



*Thinking ahead for Europe*



Workshop – “EFSI and ESI Funds - An academic view”  
23 January 2018 – European Parliament  
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CEPS\_thinktank



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# ESIF & EFSI (AND FIs)

- **Grants, FIs and EFSI – state, shape roles and function?**
  - **The development of a new policy paradigm**
- **Simplified overview of how FIs function**
  - **EU supported equity and debt instruments**
- **A natural development FIs and EFSI**
  - **Right distribution of public and private roles**
- **Problems on the way**
  - **Governance**
  - **Risk management vs. risk aversion**
- **Mandates and governance – the good and the bad**



# ESI FUNDS, FIS AND EFSI



- The EU budget and particularly ESI Funds have changed considerably since 2000:
  - Europe 2020
  - 11 Thematic objectives
  - Smart Specialization Strategy
- Debt and equity instruments are not new, NPBs, IFIs have had them, also the EIB. What makes EFSI and FIS particular is governance due to the EU Budget source of guarantees.
- Benefits: **Better division of tasks and risk of public and private sector** (main benefit is NOT leverage)



# FIS AND ESIF COMPLEMENT ESI FUNDS

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- To finance bankable projects (or can be 'made' bankable) which are targeting EU objectives and where demand for credit is not met, because:
  - Less credit supply than demand for bankable and 'good' projects
  - Projects not financed due to timescale and Basel III rules
  - Risk (perception) high
  - The lack of monetisation of public goods from projects makes those projects not attractive enough



# WHEN TO USE FIS?

**ATTENTION:  
CORRECT FOR MARKET  
FAILURES/ NOT BAD  
POLICIES**

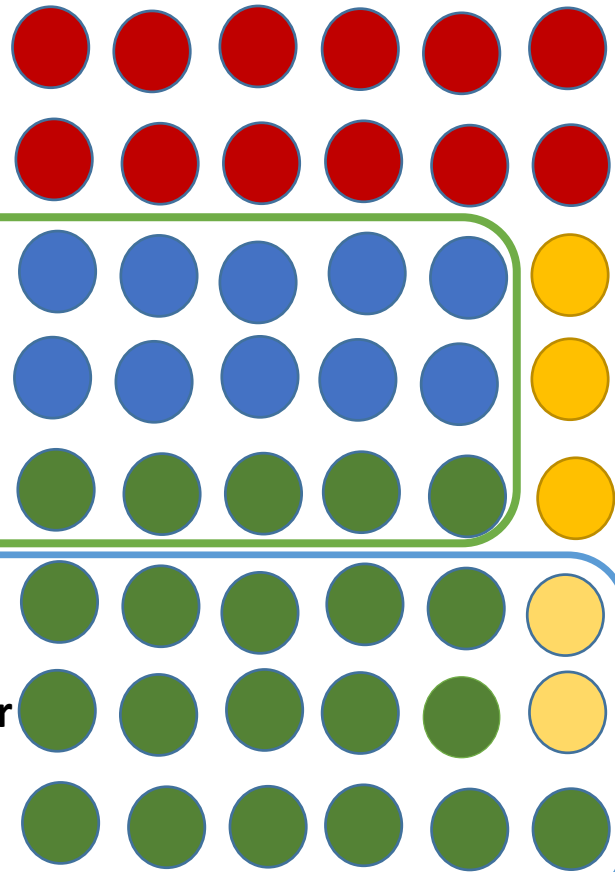
- Non bankable
- Bankable, no public benefit
- Bankable, positive public goods, too long term, too innovative (too risky)
- Bankable, good projects

Public Bank (EIB, etc)

