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The European Fund for Strategic Investments as a New Type of Budgetary Instrument

David Rinaldi and Jorge Núñez Ferrer

Abstract

This paper provides an overview of the European Fund for Strategic Investments (EFSI) as a budgetary instrument. A preliminary analysis of the quantitative impact of its first year and a half of activity is complemented by an outline of the corollary policies that can determine the success of EFSI. Taking into account the instrument's original mission, the preliminary evidence is encouraging and suggests that it is on track to attain expected targets. For EFSI 2.0, the study recommends revising the regulation to provide a window-specific definition of additionality and strengthening parliamentary oversight. In order for EFSI to contribute to the greater goal of cohesion and development, it further recommends the creation of a Development Window with a special guarantee for riskier regions and a push on EFSI corollary policies, including the establishment of country offices for the Advisory Hub and the development of a strategy for investment in human capital.

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List of Abbreviations

CEF	Connecting Europe Facility
CDP	Cassa Depositi e Prestiti
CMU	Capital Markets Union
COSME	Programme for the Competitiveness of Enterprises and SMEs
EBRD	European Bank for Reconstruction and Development
ECA	European Court of Auditors
EFSI	European Fund for Strategic Investment
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
EIPP	European Investment Project Portal
ELENA	European Local Energy Assistance
EPEC	European PPP Expertise Centre
EPRS	European Parliamentary Research Service
EPSC	European Political Strategy Centre
ESIF	European Structural and Investment Funds
EU	European Union
FLP	First Loss Piece
GDP	Gross Domestic Product
H2020	Horizon 2020
IIW	Infrastructure and Innovation Window
JASPERS	Joint Assistance to Support Projects in European Regions
LGF	Loan Guarantee Facility
MFF	Multiannual Financial Framework
MoU	Memorandum of Understanding
NPB	National Promotional Bank
NPI	National Promotional Institution
MS	Member state
OECD	Organisation for Economic Co-operation and Development
IIW	Infrastructure and Innovation Window
PPP	Public-private partnership
RDI	Research, development and innovation
SGP	Stability and Growth Pact
SME	Small- and medium-size enterprises
SMEG	InnovFin SME Guarantee
SMEW	SME Window
SRSS/SRSP	Structural Reform Support Service/Programme
TI	Transparency International

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The Instruments Providing Macro-Financial Support to EU Member States

Jorge Núñez Ferrer and David Rinaldi

CEPS Research Report No 2017/07, April 2017

Executive Summary

Despite an increasing number of EU policies and objectives, the size of the Multiannual Financial Framework has fallen as a percentage of EU GDP compared to the budgets before the turn of the century. In addition, EU spending has been characterised by a high degree of rigidity in terms of key priorities and distribution of funds across member states (the problem of net balances). Such rigidity prevented the EU budget from growing organically as new policy objectives and design mechanisms emerged.

As a consequence and particularly with the dawn of the financial crisis, the traditional EU budget grants are now increasingly complemented by a constellation of different funds used as equity or guarantees. There has been a rapid growth of increasingly complex and differentiated financing tools operating on and off the budget, via grants, loans, equity or blended instruments.

The introduction of EFSI has brought not only the size of the financial instruments supported by the EU to another dimension financially, it has also created a very large instrument outside the governance structure of the EU budget. **At this stage, as much as €163.9 billion have been estimated as total investment mobilised** to finance EFSI-backed projects, thanks to the €22.4 billion and €8.1 billion made available through the EIB and EIF respectively. To date, EFSI-backed projects currently account for 52% of the targeted total investment planned to be mobilised by 2018; the multiplier effect also seems to be in line with the x15 target, which is evidence that **EFSI appears to be on track to attain the 2018 targets, set at the launch of the initiative**.

On the distribution by sector, there are currently **three sectors that alone cover about 3/4th of approved operations**: smaller companies (31%), the energy sector (22%) and RDI (21%) of total EFSI support. Two sectors, namely social infrastructure and environment and resource efficiency, received below 5% of EFSI investment. The available data allow us to take a closer look at infrastructure operations by sector. With EFSI financing €7.7 billion (34%) and generating over €36 billion (38%) of mobilised investment, the energy sector is the primary beneficiary. Small companies, the transport sector and RDI follow with over €3 billion allocated to each sector.

On the geographical distribution of funds, we have analysed the **distribution by volume, per capita and as a share of GDP**. Per volume, with 73% of the total investment mobilised, the main beneficiaries are the UK, Spain, France, Germany and Italy. Finland, Ireland, Spain, Italy and

Luxemburg take the lead in investment per capita, whilst if one considers the total investment mobilised as a share of GDP, less developed economies are in a better position with Estonia, Bulgaria, Spain, Portugal, Italy and Greece in the first six positions.

In view of encouraging preliminary results, the **European Commission has produced a proposal for amending the EFSI Regulation in which the EFSI initiative is to be extended by two years to 2020**, with the aim of **increasing investment in the EU by €500 billion.** This amount approximates the size of the combined European Structural and Investment Funds. This extension comes with an increase of the EU budget guarantee from €16 billion to €26 billion and EIB capital from €5 billion to €7.5 billion, amounting to a total of €33.5 billion of public money.

The key rationale for the introduction and extension of EFSI is to provide additionality by helping to address market failures or sub-optimal investment situations, which could not obtain investment in the absence of the EU guarantee. Projects supported by EFSI should, in principle, have a higher risk profile than the EIB standard portfolio. At the moment, projects are considered to provide additionality if they bear a risk that corresponds to EIB 'Special Activities', but there is a widespread consensus on the need to revise and clarify the current definition of additionality. As the two windows of EFSI respond to different market failures and are subject to different evaluation procedures, we recommend to amend the EFSI Regulation by including a **window-specific definition of additionality**. The Commission proposal to include risk-sharing arrangements, cross-border projects and securitisation within the new definition of additionality goes in the direction of providing a clearer indication of what additionality means in practice. Nevertheless, the types of contributions and additionality that EFSI can make remain rather broad and it is crucial to have access to the Scoreboard of indicators that informs the decision of the Investment Committee in order to have a clear picture of how additionality is measured and interpreted[1]. At the moment, **the results of the assessment carried out by the Investment Committee have not been made public**, which prevents us from understanding the expected added value of EFSI for each project supported by the EFSI Guarantee. It is likely that EFSI has contributed to an accelerated and increased rate of investment in the EU, but it is difficult to make a definitive determination without carrying out a detailed analysis.

As far as the design of EFSI 2.0 is concerned, governance and transparency arrangements will also need to be addressed. The European Court of Auditors (ECA) has recently issued a critical opinion on the Commission proposal to extend and expand EFSI. First, there is still limited evidence concerning the impact of the EFSI guarantee; secondly, it criticises the **complex roles of EIB- and Commission-appointed officials in the EFSI decision-making process, which makes it difficult to identify who is responsible to budgetary and legislative authorities**. The complex interrelations also made it difficult to identify possible conflicts of interest. Furthermore, the ECA mentioned that the Parliament had insisted on the need to ensure proactive public

[1] The Commission proposal to extend EFSI to 2020 envisages that the Scoreboard of indicators and the justification of the Investment Committee decisions, cleaned of commercially sensitive information, are made public, after the signature.

disclosure of exhaustive and sound budgetary information and project-specific financial data. (ECA, 2016a)

On the final mobilisation of the funds by EFSI (multiplier effect), it is important to note that the ECA **recommends that the EIB should revise the methodology following OECD guidelines**. According to the ECA (2016a), the current methodologies risk a systematic overestimation of the EFSI multiplier effect due to the fact that not all sources of finance attracted by an EFSI-backed project are the result of the EFSI guarantee.

The existence of many financial instruments inside the headings of the EU budget make it difficult to assess the coherency of EFSI with all other instruments. Some of the instruments seem to compete with each other and even undermine grant operations. Steps have been taken to explore synergies between EU budget instruments and EFSI, but **more work is needed to ensure coherence between instruments and to facilitate complementarities.**

Specific aspects pertaining to the **allocation of equity financing and to the backing of venture capital funds may contradict standard EU budgetary practices**. There is a general consensus on the need to promote equity-based financing in Europe and the high demand of support from the EFSI SME window may well indicate that such policy should respond to the concrete needs of EU-based SMEs, start-ups and mid-caps. Nevertheless, the direct support given to financial intermediaries, which are then responsible of the allocation of EU financing, may generate a situation in which **there is little knowledge about the final beneficiaries of the EU guarantee**, so that both accountability and the measurement of the results end up substantially compromised.

Despite critical points, a policy instrument like EFSI is needed for periods in which the financial sector is excessively risk averse or simply blocked by difficult market conditions. Augmenting the risk-bearing capacity of EU institutions, in the form of a solid EU guarantee and first loss piece (FLP) provided to operations, **appears appropriate given the current market conditions affecting Europe, where in fact the investment gap is more directly linked to risk averseness than a lack of liquidity**.

At present, EFSI appears to have enhanced support toward projects with higher risk profiles than standard EIB activities thanks to its joint use with other EU budget funds (ESIF, CEF and H2020) that finance a First Loss protection mechanism and allow EFSI to cover mezzanine or subordinated financing.

In its current structure, EFSI is not designed to focus on non-bankable projects or areas with particularly high risk. That would require investments to be handled with a development bank guarantee system, in which the loans are covered by guarantees by a much higher share and covering all investors or allowing the EIB to cover a larger share of the costs. In its activities within the EU, the EIB itself is not a development bank and EFSI is not an instrument to replace grants or to perform development investment. There is a possibility to promote such a role and to open the funds further to riskier areas in the EU, therefore, **we recommend the creation within EFSI of a Development Window with a structure in line with the needs of riskier regions of**

the EU. After all, EFSI still needs to be based on a banking logic and has to attract private financiers. This cannot be done by simple command, rather only if the instrument is fit for purpose. In this context, three possibilities to combine EFSI guarantees with other EU financing programmes should also be analysed.

