EU guarantee from programmes other than Horizon 2020 and the Connecting Europe Facility. It asked to be fully involved in monitoring and implementing the Investment Plan for Europe, and considered it crucial to ensure that the EFSI is consistent with local and regional investment strategies and the operational programmes of the European Structural and Investment Funds. The CoR asked to be involved as an observer in the Steering Board and in the Investment Committee, and called on Member States to closely involve local and regional authorities in establishing and promoting project pipelines to improve the good governance of EFSI. It called on the Commission and EIB to develop, in cooperation with the CoR, a set of criteria for the project selection and procedures for the follow-up. Furthermore, it emphasised that it is crucial for EFSI investment guidelines to ensure that it can be accessible to smaller-scale projects, especially those that contribute to job creation and economic growth and that address regional disparities.

Other stakeholders

In a policy brief, Centrum für Europäische Politik (CEP) argued that the investment plan will not solve the problems related to the drop in net investment in the EU, and that it entails a substantial risk of misallocation of resources. CEP held that the 'favourable' treatment of national contributions to the investment plan in the budget deficit calculations undermines its credibility, since it indicates that the Commission wants to give the Member States greater scope in relation to budgetary policy. According to CEP, this step would be irresponsible because compliance with the Pact is crucial for reducing

the high level of government debt in the Member States. CEP maintained that EFSI investments must be compatible with EU state aid law. CEP argued that the EU ban on state aid applies to national contributions to EFSI projects, and that the simplified and accelerated procedure for assessing these contributions risks undermining the ban on state aid. CEP argued that it is more important to ensure a stable and predictable regulatory framework in conjunction with the reduction of obstacles to investment, than to promote investments.

In a joint statement, the European Research Area Stakeholder Platform expressed great concern on a Horizon 2020 budget cut since there is little reassurance that research and innovation activities will be funded under EFSI. It called for research and innovation criteria to be used when awarding support from EFSI, and maintained that research and innovation players should be involved in the governance of EFSI and in the evaluation of the projects funded.

Main references

An Investment Plan for Europe (COM(2015) 903 final)

European Council Conclusions (18 December 2014)

Proposal for a regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 (COM(2015) 10 final – 2015/0009(COD))

Report on the proposal for a regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 (COM(2015)0010 – C8 0007/2015 – 2015/0009(COD))

European Parliament and Council: Final compromise text of the EFSI regulation with a view to agreement

Opinion of the European Economic and Social Committee on An Investment Plan for Europe

Committee of the Regions: Opinion – Investment Plan and European Fund for Strategic Investments

Endnotes

[1] The third strand mentioned in the Investment Plan is 'Measures to provide greater regulatory predictability and to remove barriers to investment, making Europe more attractive and thereby multiplying the impact of the Plan.'

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