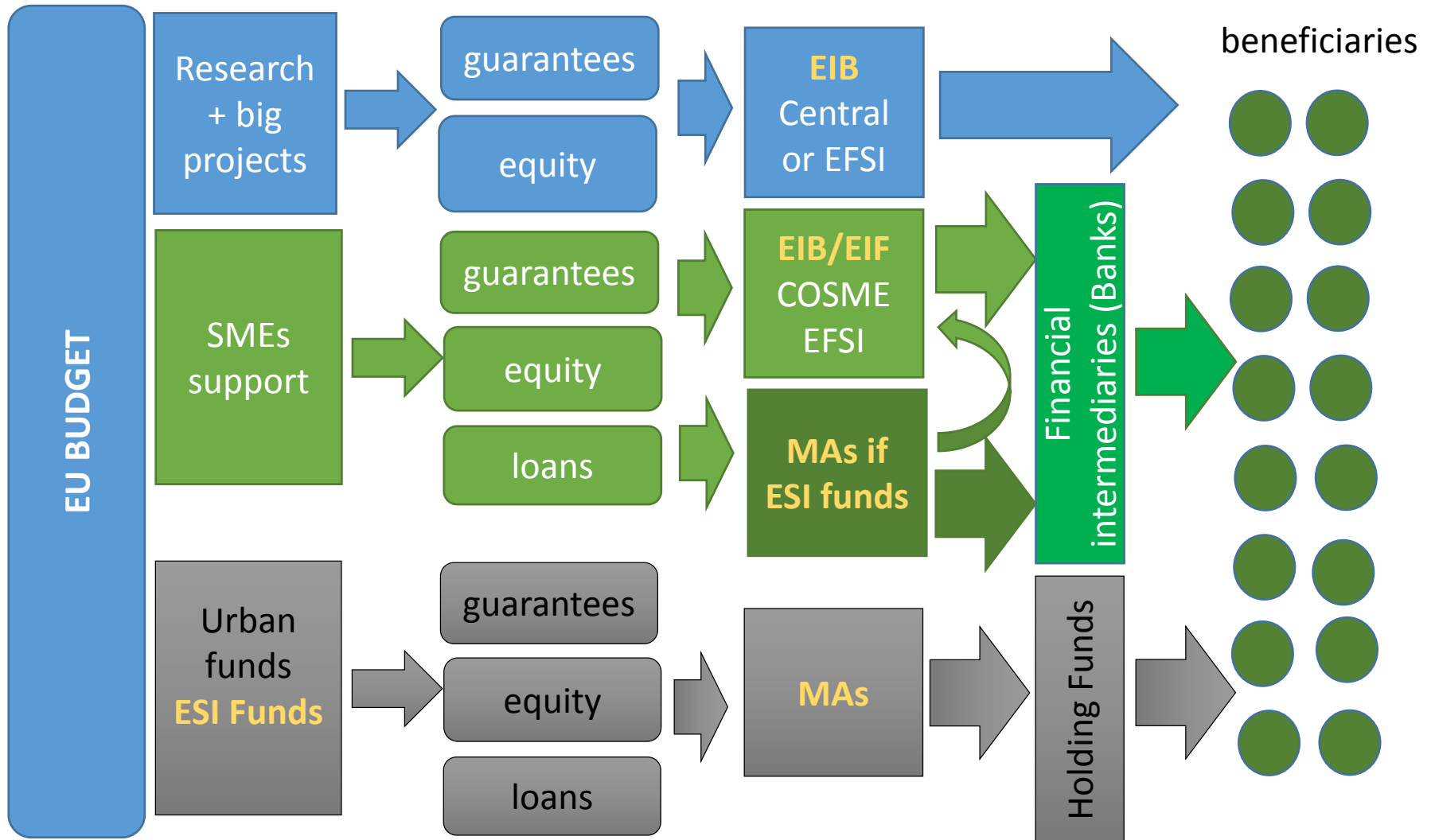


Market gap

Covered by private sector



# SIMPLIFIED VIEW HOW THEY OPERATE?



EIB raises funding for lending from financial markets mainly by issuing bonds

# PROBLEMS



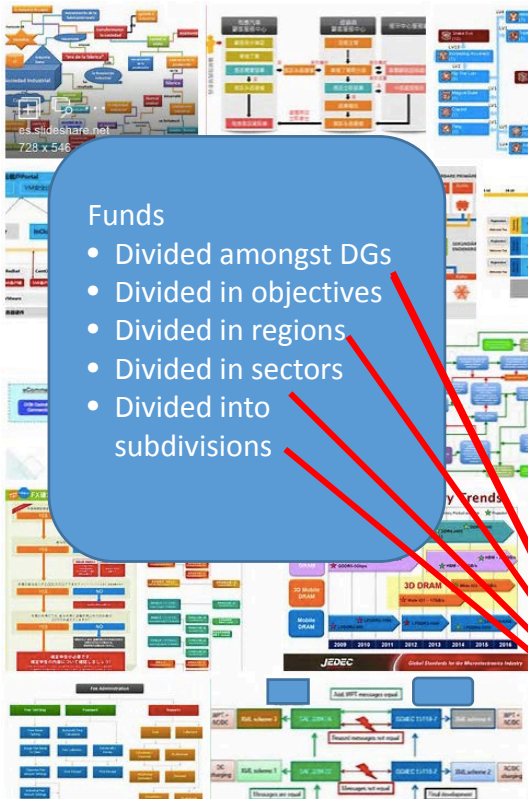
- Rapid adaptation of Budget and proliferation of Fis (+EFSI)
  - **Reactive development** – lack of coordinated approach, lack of coherence
- Excessively divergent governance for centrally and shared managed Fis: e.g. **ex-ante assessments**, but if transferred to centrally planned tools then very different.
  - Review of the assessments shows weaknesses
  - Too long but ***also often incomplete***
- EU budget changes not followed by right governance structures:
  - Simplification = complication
  - We need **less**, better and more targeted rules, nor just more rules.