One of the goals of EFSI was to relaunch investment targeted at SMEs, start-ups and innovative firms alike. It is too early to evaluate the impact of EFSI in promoting technological transformation and innovation across Europe, but undoubtedly **the programme is moving in the right direction**. Its results will have to be assessed in the medium to long term.

To make sure that EFSI contributes to the greater goal of relaunching investment and economic growth across Europe, it remains crucial to advance on the Investment Plan for Europe as a whole, so that also the second and third pillar of the plan bring contribution to the EU's economies. Removing regulatory barriers to investment at both national and European levels should remain a priority, as well as the implementation of structural reforms, which can generate a better environment for investment. As technical assistance is deemed crucial to enhance the geographical coverage of EFSI, the Advisory Hub should not only be given a greater role but endowed with the resources necessary to meet the challenges and tasks it has to face. As the geographical coverage of corollary policies, such as the Advisory Hub, is functional to ensuring geographical coverage for EFSI interventions, we recommend the establishment of EIAH local offices on top of network partnerships. The creation of Investment Hubs at national level could bring in expertise from the EIB Group, National Promotional Banks (NPBs) and the European Bank for Reconstruction and Development (EBRD), in order to enhance and make available comprehensive advisory services on-the-spot. Such Investment Hubs could also be given a mandate to monitor and support national efforts towards removing barriers to investment, in partnership with national authorities and the Structural Reform Support Service (SRSS).

This paper also recommends avoiding linking the rules governing EFSI, which is based on a return-to-investment logic, to the budget deficit procedures of member states. If projects are assessed on their merits, such rules are counterproductive, as they reduce the ability to attract quality investments in regions where those are most needed. EFSI investments can promote structural and administrative reform as they require a shift in focus from pure public expenditure to the use of revenue-generating solutions where possible.

1. Introduction

In about one year's time, the European Commission will put forward its vision and proposal for the post-2020 EU budget. The current situation reveals a growing disconnect between expectations of the EU budget, its structure and its financial capacity. Despite an increasing number of EU policies and objectives, the budget structure of EU spending has been characterised by a high degree of rigidity. Such rigidity, partly due to the legislative process and partly due to the member states' approach focusing on net balances, has prevented the EU budget from growing organically as new policy objectives and new policy design mechanisms emerged. The European Commission has made large efforts to integrate new EU policy objectives into existing headings and to design a budget that is more flexible and capable of responding to emerging challenges facing the EU.

Financial instruments are increasingly deployed by the EU for the purpose of stimulating economic growth and creating jobs. To this end, the instruments are typically designed to stimulate investments in cases where, due to market failure or sub-optimal investment, they simply do not materialise. They have been introduced primarily in the areas of SME support, research and innovation, energy and the climate change. In the EU's current economic environment, which is characterised by a high degree of uncertainty and low growth, financial risk is in many cases the key barrier to investment. Financial instruments allow the public sector to absorb some of the risks by offering risk-sharing facilities (e.g. loans, guarantees, equity participation) in order to make projects bankable. In this way, scarce EU budgetary resources are used efficiently: As opposed to traditional direct funding of projects, they mobilise a much higher amount of total investment by catalysing a maximum of co-investment from the private sector (leverage effect).

The introduction of the European Fund for Strategic Investment (EFSI), in mid-2015, has brought not only the size of the financial instruments supported by the EU to another dimension financially, but also created a very large instrument outside the standard governance structure of the EU budget. As stressed in Nunez Ferrer et al. (2016) and in the Monti Report (2016), EFSI alone has the potential of mobilising investments (target €315 billion) that rival the size of the cohesion policy (€351.80 billion); and the sum of all EU financial instruments managed by the EC, EIB and EIF could rival the whole EU budget by 2020. (Nunez Ferrer et al., 2016: 35) As of mid-December 2016, the total investment mobilised by EFSI-backed projects amounts to about 52% of the expected investment by 2018. As much as €163.9 billion have been mobilised to finance EFSI-backed projects, thanks to the €22.4 billion and €8.1 billion made available through the EIB and EIF, respectively.

About a year into the programme, with still-partial information about EFSI's outcomes and impact, the Commission decided to move forward and propose an extension till 2020. The Commission's evaluation of the use of the EU Guarantee and the functioning on the Guarantee Fund in the first year, presented together with the proposal for its renewal, concludes that "the first year of experience shows that it has been an efficient and effective way of considerably increasing the volume of EIB special activities and EIF guarantees in favour of SMEs and mid-caps." (European Commission, 2016a: 19)

The notion that EFSI is a success, however, is not an uncontested matter. Legitimately, some criticism arises from the extent to which it can be effective as a stimulus package to relaunch economic growth in Europe (Le Moigne, Saraceno and Villemot, 2016), on whether it can truly promote additionality (Claeys and Leandro, 2016, Rubio et al., 2016, and ECA, 2016a), on whether it generates a high risk of geographic concentration (Rubio et al., 2016), and on whether the current governance and transparency arrangements are in line with EU standards on democratic accountability (ECA, 2016 and TI, 2016).

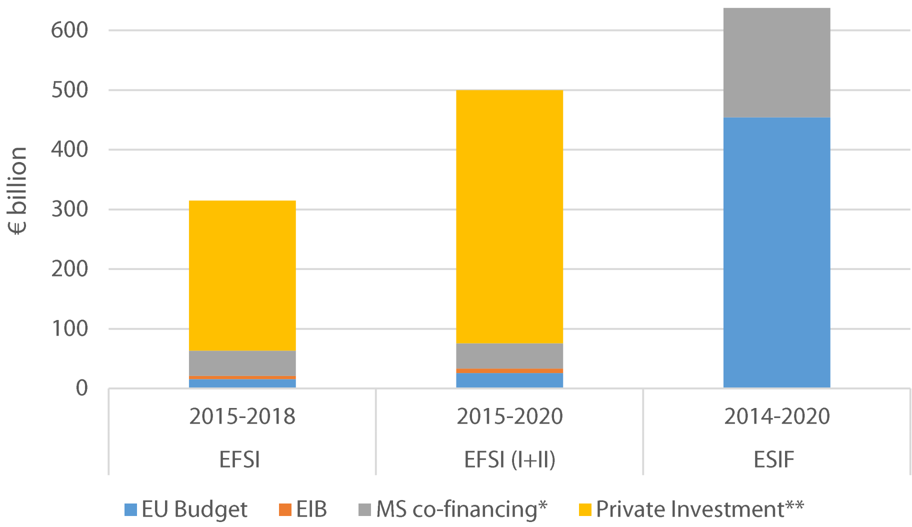
Even the comprehensive evaluations carried out by the EIB (2016) and EY (2016) agree on the need to revise the way in which the Regulation defines additionality and to enhance the technical assistance accompanying EFSI deployment. In fact, the Commission, notwithstanding a very positive assessment of EFSI's operations so far carried out, suggests an update to the definition of additionality to encourage investment into cross-border infrastructure, risk-sharing arrangements and securitisation and a stronger role of the European Investment Advisory Hub (EIAH) to improve on the sectoral and geographical coverage of the EFSI.[2]

The Commission proposal for a two-year extension of EFSI also introduces a new targeted objective of €500 billion of total mobilised investment (European Commission, 2016a). Such extension comes with an increase of the EU budget guarantee from €16 billion to €26 billion and EIB capital from €5 billion to €7.5 billion, amounting to a total of €33.5 billion of public money. Building on the results of the SME Window (SMEW), it is suggested that a larger share of financing should be tailored towards SMEs, which would lead to 40% of the increase of the EFSI's risk-bearing capacity to be allocated to SME projects.

The financial and investment arm of the Union, already largely reshaped by the introduction of EFSI, would end up being rather transformed if the proposal and the new target go through. Figure 1 shows that the expected total investment mobilised by EFSI, if prolonged to 2020, as proposed by the Commission, could reach the size of the EU budget for European Structural and Investment Funds (ESIF).

[2] For a detailed account of the proposed extension and an overview of the Council, European Council and European Parliament starting positions, see EPRS (2016a).

Figure 1. Mobilised investment with EFSI and ESIF (€billion)



Note: EFSI (I+II) is modelled according to the latest Commission's proposal (14 September 2016) to extend the EFSI until the end of the current MFF.

* Member states' co-financing for the EFSI is represented by the voluntary contributions made available via NPBs.

** Private investment is estimated according to an average x15 leverage for the EFSI and is considered as negligible for ESIF.

Data source: European Commission.

The present paper first provides, in section 2, an account of EFSI-mobilised investment to date, and then section 3 explores key issues of particular relevance in view of an extension of the programme: additionality, coherence with other instruments of the EU budget, respect of basic principles of democratic accountability and of unity of the EU budget. Section 4 attempts to provide a more global assessment of EFSI by putting it into the context of a broader mandate and in relationship with corollary policies included in the Investment Plan for Europe and with the EU macroeconomic framework. Section 5 offers succinct conclusions.

2. EFSI Operations to Date

This section provides a descriptive quantitative analysis of EFSI operations up until 16 December 2016.[3] The total mobilised investment related to EFSI-backed projects had reached about €164 billion. With almost exactly one-half of the total EFSI resources[4] spent (€31 billion out of €61 billion, representing 52% of the fund), EFSI reportedly had mobilised about one-half of the intended total investment (€164 billion out of €315 billion). Accordingly, with two more

[3] The data analysis is based on publically available data provided by the EIB (for the IIW) and by the EIF (for the SMEW), as made available on 23 December 2016.

[4] Figures include the 3-fold "internal multiplier".

years to go, it appears to be on track to meet the targeted leverage effect and the targeted investment by 2018.

