Presidency Issues note

The Investment Plan for Europe in the near future

Informal ECOFIN, September 10, 2016

Weak investment is weighing on the economic recovery, harming Europe´s long-term growth and competitiveness. The Investment Plan for Europe, adopted by the Commission in 2014, is a comprehensive response to the unprecedented EU investment gap. The first two pillars – the European Fund for Strategic Investments (EFSI), the European Investment Advisory Hub (EIAH) and the European Investment Project Portal (EIPP) - launched in cooperation with the European Investment Bank, are targeted towards mobilizing additional investment, whilst assuring investment reaches the real economy. The third pillar aims to remove barriers to investment by providing greater regulatory predictability and increasing investor confidence. In June 2016, the Commission published its Communication[1] taking stock of the Plan and outlining possible next steps. At its July meeting, the ECOFIN Council discussed on the "Third pillar of the Investment Plan" reaffirming its importance and committing to further work.

The Investment Plan has already started to deliver concrete results. EFSI is on track to attain its ultimate objective of mobilizing 315 billion of investment in the next three years. Available information on EFSI implementation is encouraging. According to the latest EIB group figures (19th July 2016), 20.4 billion euro of EFSI financing have already been approved by the EIB and the EIF with an estimated overall investment impact of more than 115 billion euro. The approved projects span all of the relevant sectors, with most projects having been approved in energy and research and development fields. The investment impact is the strongest in the SME sector where the EFSI is delivering well beyond expectations. The European Investment Advisory Hub (EIAH) has also made a positive start, providing technical assistance on more than 170 requests as of mid-May 2016.

Building on these positive results the Commission has announced its intention to present a legislative proposal extending the duration of the EFSI until 2020. Aside from extending EFSI, the Communication highlighted a number of non-legislative measures aimed at improving the functioning and delivery of the Fund as well as of the Advisory Hub. Among these changes the Commission has announced plans to scale up the SME-window, further simplify the combination of EFSI and ESI Funds, enable EIAH to provide more targeted outreach, encourage the establishment of Investment Platforms, contribute to the development of the market for sustainable/green projects, and provide further clarity as regards accounting aspects of public-private partnerships.

The Council, when discussing the upcoming Commission proposal to extend the duration of the EFSI, should also reflect on the functioning of the Plan and provide the Commission and the EIB with its assessment and suggestions for possible improvements. In light of the planned legislative proposal, improvements in the functioning of the Plan are warranted. Apart from the aspects highlighted by the European Commission in its Communication, the Presidency has identified a number of issues to be discussed at the ministerial level as regards the functioning of the EFSI and

[1] COM(2016) 359 final

the EIAH, as listed below. This discussion could potentially form basis for the ECOFIN Council Conclusions towards the end of the Slovak Presidency.

In order to ensure that EFSI contributes towards closing the investment gap in the EU, additionality[2] needs to be strengthened and in each case credibly verified. The success of EFSI rests on our ability to ensure that its investments are truly additional and not merely business as usual - facilitating and mobilizing rather than crowding out private investment. In the absence of detailed project-specific information, it is hard to assess whether the EFSI meets this crucial objective. There is a general concern, at technical and political level that additionality is not being sufficiently delivered. While on the one hand the flexibility of EFSI needs to be preserved in order for it to remain operational, on the other hand, the broad definition of additionality casts a shadow on EFSI´s achievements. In general, projects supported by the EFSI rightfully carry a risk corresponding to the EIB´s "Special Activities." It is, however, more difficult to determine whether these projects help address market failures or suboptimal investment situations and whether they would have been carried out also in the absence of the EFSI. More elaborate and transparent criteria, which would clearly define and operationalise additionality, should be considered. In addition, it could also be better defined what types of projects can be considered as strategic.

To overcome the reliance on debt financing in the EU, the role of EFSI as an equity investor should be strengthened and feature more prominently in all investment windows. EU economies have been traditionally reliant on bank intermediation to finance investment. However, in light of macroeconomic conditions, bank deleveraging, regulatory changes and banking sector legacy issues, bank lending to non-financial corporates has not recovered to pre-crisis levels. To be successful, the EFSI should focus on diversifying funding sources in Europe through the development of EU equity market. While the Fund has been focusing on equity investments within the SME Window, its potential within the Infrastructure and Innovation Window does not seem to have been fully exploited. The EFSI could, therefore, also act as an equity partner in large public infrastructure projects, with Member States potentially acquiring buyout options on its equity shares. For such a set-up to materialise, more clarity and greater predictability in Eurostat decision making is indispensable.

To improve the geographical balance of the EFSI-funded projects, the European Investment and Advisory Hub (EIAH) could be enhanced and decentralized to provide high quality advisory services at the local level. The Advisory Hub has a vital role to play in the success of the Investment Plan. EFSI projects are generally more complex and require specific advice. Regional decentralization of EIAH´s offices would facilitate access of project promoters to EIB specific knowledge and, by extension, improve awareness of

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[2] Definition of „additionality“ for the purposes of the Regulation (EU) 2015/1017 on the European Fund for strategic Investments (article 5.1) *„additionality means the support by the EFSI of operations which address market failures or suboptimal 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. Projects supported by EFSI shall typically have higher risk profile than projects supported by EIB normal operations and the EFSI portfolio shall have overall a higher risk profile than the investment portfolio of investments supported by EIB normal investment policies before the entry into force of this Regulation.“*

the Fund in the region. It could also strengthen the cooperation of the National Promotional Banks with the EIB and among themselves. In addition, more targeted and specific outreach could improve the submission rate and the project success rate in Member States that have not yet benefited from the EFSI at a sufficient scale. Furthermore, an improved uptake of Investment platforms would enable financing of a larger amount of smaller projects, including those below the usual EIB project threshold of 25 million euro, thus improving the EFSI presence in smaller Member States.

Member States should be incentivised to contribute financially to EFSI at the level of the Fund, thus strengthening the EFSI fire-power. One way to encourage Member State contributions is to further simplify the blending of ESI Funds and EFSI. However, specific incentives need to be developed to motivate Member States to contribute at the Fund level rather than at the level of individual projects, as is currently the case. While the principle of project-based approach is sound, an unintended consequence is that Member States are not sufficiently motivated to contribute directly to the Fund, where the funds would be leveraged, and prefer to participate in the Plan at the national level. This may result in an overall lower volume of investment undertaken. A solution to this problem should be sought.

Issues for discussion

- Do Finance Ministers share the views on the main issues related to the functioning the Investment Plan for Europe, as outlined by the Presidency? Are there any additional issues that could be highlighted and deserve Council attention?
- Do Ministers broadly agree with proposals aimed at improving the functioning of the Fund, as outlined by the Presidency? Are there alternative proposals to address these issues?