If so, what is the point of 50% of the assessment contents?

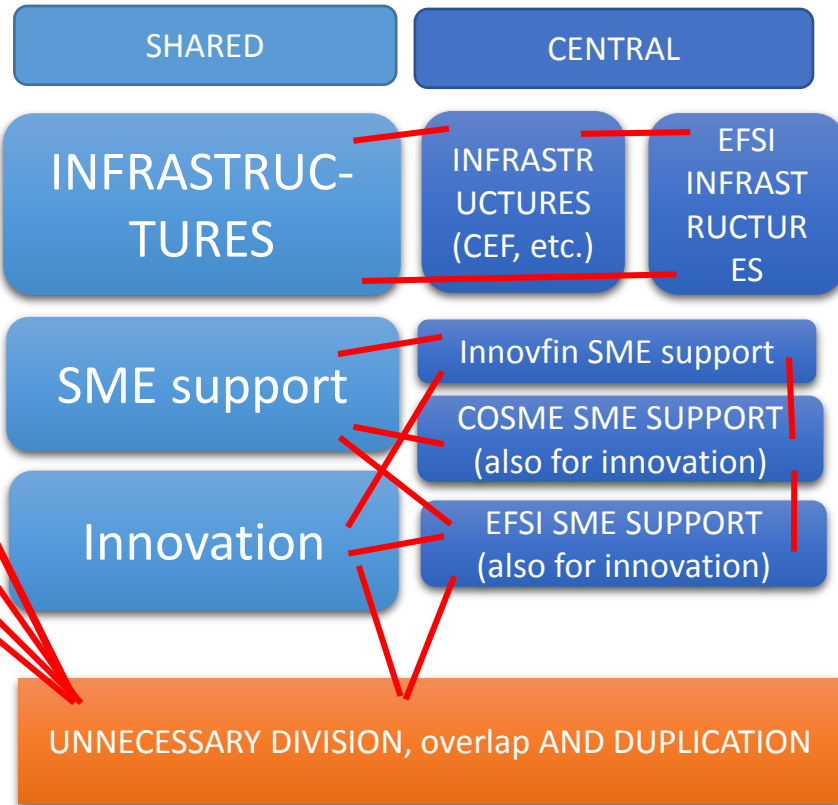


# COMPLEXITY, DUPLICATION

## Grants



## Financial instruments



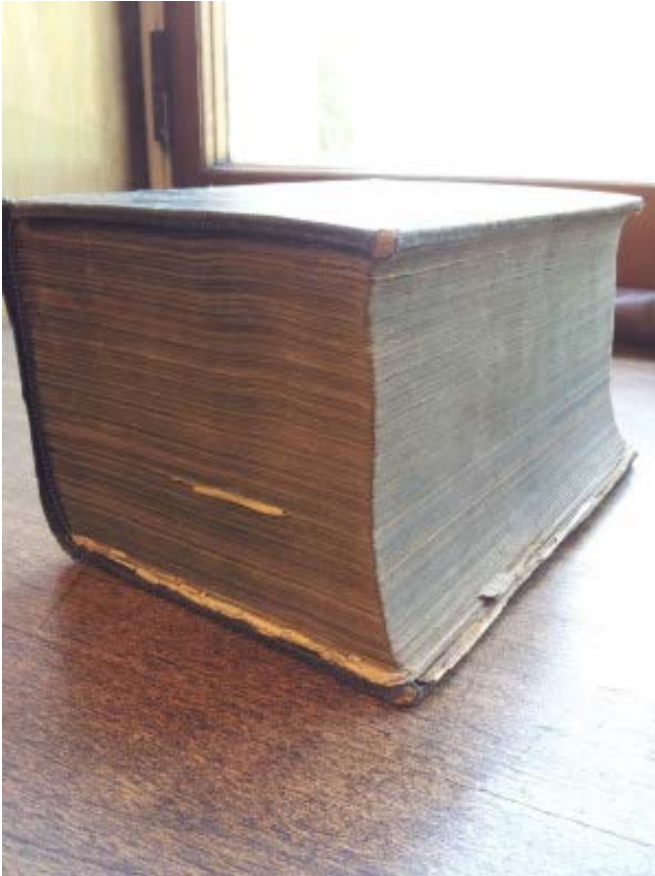
- Different rules
- Different auditing
- Different reporting