2.1 Data availability

The quantitative analysis carried out in this paper is subject to data limitations. For the Infrastructure and Innovation Window (IIW), project-specific data for both EFSI contributions and total investment mobilised are only partially available. Out of 176 approved projects, 24 have undisclosed EFSI contributions and 55 have undisclosed total expected mobilised investment.[5] Approximately, about 19% of the financial volume of EFSI IIW contributions and 50% of the mobilised investment are undisclosed.

For the SME Window (SMEW), a list of financial intermediaries for both equity and guarantee operations is public. However, financial figures are only published for the latter. Additionally, the distribution of SMEW operations by member state is scant, as 28% of the financial volume is listed under “Multi-Country” with no specification on the countries involved.[6]

2.2 EFSI Investment by sector

EFSI Regulation Article 9(2) defines the eligible sectors/areas of intervention, for which there is no pre-determined quota. Nonetheless, the Steering Board Regulation introduces an indicative concentration limit of 30% for the IIW. The SMEW, however, has no specific ceiling target, given that the EIF, operating through intermediaries, cannot exert the same degree of control over sector distribution as the EIB. (EY, 2016).

Looking at both windows together, there are three sectors alone that cover about 3/4th of approved operations: smaller companies (31%), the energy sector (22%) and RDI (21% of total EFSI support). Two sectors, namely social infrastructure and environment and resource efficiency, received below 5% of EFSI investment. The data available allow us to take a closer look at operations by sector for the IIW. As shown in Figure 2, with €7.7 billion (34%) of EFSI financing and over €36 billion (38%) of mobilised investment, the energy sector, where most volumes and operations concentrate, was the greatest beneficiary. Small companies, the transport sector and RDI follow with over €3 billion allocated to each sector.

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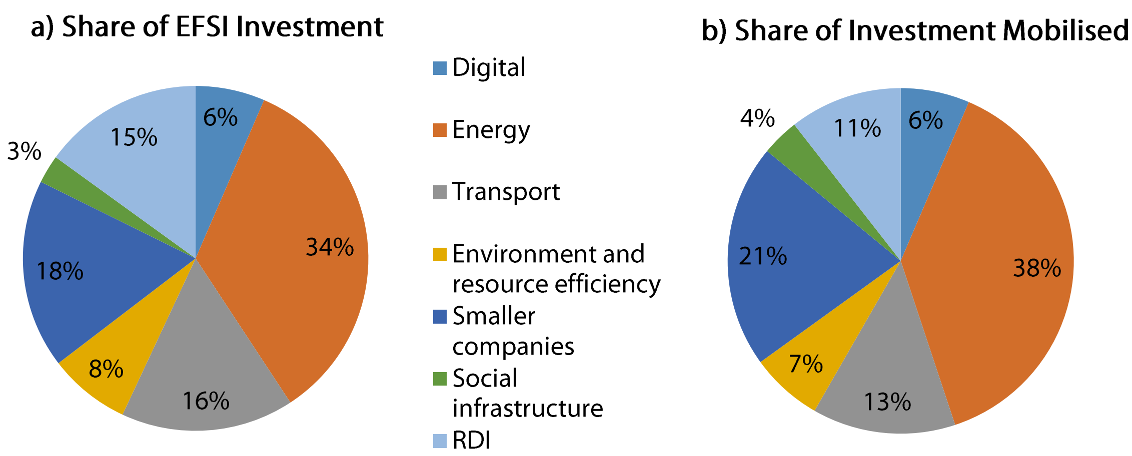
[5] Data unavailability is largely due to delayed disclosure in respect of confidentiality aspects requested by project promoters.

[6] “Multi-country” projects are also present in the IIW, but are of a much more limited amount: 0.5% of IIW approved financing. Venture capital and equity funds, typically supported by the SEW, often have a multi-country focus.

Figure 2. EFSI IIW investment, by sector



Notes: The shares of EFSI investment by sector differ from the aggregate data released by the EIB as the figures above build on project-specific data. The share by sector refers to the total €94 billion investment mobilised under the IIW estimated at approval.

Source: EIB website.

2.3 Size of operations for the IIW

A brief look at the size of the operations of EFSI IIW investments can shed light on whether the fund has been able to attract small-scale projects as well.

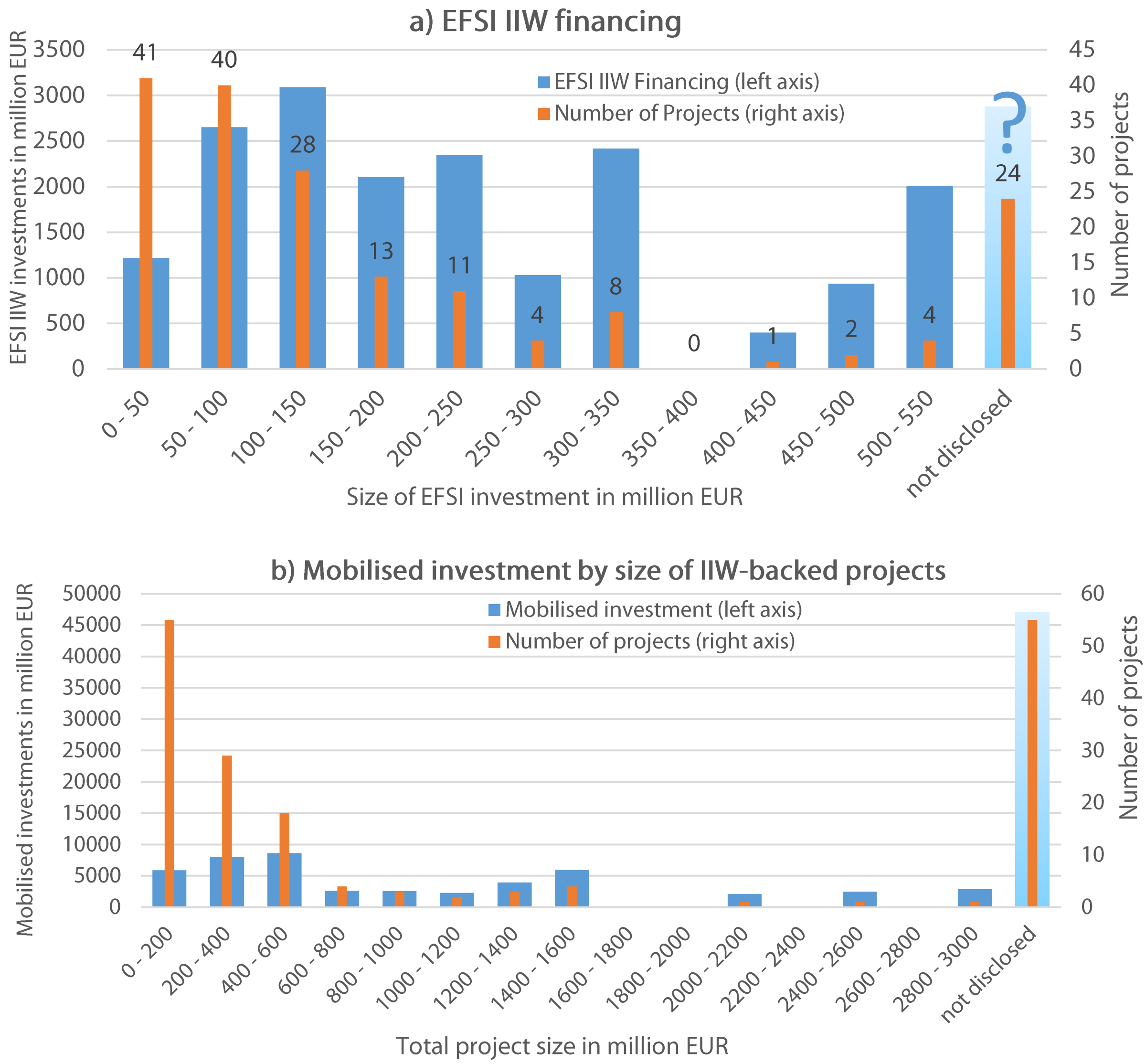
While the number of relatively small projects (<€150 million) is significantly higher than that of larger projects (109 projects out of the 152 for which data are available[7]), the financial volume is more evenly distributed. About one-half the financial volume is invested in projects valued at less than €200 million.

Figure 3 depicts the distribution of the volume of investment and the number of projects by the size of the EFSI-backed projects. Their financial volume, shown in a lighter shade of blue, is calculated on the basis of the known total of EFSI IIW spending. The average financial volume is higher for the undisclosed projects, at €176 million, than for those disclosed.

If one looks at the size distribution of the mobilised investment, Figure 3b, one notices that the mobilised investment associated with projects with undisclosed data corresponds to one-half of the total volume of investment mobilised. Notably, the undisclosed projects are on average more than twice as large as the disclosed.

[7] Some 24 out of 176 projects have undisclosed information about the size of the project.

Figure 3. Size of IIW operations (€million)



Source: EIB websites, authors' elaboration.

2.4 Geographical Distribution

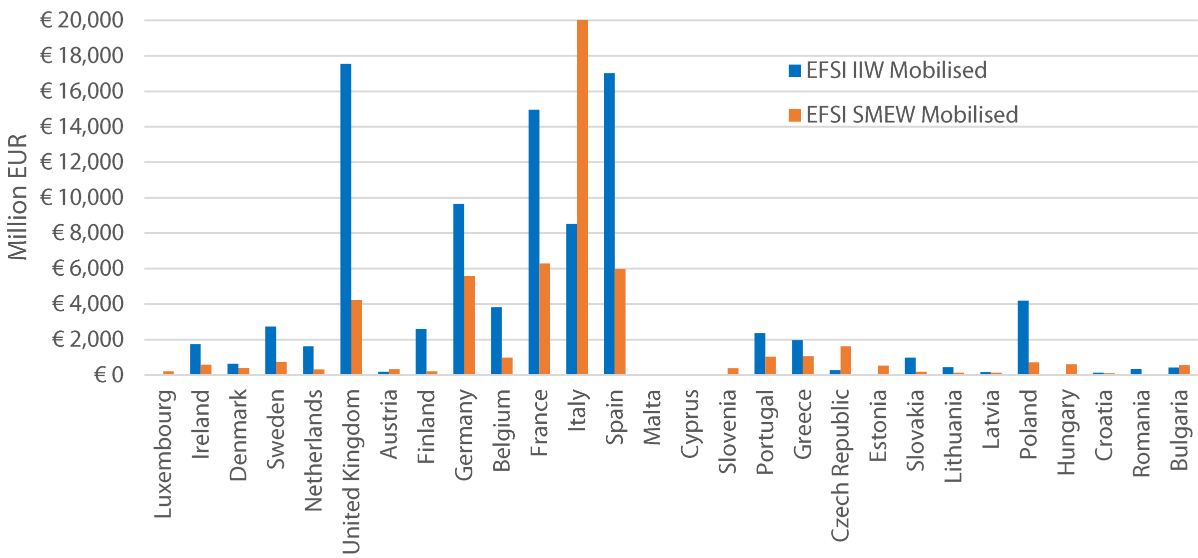
The EFSI has been designed to allocate financial support without political interference in the selection of projects or reference to country quotas. The market-based rationale on which it has been constructed unquestionably makes it more prone to support those economies in which the market is more advanced.

Nonetheless, a sufficiently broad geographical coverage is expected in order to: i) boost competitiveness and job creation throughout Europe, ii) prevent divergence among European regions and iii) secure portfolio differentiation and avoid the financial risk of excessive concentration. Since the very beginning of it operations, the uneven geographical distribution of financial support has been addressed as one of the primary deficiencies of the programme.

The Independent Evaluation conducted by EY (2016) reports that, in absolute terms, EU-15 received over 90% of EFSI support with the 13 new member states receiving a mere 9%. Interestingly, the report identifies five possible reasons for which EFSI-related investment is markedly lower in the Central and Eastern European member states: i) competition from the European Structural and Investment Funds (ESIF), ii) less capacity to develop large bankable projects, iii) lack of experience with public private partnerships (PPP), iv) insufficiently developed venture capital culture and v) the excessively small size of projects.

By considering EFSI-related mobilised investment by member state in absolute values, as depicted in Figure 4, it is straightforward to note that the UK, Spain, France, Germany and Italy are the top five beneficiaries of the IIW, accounting for over 73% of the mobilised investment. These same five countries are also the top beneficiaries for the SMEW, but in a different order, with Italy alone benefiting from almost 38% of the guarantees and equity made available by the EIF.

Figure 4. EFSI-mobilised investment by member state (€million)



Notes: From left to right, member state are in descending order according to their GDP per capita. Multi-country projects are not represented for either IIW or SMEW.
Source: EIB and EIF websites.

The distribution of the total EFSI-related investment appears much less concentrated, once either the size of the economy or the population is accounted for.

Figure 5. Ranking of EFSI top 5 beneficiaries

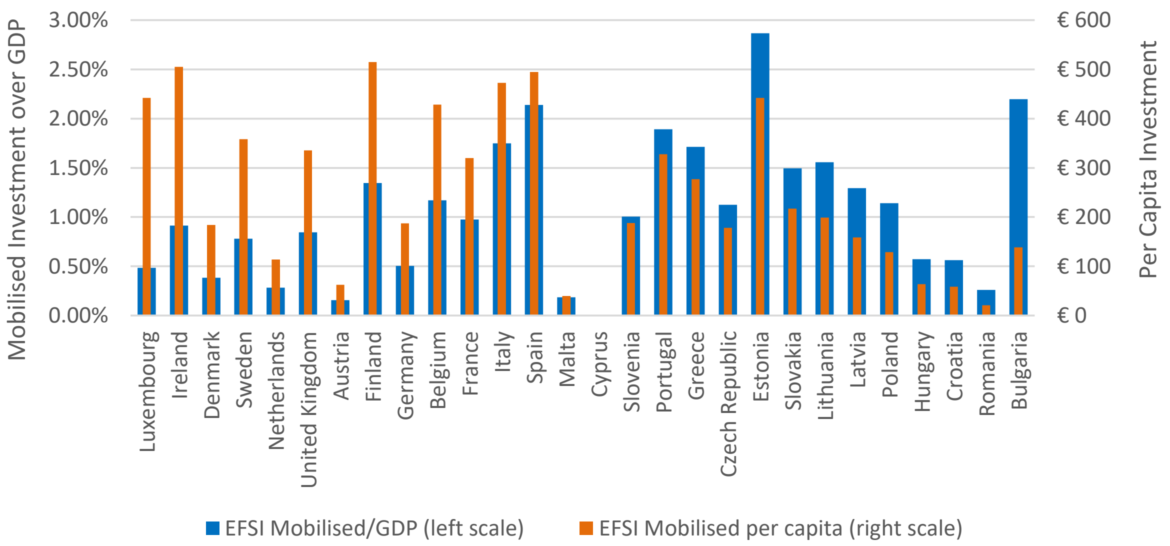
Million €, Absolute Value	Mobilised Investment over GDP	Mobilised Investment per Capita
1. The UK	1. Estonia	1. Finland
2. Spain	2. Bulgaria	2. Ireland
3. France	3. Spain	3. Spain
4. Germany	4. Portugal	4. Italy
5. Italy	5. Italy/Greece	5. Luxembourg

Source: Authors' calculations.

The top five economies no longer appear as distinct outliers. Figure 5 offers a quick look at the top beneficiaries according to the different ways of measuring investment distribution by member state. Figure 6 presents both the mobilised investment as a percentage of the recipient GDP and as a function of its population. In per capita terms, the member states that have benefited the most from EFSI interventions are Finland, Ireland, Spain, Italy and Luxembourg, each receiving more than €400 per inhabitant in new mobilised investment.

Once we consider the mobilised investment in relation to the GDP of the recipient country, there is no more evidence of a concentration favouring the biggest EU economies. Romania, Croatia and Hungary remain disadvantaged compared to EU economies of a similar size. Estonia, Bulgaria and Spain have EFSI-backed investments worth over 2% of their GDP.

Figure 6. EFSI-mobilised investment over GDP and population, by member state



Notes: From left to right, member state appear in descending order according to their GDP per capita. Multi-country projects are not represented for either IIW or SMEW.

Source: Authors' calculations.

2.5 Leverage

The multiplier effect, which is one of the key performance indicators of EFSI, is crucial for assessing its capacity to leverage private (and public) investment. The actual multiplier for EFSI can only be measured at the end of the investment period at the portfolio level, but we can have an idea of its likelihood to attain expected targets by monitoring its evolution. Actually, the EIB is required to calculate multipliers at the level of each transaction and on an ex-ante basis, but it does not make such data public (EIB, 2016a).

The procedure to calculate the current multiplier effect, explained in EIB (2015), is rather complex and it goes beyond the scope of this paper to provide a technical account on the matter, not to mention the lack of data available. Nonetheless, with a rule of thumb calculation we can approximate the external multiplier to x5.3. Under the assumption that the average internal multiplier equals x3, the current total multiplier effect is estimated at x15.9, which is just slightly above the announced target of x15.

This result is in line with the recent estimations reported by EY (2016), with data covering operations signed as at 30 June 2016 and identifying a total multiplier effect of x14.1. Overall, **the EFSI appears to be on track in leveraging private investment to reach the target multiplier of x15 on the total portfolio after three years of operations**.

Whilst excessive confidence in preliminary results is to be avoided, the multiplier effect is expected to increase over time thanks to the development of new products. For the IIW, a large part of the first operations approved were projects already in preparation before EFSI existed[8] and do not take advantage of the new products that have been progressively developed. New project-targeted products are therefore likely to improve the multiplier effect for this Window. (EIB, 2016a) Likewise, for the SMEW, the progressive development of equity-like products, to complement lower-leverage debt products that had been used when EFSI was first operationalised, give the promise of an increased multiplier effect (EY, 2016).

It is important to note that the ECA (2016a) recommends the EIB to revise the methodology to compute the multiplier effect and follow OECD guidelines. In fact, according to the ECA (2016a), the current methodologies risk a systematic overestimation of the EFSI multiplier effect due to the fact that not all sources of finance attracted to an EFSI-backed project are the result of the EFSI guarantee. The European Commission and EIB already stressed that OECD guidelines designed for Official Development Aid are not suited for the EFSI context which makes use of public funds as guarantees, but the issue of bringing transparency to the identification of the multiplier effect remain open and new clear-cut methodology should be defined for EFSI 2.0.

[8] Some projects were approved before the EFSI Regulation was finalised and the EC-EIB EFSI Agreement was finalised in July 2015. The EIB was requested to use existing capital until the EU Guarantee support (as per the transitional provision of the EFSI Regulation) would become available.

3. Open Questions

Within EFSI, and particularly in light of its extension to 2020, some issues remain open to improvements and will be the key subject of negotiations for the EFSI 2.0. In what follows, without the ambition of being fully comprehensive, we provide a brief account of the main issues that will pertain to EFSI additionality, democratic accountability and its relation with other EU programmes and with the EU budget.