# WHAT KIND OF SINGLE RULEBOOK?

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SINGLE AUDIT

*Common procedures*

REAL simplification

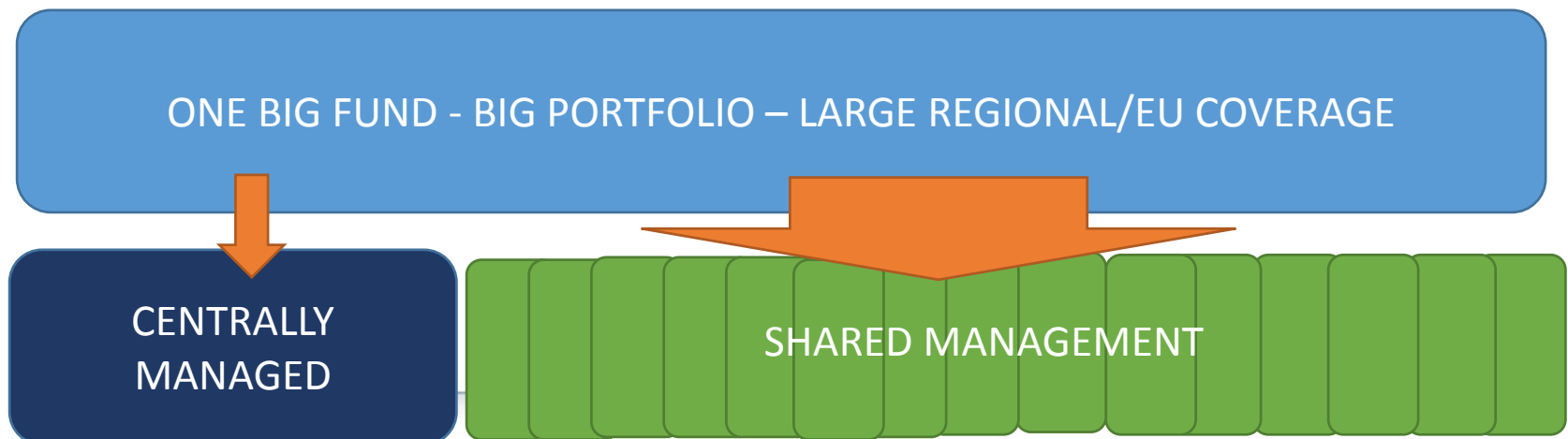
**OR**



Meaningful ex-ante – less senseless paperwork – more enforcement

# MAXIMISE POTENTIAL – MINIMISE FRAGMENTATION

- If MAs create FIs, should:
  - Based on better, shorter, more relevant ex-ante studies
  - Should be off the shelf – maybe new hybrid central shared
  - Funds should be in a Europeanwide fund, to reduce risk.



# TO ENSURE EFFECTIVENESS

- **Mandates** are good to some extent, but **can backfire**:
  - **Political pressure leads to mis-targeting, losses and crowding out (FIs created even where and when not needed)**
  - **Wrong size of instruments, lack of extended portfolio leading to costs and unused 'parked funds'**
- **Wrong governance structures**:
  - **Not based on efficiency**
  - **Too heavy and thus not functional**
  - **Wrong governance system for grants for FIs can lead to wrong risk instruments, wrong pricing and wrong use of FIs**

# OTHER PRECONDITIONS

- **EU BUDGET SHOULD NOT CORRECT FOR POLICY FAILURES**
- **Structural reforms (3<sup>rd</sup> pillar of EFSI)**
- **FINALLY: GOVERNMENTS SHOULD BE BETTER MANAGERS OF THEIR 50% OF GDP!**
- **Lack of proper standards and public funds management dampens GDP growth substantially**

THANK YOU!





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