3.1 Additionality

The key rationale for the introduction of EFSI is to provide additionality by helping to address market failures or sub-optimal investment situations, which could not obtain investment in the absence of the EU guarantee. Defining additionality properly and ensuring its application in practice is therefore of pivotal relevance. The definition of additionality included in Art. 5.1 of the EFSI Regulation is relatively broad. EFSI support is considered to provide additionality if the project bears a risk that corresponds to EIB 'Special Activities' as defined in Article 16 of the EIB Statute. A project is classified as a Special Activity if the inherent risk of the project is higher on average than the bank's conventional risk-mix lending and would generally not be accepted by the EIB under normal activities. After receiving the EFSI support, a project's credit rating is enhanced and is generally in line with risk profiles normally accepted by the bank. The current regulation, however, also opens the possibility for projects carrying a lower-than-minimum risk than EIB Special Activities to be considered within the boundaries of additionality. In fact, an EFSI intervention is considered additional not only if the project would not have been carried out without the EFSI guarantee in the period during which the EU Guarantee could be used, but also if it would not have been carried out 'to the same extent' by the EIB or the EIF, or under existing EU financial instruments. Such definition is so broad, however, that it can hardly be said that the current EFSI regulation secures a use of the EU guarantee to correct market failures and situations of sub-optimal investment.

To enhance the design of EFSI 2.0, which is likely to run till 2020, it is recommended to examine how the Investment Committee has interpreted such principle in practice. As underlined by Claeys and Leandro (2016), the best way to assess the 'additionality' of the projects would be to know the risk profile of each EFSI project, but this information at the moment is not available. The EFSI Scoreboard of indicators does offer a framework for the evaluation of additionality for proposed projects, but at present, the results of the assessment carried out by the Investment Committee are not made public, which prevents us from understanding the expected added value of EFSI for each project supported by the EFSI Guarantee. Such concerns over the transparency of the assessment carried out by the Investment Committee, also advanced by ECA (2016a) and TI (2016), seem to have been taken aboard by the Commission in its proposal for EFSI 2.0.

The Commission proposal also puts forward amendments to the definition of additionality and proposes including risk-sharing arrangements, cross-border projects and securitisation within the boundaries of additionality. The new proposed regulation for additionality goes in the direction of a more precise definition of what additionality can mean in practice; nevertheless, the types of contributions and additionality that EFSI can make remain rather complex and broad at this time. (ECA, 2016)

With a view to providing a better understanding of the different forms that additionality can take, Figure 7 summarises graphically, without pretending to be exhaustive, the three specific notions advanced by the Commission proposal for EFSI 2.0 (in grey) and further applications of additionality as so far interpreted (in blue). A swift overview of EFSI-sponsored projects under the IIW and interviews with the EIB staff clarify in fact that additionality materialised in different ways. Particularly, such preliminary analysis reveals that EFSI operations have found additionality in: i) speeding up the time frame for the implementation of projects; ii) bringing market confidence around a project by providing a first loss pieces (FLP) guarantee or by simply assuring the involvement of the bank; iii) reaching new clients, which have no history or track record of activity with the EIB;[9] iv) securing a large quantitative effect by funding smaller shares of the total investment cost for a higher number of projects; v) fostering EU quality standards in the design and implementation of supported projects; and vi) supporting the adoption of latest and more expensive technology, *de facto* accelerating energy and digital transition[10]. Furthermore, it is necessary for the public and policy-makers to acquire a better understanding of the difference between additionality *per se*, i.e. what EFSI operations bring to the market, and the EIB/EFSI value added, which could instead be defined as the EIB/EFSI contribution to the project itself.

It should be noted that, as EIF activities are supposedly all responding to a market failure of sub-optimal investment, the scrutiny of additionality within the SMEW appears particularly loose. Of course, an analysis of additionality is part of the assessment of all EIF transactions brought to the EIF Board, but we consider necessary to shed light on EFSI additionality in the SMEW, as it is less clear how EFSI is additional to pre-existing programmes for SME support. To this end we recommend considering the possibility to revise the Art. 4 of EFSI Regulation in order to allow for a window-specific definition of additionality. As the IIW and the SMEW are meant to respond to dissimilar market failures and have a different procedure for project evaluation, the definition of additionality should be tailored and targeted to the objectives that each window pursues.

[9] Unofficial data suggest that about 60% of EFSI IIW promoters are new clients for the EIB. If such a figure were confirmed, it would become indisputable that EFSI is not 'business as usual' for the EIB.

[10] On EFSI's use to speed up latest technologies, see the case studies in Rubio et al. (2016).

Figure 7. Understanding the types of additionality

Source: Authors' elaboration.

3.2 Coherence and synergies with EU Budget Instruments

The European Commission has made large efforts to integrate new EU policy objectives into existing headings and to design a budget that is more flexible and capable of responding to emerging challenges facing the EU. The traditional EU budget grants are now complemented by a constellation of different funds used as equity or guarantees. There has been a rapid growth of increasingly complex and differentiated financing tools operating on and off budget, via grants, loans or equity or blended instruments. The consequence is not only a growing complexity of the EU budget, but a challenge to the governance of the EU's financial arm. Several programmes have been built *ad hoc* and placed outside the MFF, thus outside the scrutiny of the EU's budgetary authorities. In fact, items placed outside the EU budget are not under the scrutiny of the European Parliament. The different funds and instruments backed by the EU budget (such as EFSI) should follow a coherent and unified governance structure and abide by the core principles as stated in the financial regulation of the EU.

The Commission's initiative to launch the "EU Budget Focused on Results"[11] has increased the attention paid to the performance of EU spending and has brought new commitment and political room to rethinking the architecture of EU expenditures in order to maximise impact. With the ambition of securing the efficiency and effectiveness of present budgetary instruments, it becomes essential to avoid duplication of effort and foster synergies and complementarities between instruments.

Since EFSI entered into force, both the Commission and the EIB have realised that strengthening complementarities between the new EU guarantee and the other financial resources of the Union was pivotal both to the overall coherence of EU policies and to the

[11] See http://ec.europa.eu/budget/budget4results/initiative/index_en.cfm.

sustainability of EU-backed projects. Guidelines to combine EFSI and ESIF financing have been provided[12] but on many aspects it is not yet clear how to better combine grant elements with equity-like financing and how to keep a moderate administrative burden for promoters, so that access to joint-financing is not restricted to top-performing managing authorities. EY (2016) shows that differences in eligibility criteria, regulations, timeframe for reporting and the application of state aid rules hinder combined usage. In cohesion countries receiving large amounts of funding through ESIF, that translates into a strong competition between EFSI and ESIF. At present, member states give priority to the absorption of pre-allocated funds with a grant component; however, if the macroeconomic conditionality of ESIF funds will be reinforced in the post-2020 MFF, the favour could switch towards marked-based instruments such as EFSI with no conditionality, if still in place.

There is also evidence that EFSI can work together with ESIF, Horizon 2020 and CEF. A number of projects have in fact benefitted from multiple sources of financing and have been able to combine funds effectively.[13] One of the most exploited synergies consists of having the Commission fund the FLP of operations with CEF or H2020 funds, whilst the EIB, through EFSI, finances mezzanine tranches. (EY, 2016: 39) The investment platform 'Connecting Europe Broadband Fund'[14] also represents another potentially effective way to combine EFSI and CEF resources for the deployment of broadband in low density areas. In Spain, a project in the transport sector,[15] has been supported simultaneously by ESIF, EFSI and CEF.

Particularly for research, development and innovation (RDI) investment, which can be financed through a multiplicity of instruments, there might be a particular high risk of fragmentation, which can undermine the innovation potential of the EU budget. Few instructions and good practices have been identified in this area.[16] On the contrary, not only specific guidelines should be provided but the entire architecture and interplay between Horizon 2020, Connecting Europe Facility, ESI funds and EFSI need to be revised to avoid a geographical concentration of RDI capital, which may be detrimental to territorial cohesion and economic convergence. The evaluations carried out in EIB (2016) and EY (2016) both confirm that the cooperation between EFSI, CEF and Horizon 2020 funds are subject to a certain degree of risk as the adoption of the EFSI guarantee is generally preferred. In particular, as EFSI and the CEF debt instrument cover

[12] See European Commission, European Structural and Investment Funds and European Fund for Strategic Investments complementarities: Ensuring Coordination, Synergies and Complementarities, 2016.

[13] Among others, for the IIW: the 'Novamont Renewable Chemistry' industry/RDI project and the 'Telecom Italia Accelerated Fixed High speed' broadband project both in Italy, the 'Nord Pas de Calais TRI Fund', for industrial transformation projects in France; a 'public-private partnership for the D4-R7' highways in Slovakia have benefitted from both EFSI and ESI funds. For the SMEW: the 'Swedish Venture Initiative' and the 'EstFund' brought together EFSI and ESI funds to provide equity capital for early-stage high-growth enterprises in Sweden and Estonia.

[14] See section 4.3 of this Paper.

[15] See the EIB fiche for the 'Accessibility Ports Infrastructures' project at www.eib.org/projects/pipeline/2015/20150115.htm.

[16] See for instance European Commission, EU Funds working together for jobs & growth, Synergies between the R&I Framework Programmes and the European Structural & Investment Funds, 2016.

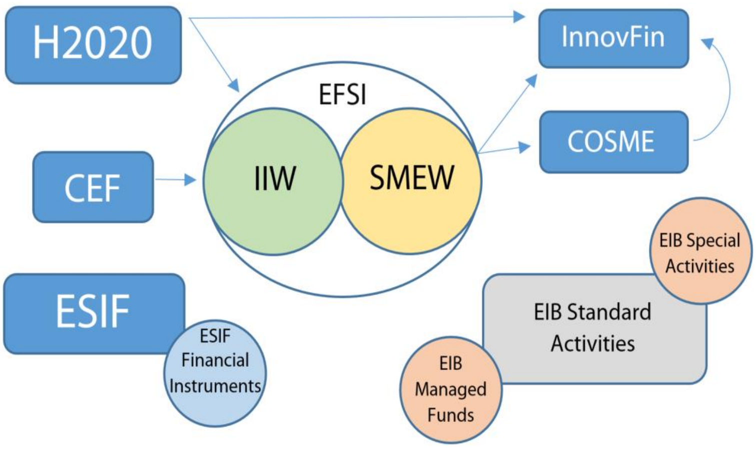
the same type of investments, there is a sort of competition between the two instruments and evidence that CEF-eligible projects ended up being financed by EFSI. (EY, 2016: 40)

A potential risk of overlaps is also detected with respect to SME financing. Products from COSME, InnovFin and EFSI SMEW are, with minor differences, targeted to similar beneficiaries and are meant to respond to alike market failures.[17] At the moment, the EFSI guarantee has been used, through the SMEW, to frontload guarantee operations under the COSME14 and InnovFin15 financial instruments. In other words, the EFSI SMEW enhanced the COSME Loan Guarantee Facility (LGF) and the InnovFin SME Guarantee (SMEG), supported by Horizon 2020 funds as well.

It has to be acknowledge that given the investment gap and the historical lack of equity-based financing in Europe, there is room for a multiplicity of EU programmes insisting on SMEs financing and innovation; however, a process of rationalisation should be facilitated and the risk of excessive fragmentation in use of EU resources must be prevented.

Figure 8 helps to visualise the different financing sources that are available from the EU institutions. One can notice, for instance, that better clarity concerning potential complementarities should be attained within the activities of the EIB itself.

Figure 8. A multiplicity of instruments



Source: Authors' elaboration.

As the EFSI Regulation suggests an interpretation of EFSI additionality that promotes an equivalence between EFSI and the EIB's use of Special Activity status, it is worth wondering whether in the future the EIB expects to have a neat distinction between EFSI and EIB special activities. The bank also manages additional funds, such as the European Energy Efficiency Fund, launched in mid-2011, or the 2020 European Fund for Energy, Climate Change and Infrastructure, also called Marguerite Fund, operational since 2010, which enjoy partnership with NPBs and have objectives, eligible sectors and beneficiaries that overlap with EFSI.

[17] The InnovFin SME Guarantee has stricter eligibility criteria and focuses predominantly on innovative SMEs. The COSME guarantee can instead support SMEs at large, including innovative ones.

3.3 Principle of unity, transparency and universality

EFSI has generated worries on the principles of the EU budget, particularly those on unity, transparency and universality. This section assesses briefly the instrument and highlights concerns with respect to the general principles linked to the employment of the EU budget.

Article 7 of the Financial Regulation (European Commission, 2014) stipulates that the EU budget shall comprise of all revenues and institutional and operational expenditures occasioned by the provisions of the TEU and the European Atomic Energy Community. This requires (Art 7 § 2) the recording of the "*guarantees for borrowing-and-lending operations entered into by the Union, including the European Financial Stability Mechanism and Balance of Payment Facility operations, in accordance with point (d) of Article 49(1).*"

Article 8 presents specific rules which create some challenges for EFSI. EFSI allows for contributions by member states. This practice, which is allowed for a number of other funds, such as trust funds for instance, may create de-facto EU revenues outside the budget. This has been driven by the impossibility of the EU to address needs and the objectives of its policies. It allows to enhance the financial interventions without breaching the EU budget ceilings. The current voluntary system in which member states contribute to EFSI-backed projects via NPBs does not appear to breach the principle of unity.

The problem with such arrangements, apart from the increased opacity on the real size of the budget and its operations (i.e. affecting the principle of transparency), is the lack of certainty on the actual size of the guarantee fund.

EFSI regulations do not allow member states to influence, through their contributions, the use of EFSI funds or its governance (Article 4, paragraph 2k), which is important in order to preserve the principle of universality of the budget, i.e. the budget resources are pooled and are not allocated based on the source of the revenues. This principle is indirectly violated in the budget due to the strong influence of the net balances in negotiations.

3.4 Accountability and democratic control

The European Court of Auditors (ECA) has recently issued a critical opinion on the Commission proposal to extend and expand EFSI. According to the ECA (2016a), on top of the still limited evidence concerning the impact of the EFSI guarantee, there are governance and transparency arrangements to address. The ECA criticises that the complex roles of the EIB's and Commission's appointed officials in the EFSI decision-making process made it difficult to identify who is responsible to budgetary and legislative authorities. The complex interrelations also made it difficult to identify possible conflicts of interest. Furthermore, the ECA mentioned that the Parliament had insisted on the need to ensure proactive public disclosure of exhaustive and sound budgetary information and project-specific financial data.

TI (2016) has also highlighted that the work of the EFSI Investment Committee needs to be made more accountable and transparent. Its report recommends, for instance, that consideration should be given to including a representative of the European Parliament on the Investment Committee. Such reform, with the addition of one new member to the Investment Committee, would provide at least some partial parliamentary oversight to EFSI allocation decisions, without undermining market-oriented decision-making. It was decided that no member of the Commission or of the EIB should be appointed to the Investment Committee to ensure that it performs its function independently. Securing the independence of the Investment Committee must remain a priority, but new arrangements should be considered to enhance its accountability.[18] Parliamentary oversight could also be improved by providing the European Parliament with a stronger say in the composition of the EFSI Steering Board, providing scrutiny over the Commission's appointments. In fact, EFSI Regulation focuses on ensuring political independence of the Steering Board and of the experts comprising the Investment Committee from national authorities and the EIB. Arrangements to enhance the democratic accountability should therefore make sure that the functioning of EFSI is protected from member states interests, but the involvement of the European Parliament, subject to stringent conditions, is not to be excluded.

Lastly, specific aspects pertaining to the allocation of equity financing and to the backing of venture capital funds may contradict standard EU budgetary practices. There is general consensus on the need to promote equity-based financing in Europe, and the high demand of support from the EFSI SMEW may well indicate that such a policy responds to a concrete need of EU-based SMEs, start-ups and mid-caps. Nevertheless, the direct support given to financial intermediaries, which are then responsible for the allocation of EU financing, may generate a situation in which there is little knowledge about the final beneficiaries of the EU guarantee, thereby substantially compromising both the accountability and the measurement of the results.

The accountability of financial instruments under shared and central management is regulated by the Common Provision Regulation, Art. 37(2&3), and the Financial Regulation, respectively. Requirements are quite strict and an *ex-ante* assessment based on a detailed set of criteria needs to be carried out by the managing authority.[19] Similar financial products made available through the SMEW comply instead with the EIF rules and procedures. The lack of uniformity may exacerbate the competition between instruments and create the possibility to bypass monitoring provisions. It is therefore recommended to **move concrete steps towards a harmonisation of accountability requirements for the EU instruments providing equity financing**, in the view of enhancing their joint and complementary employment.

[18] EFSI Regulation stresses that political independence of the experts of the Investment Committee is key with respect to national authorities and the EIB.

[19] See ECA (2016b), Annex V and Fi-Compass (2014).

4. Overall appraisal and EU Added Value

For a fair assessment of the EFSI's effectiveness, it is important to evaluate the instrument on the basis of its primary objective and the institutional structure on which it is designed. Many claims have been based on what the EFSI should do, but the focus should rather be on whether it does what it was designed to do.

EFSI was conceived to quick-start investments in the EU with a limited (maximum 25% or higher for the SMEW) guarantee coverage, focusing on bankable projects suffering from a market failure, higher risk profile or simply suboptimal investment conditions – in other words, any bankable project that has not been taken on by the market.

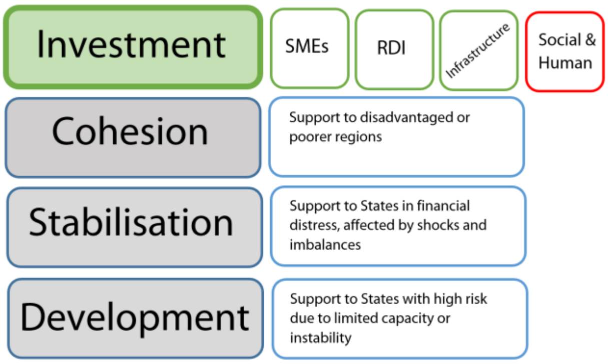
The instrument is thus designed for a period in which the financial sector is excessively risk-averse or simply blocked by difficult market conditions, whichever is the case. As stressed by EY (2016), augmenting the risk-bearing capacity of EU institutions, with a solid guarantee and first-loss piece (FLP) provisions, appears appropriate to the current market conditions affecting Europe, whereas since the investment gap is more linked to risk averseness than to a lack of liquidity.

As it is nowadays, the EFSI is not designed to focus on high-risk areas and non-bankable projects. That would require investments to be handled with a development bank guarantee system, in which the loans are covered by guarantees by a much higher share, and covering all investors or allowing the EIB to cover a larger share of the costs. The EIB itself is not a developing-country bank and the current tensions in Europe hardly foster the flourishing of a "developmental mind set".[20]

The EFSI does not carry an anti-cyclical mandate nor is it an instrument devised to address economic divergence and promote cohesion. Nonetheless, as ensuring stability in EU economies and upholding cohesion and socio-economic development are key goals of the Union, the EFSI, at the very least, should not unnecessarily exacerbate disparities. Particularly, with more room to use the EU guarantee in combination with other EU financing programmes, it is in a better position to help in less advantaged regions further.

[20] See Thurbon (2016).

Figure 9. List of potential programme objectives



Notes: Green border denotes EFSI main objectives; blue borders: objectives with which it should agree; red border: objective currently neglected.

Source: Authors' elaboration.

One of the goals of the EFSI was to relaunch investment targeted at SMEs, start-ups and innovative firms alike. It is still impossible to evaluate the impact of the EFSI in promoting technological transformation and innovation across Europe, but undoubtedly the programme is moving in that direction. Even though there is ample room to improve on delivering pan-European and cross border infrastructure,[21] EFSI is active in developing key and enabling infrastructure nationally. Particularly, renewable energy power plants and broadband deployment have been supported. As most of the projects are still in an inception phase and funding has not yet reached the real economy, it is not foreseeable to expect any sizable impact on economic growth or employment creation yet. In any event, the results will have to be assessed in the medium to long term.

Among EFSI eligible sectors, investment in human capital has basically remained outside the radar, probably due to a lack of bankable projects. Rinaldi (2015) and EPSC (2016) already highlighted the opportunity to strengthen the human capital component of the programme.

More recently Zuleeg and Huguenot-Noël (2016) made the case for a reorientation of EFSI 2.0 towards social investment. A concrete support to lifelong learning in SMEs, skills upgrading trainings, apprenticeship schemes and re-activation policies, may well serve the purpose of enhancing competitiveness in EU economies, on top of contrasting unemployment.

Potential synergies with the Commission's proposal for a European Pillar of Social Rights[22] or with the existing Social Investment Package should be explored. For instance, businesses joining the European Alliance for Apprenticeships could be supported by EFSI-financing to provide

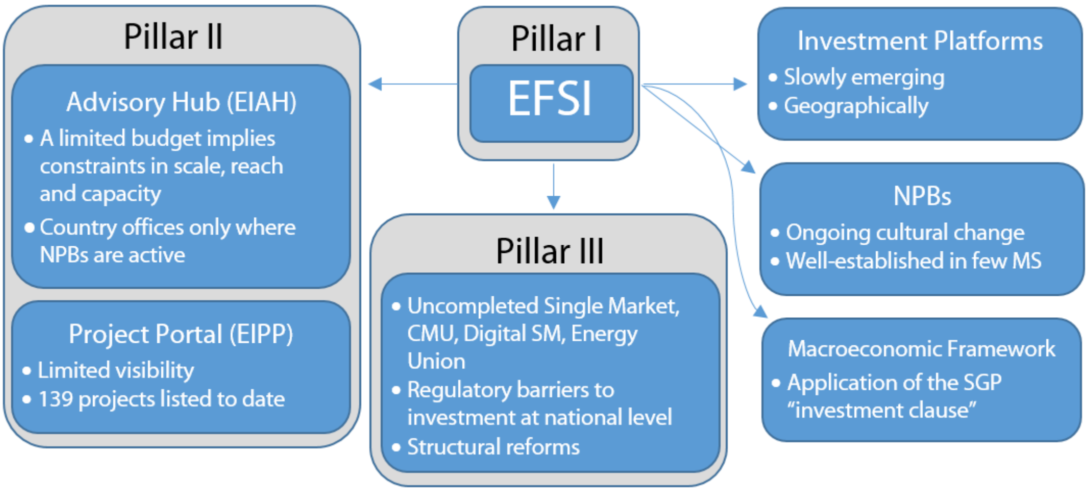
[21] Two observations on the limited contribution of EFSI to cross-border infrastructure: i) some projects, benefitting from member states' support do not present a profile risk attractive for the EFSI portfolio and may be supported by EIB standard activities; ii) access to finance is not the primary obstacle to cross-border projects; regulatory and internal market issues do play a major role.

[22] The EP report on a European Pillar of Social Rights calls on EFSI to actively support social investment and affordable housing; see Rodrigues (2016).

work-based learning opportunities or an Investment Platform could be created to co-finance skills upgrade and digitalisation programmes for SMEs employees. To this end, promoting the joint employment of EFSI and the European Social Fund is key.

As discussed in previous sections, EFSI appears to be on track to attain its expected results in terms of total investment mobilised (€315 billion) and leverage (x15). Nonetheless, to accomplish the more ambitious goal of impacting economic growth, re-boosting investment across Europe and creating jobs, we argue that more attention should be devoted to policies that are corollaries to EFSI. In fact, it constitutes just one part of the Investment Plan for Europe, but Pillars II and III can hardly command the same media and political attention. In what follows, we look at the main policy aspects which accompany EFSI, on the understanding that reinforcing the effectiveness and the geographical coverage of corollary policies is functional to enhancing the performance and geographical coverage of EFSI.

Figure 10. EFSI corollary policies



Source: Authors' elaboration.

4.1 Pillar II: The Advisory Hub and the Investment Portal

One point that most EFSI evaluations agree on is the need to improve on technical assistance, namely the Advisory Hub (EIAH) (Rubio et al., 2016; EIB, 2016 and EY, 2016). The Advisory Hub can well serve as a single access point to promoters, firms and project-developers seeking technical support, and can help make the best of the otherwise fragmented expertise developed with EIB and Commission advisory services, e.g. JASPERS, ELENA, EPEC, Fi-Compass and Innovfin. Nonetheless, as made clear by Rubio et al. (2016), the resources allocated to the Advisory Hub are rather limited. JASPERS alone, an advisory service specifically designed to provide technical assistance to the 12 least-developed EU countries for ESIF-eligible projects, has an annual budget of approximately €30 million compared to about €26 million for the Advisory Hub, which is meant to serve the 28 member states (Rubio et al., 2016). Indeed, the EIAH is designed to be complementary and not to replace the existing technical assistance services available through EU institutions, so that its budget *de facto* enlarges advisory services within the Union. Nonetheless, the current budget appears limited if compared to the mission and relevance that the Hub is given. On top of this, as serving as single point of entry for EU technical assistance, the Advisory Hub is expected to: i) address unmet needs (e.g. SMEs and Mid-caps, social infrastructure) by reinforcing and expanding advisory services, including possibly the development of ad-hoc services; ii) act as a coordination platform to ensure an efficient exchange of information and expertise among 'internal' advisory services. i.e. those already existing and run by EU institutions; iii) develop and manage the network of 'external' advisory services in partnership NPBs, the European Bank for Reconstruction and Development (EBRD), and managing authorities. A limited capacity, in terms of budget and number of staff, may limit the possibility to provide sufficient and prompt support in those geographical areas, or sectors, where technical assistance is most needed. At the moment, the EIAH is able to support quasi-bankable projects to become bankable or better structured. If a project is actually far from the threshold of becoming viable, as it can be the case in areas where institutional capacity is weaker, the cost of engaging may become too high given the current budget. Preliminary data collected by the European Commission indicate that most of the requests to the EIAH have been received from Italy (26), Bulgaria (25) and the UK (23); and from the private sector (62%).[23]

The Commission's proposal to extend EFSI up until 2020 correctly identifies the Advisory Hub as a pivotal supporting policy to expand and improve EFSI's geographical and sectoral coverage, and recommends the EIB extend its outreach in different member states across Europe. Despite recognising the relevance of the Advisory Hub and the willingness to give it a greater role, the Commission does not put forward a specific proposal for increasing its means. Furthermore, rather than establishing local offices for the Advisory Hub, it was preferred to create a partner network that relies on NPBs and the EBRD[24]. If on the one hand it is correct to establish partnerships with those institutions that already possess relevant expertise at national, regional and local level; on the other hand, a partnership-based local presence for the Advisory Hub may fail to provide complete technical and advisory services where the capacity of NPBs is weaker, and most needed. An EIAH Partner Network can deliver a comprehensive and complete advisory services offer only under the assumption that national and regional partners have the capacity to provide prompt support and qualified expertise; an assumption which may not be met all around the EU. To reinforce the presence of the EIAH at national and regional level, we recommend pushing forward with the local presence of the Advisory Hub by establishing **full-fledged local offices which could take the form of Investment Hubs**. Such Investment Hubs would act as national point of entry for technical assistance to project promoters, bring together staff and expertise from the EIB Group, NPBs and the EBRD, and actively enhance local capacity for advisory services.

[23] Out of the 258 project-specific requests filed to the EIAH, 33,3% came from the public sector and 4.5% from NGOs.

[24] As of December 2016, 20 NPBs have signed the MoU to establish cooperation with the EIB in the context of the EIAH. The involvement of the EBRD is instead foreseen for Bulgaria and Romania.

Equally part of the second pillar of the Investment Plan for Europe, **the European Investment Project Portal (EIPP)**, is not likely to contribute largely to remove bottlenecks to investment or to boost demand but it still has the potential to contribute partly to unlock investment in Europe. At present, the portal features 139 projects,[25] 50 of which are located in Greece. Online since 1st June 2016, the Portal,[26] does not appear to have attained much visibility to the general public, however, a closer look at the analytics of the Portal confirms that the policy instrument, with approximately 300 to 400 unique page views a day in January 2017, has been perhaps able to reach a specialised audience. Over the last six months,[27] the Portal had about 116,800 visits and 42,500 returning visits; most importantly, over 300 contact forms have been sent from EIPP users to project promoters with over 100 projects already contracted via the website. This shows that the Portal can play a role in matching demand with offer of investment and giving visibility to investment projects in Europe; however, in order to maximise its impact, the Portal should become a solid reference for investors and professionals working in investment banking and financial services. Steps have to be taken to boost user retention – so that there is a high share of returning users - and to ensure that navigation from project to project becomes more user friendly – so that the number of pages visited per visit increases. By means of simple tags, project-pages should suggest and present projects in the same geographical area or industry. Through the EIPP, it should be possible to send users regular updates about new and promising projects. Such technical arrangements should be relatively easy to implement and may help to enhance the effectiveness of the Portal swiftly.

4.2 Pillar III: Structural reforms and regulatory barriers to investment

The success of EFSI as an economic recovery plan crucially depends on the concurrent implementation of serious structural reforms. EFSI alone, in the absence of a framework that is conducive to more sustainable economic growth, will not address Europe's problems or revamp job creation. This requires EU countries to introduce reforms that increase the employability of citizens and the value added of domestic production. Sectoral analyses carried out for digital and energy-efficiency infrastructures confirm that the regulatory framework is largely responsible for under-investment (Rubio et al., 2016).

The Commission effectively designed an Investment Plan for Europe based on three pillars, out of which the third was meant to remove barriers to investment at both national and European level.

Alongside the launch of the Investment Plan, the Commission presented a country-by-country list of regulatory barriers to investment on which the focus has been, at best, partial. In addition, to make Europe a more investment-friendly environment, the agenda on deepening the internal market has to progress rapidly. The Capital Markets Union, the Digital Single

[25] As of 17 January 2017.

[26] See https://ec.europa.eu/eipp.

[27] Data by the European Commission refer to the period 7 June 2016 until 11 January 2017.

Market and the Energy Union can all move in the direction of providing the private sector with the right incentives to unleash investment in Europe, but member states should seize the opportunity to establish veritable economies of scale for pan-European infrastructure in telecommunications, transports and energy.

The European Commission and EIB have recently published comprehensive reports[28] that identify barriers to investment hampering the implementation of projects on the ground and de facto deterring investment. Progress towards establishing an investment-friendly regulatory system at national level is also monitored in the framework of the European Semester and addressed by specific recommendations. **Supplementary efforts to facilitate structural reforms at member state level are advisable**, for instance the Investment Hubs introduced in the previous paragraph, could also be given two additional functions: 1) a mandate to monitor progress towards removing country-specific barriers hampering investment in partnership with national authorities and 2) they could envisage on-demand technical assistance and support to local public administration for the removal of such barrier and the design of structural reforms impacting investment climate. That could bring in the tailor-made assistance of the Structural Reform Support Service (SRSS) and provide peer-to-peer collaboration and support from seconded experts.

4.3 Investment Platforms and National Promotional Banks

Since the launching of the programme, it was rather evident that much of the success of the EFSI would depend on the ability to reach crucial sectors and drive investment towards less market-savvy regions. Investment platforms (IPs), broadly defined as a co-investment arrangements,[29] are indeed a great vehicle to catalyse investment in a set of projects with either a common geographical or sectoral scope. The emergence of IPs has been particularly slow and just now, about a year and half into the programme, they have begun to enter into being.

At present, 7 IPs have been approved, 4 under the IIW and 3 under the SEMW, but they are not all operational (see Figure 11 for the list of approved IPs). As the EIB guidelines for IPs and current practice seem to suggest, the establishment of an IP requires a partnership with a National Promotional Bank (NPB) or Institution (NPI). As Figure 11 makes clear, the Italian NPB, the Cassa Depositi e Prestiti (CDP), has been particularly active in creating direct access to EFSI

[28] See EIB (2016c), EIB (2016d) and European Commission (2016b).

[29] Art 2.4. of the EFSI regulation defines investment platforms (IPs) as "special purpose vehicles, managed accounts, contract-based co-financing or risk-sharing arrangements or arrangements established by any other means by which entities channel a financial contribution in order to finance a number of investment projects, and which may include: (a) national or sub-national platforms that group together several investment projects on the territory of a given member state; (b) multi-country or regional platforms that group together partners from several member states or third countries interested in projects in a given geographic area; (c) thematic platforms that group together investment projects in a given sector".

guarantees. Unsurprisingly, Italy is the number one recipient country in terms of mobilised investment from SMEW-supported initiatives.

Two observations can be made with respect to the value that NPBs can bring to the success of the EFSI as a budgetary policy. On the one hand, if the cultural change and the openness towards engaging into higher-risk activities is spreading from the EIB to NPBs, as the Italian case suggests, the impact of EFSI into mobilising private investment could enjoy a potentially higher multiplier effect. On the other hand, NPBs are not well-established throughout Europe[30] and their limited geographical spread may pose additional barriers to EFSI's overall geographical coverage.

Figure 11. List of investment platforms

Source: EIB.

4.4 The 'investment clause' of the Stability and Growth Pact

Whilst economic growth and investment are desirable all across Europe, they are particularly needed in those countries facing financial and labour market imbalances. It is therefore striking that the current application of the 'investment clause' included in the Stability and Growth Pact (SGP), penalises member states under the SPG corrective arm. On "making the best use of the

[30] See Whittle, Malan and Bianchini (2016) for an account of active NPBs in Europe.

Flexibility within the existing rules of the Stability and Growth Pact", the European Commission (2015) stresses that national contributions to the EFSI will not be taken into account by the Commission; however, for the co-financing by member states of EFSI-backed investment at project level, countries under the preventive arm must meet a number of stringent conditions and the 3% deficit reference holds. The 'investment clause' allows member states to deviate from their budgetary objectives in order to provide co-financing to EU-funded projects, whether under ESIF, Horizon 2020, CEF or EFSI (Rubio et al., 2016), However, countries under the excessive deficit procedure can hardly benefit from such a clause. While public-debt sustainability is a legitimate concern, withdrawing project-based productive investments ensures the deepening of the economic recession and a lowering of long-term endogenous growth capacity, as skilled workers emigrate or the number of long term unemployed increase, with a fall in their employability. In the case of instruments like EFSI, the requirement of a budget balance is particularly detrimental, as it is exactly the market-based approach that encourage a focus on economically sound project planning and the design of innovative projects of high quality. Such rules also hinder cross-border operations, when one of the partners is "in the wrong country". Furthermore, it is rather questionable to potentially penalise project developers and innovative firms with bankable projects, based on the government's budget deficit. As suggested by Rubio et al. (2016), a minimum step would be to expand the clause to cover those countries under the SGP corrective arm.

5. Conclusions

Results to date seem to suggest that EFSI is on track to attain its expected targets in terms of total investment mobilised (€315 billion) and leveraged (x15). Nevertheless, especially in view of its extension until 2020, there is a legitimate concern over the choice of instrument and the actual need for EFSI. Could an alternative have been used? Is EFSI the right instrument? Is it still necessary?

Although thorough answers to such questions are beyond the scope of this paper, we identified a few issues within EFSI on which improvements are needed and where the new regulation for EFSI 2.0 should insist and deliver. A revision of the interpretation of additionality, an enhanced framework to deploy ESI funds and the EFSI guarantee together, respect of basic principles of democratic accountability and the unity of the budget are focal points on which a correct policy design should focus on.

A list of areas where we recommend policy intervention is listed in Figure 12. To follow the structure of this paper, we distinguish between reforms pertaining to EFSI itself, its design and regulation, and to those relating to accompanying policies that are crucial for the success of EFSI as an effective budgetary instrument.

Figure 12. Summary of main policy recommendations

On EFSI Design & Regulation	Revise Regulation on Additionality	As the IIW and SMEW target different market failures and have different project-evaluation processes, we recommend amending EFSI regulation to include a window-specific definition of additionality.
	Enhance Accountability and Transparency	The proposal for EFSI 2.0 seems to go in the right direction, but should also make room for parliamentary oversight; for instance, the right to appoint Steering Board members could be extended to the EP. Furthermore, a more transparent approach is needed to determine the EFSI multiplier effect and the arrangements providing direct support to financial intermediaries.
	Focus on Human Capital and Social Investment	A long-term investment strategy should couple investment in infrastructure and innovation to human capital investment. Synergies can be found between EFSI and the European Pillar of Social Rights, the Social Investment Package and the European Alliance for Apprenticeship in order to co-finance skills upgrading programs for SMEs employees, apprenticeships and reactivation policies.
	Add a Devevelopment Window	To relaunch investment in areas where markets and capacity are less developed, the EIB could build on the mechanisms already in place for its external mandate in order to cover for region-specific operational and market risks in the weakest EU regions. To this end, joint employment with ESI Funds, as a first-loss guarantee, could be explored.
On Corollary Policies	Establish Investment Hubs at country level	To enhance the reach and capacity of technical assistance, the EIAH should establish country offices and not only local partnerships. An Investment Hub at national level could bring together the expertise of the EIB Group, the NPB and the EBRD, and work as a national point of entry for technical assistance to project promoters. It could also be given mandate to monitor national progress toward removing barriers to investment and facilitate the tailor-made on-demand intervention of the SRSS.
	Boost the EIPP potential for user retention	To make the maximum of the Project Portal, it must become a real resouce for investors. The share of returning users and visit lenght may be enhanced with relatively easy-to-implement technical improvements. For instance, by means of notifications about new projects on areas or industries of interest for the user and by the simultaneous visualisation of similar projects.
	Revise the application of the 'Investment Clause'	Initial voluntary contributions as one-off measures are rightly not accounted for as deficit. Clarity should be made concerning MS co-financing of individual projects and investment platforms, particularly in view of EFSI extension to 2020. We recommend expanding the investment clause to MS under the corrective arm and relaxing the conditions for those under the preventive arm. Alternatively, all national public support to EFSI-backed projects could be granted one-off status.

Source: Authors' elaboration.

Partially, the creation of EFSI stems from the lack of resources to address the challenges in the EU budget. However, EFSI is not an extension of the EU budget grants, rather it has the role of triggering investments in projects that only require a certain level of guarantee and the reassurance given by the green light from the EIB, an institution known from its strong in house technical project evaluation capacity. EFSI has created in fact a new role for the EU rather than just expand its operations under ESIF.

One of the downsides of EFSI is that it does not sufficiently address regions in the EU where support is needed. However, EFSI was not designed to operate as instrument helping areas in decline or to contribute to cohesion. To do so, there would be a need to reform EFSI by creating a special instrument for areas of higher risk, covering more risk and accepting higher potential losses, acting more as a development rather than investment-oriented financial instrument.

If EFSI is to attract investments in the regions that are most in need of investment, a **development window with reinforced risk and guarantee rules is required**. To this purpose, guarantee arrangements that are specific to the EIB external mandate could be used as a model to design internal procedures for the EU as well. For outside EU activities, the EIB makes use of a dedicated guarantee covered by member states, which generally kicks-in to absorb the country-specific (political) risk. Perhaps a similar arrangement, preserving the EIB rating, could be devised within EU borders to cover defaulting loans for projects developed in high risk regions. That does not mean covering for sovereign risk, for which the EIB assumes zero risk for all member states, but rather covering country-specific or region-specific operational and market risks. To this end, such a Development Window within EU borders could foresee the joint employment of ESIF and EFSI products with structural and cohesion funds providing a first-loss guarantee in selected regions.

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