



**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Investment Plan for Europe: evaluations give evidence to support its reinforcement

1. INTRODUCTION

President Juncker's State of the Union address of 14 September 2016 underlined the need for Europe to strengthen its economic recovery and invest strongly in its youth and jobseekers, as well as in its start-ups and SMEs¹. Against that background, the Annual Growth Survey 2017² outlined the most pressing economic and social priorities on which the European Union and its Member States need to focus their attention in the coming months.

Europe is experiencing a fragile but relatively resilient and job-intensive recovery. Its GDP is now higher than before the crisis. Unemployment is decreasing and investment is growing again. However, there is no room for complacency. Some of the tailwinds that have supported the recovery so far are fading. The legacies of the crisis, notably the social impact, high levels of public and private debt, and the share of non-performing loans, are still far-reaching.

The Investment Plan for Europe has proven useful in encouraging a sustainable increase in investment in Member States. The European Fund for Strategic Investments (EFSI)³ has mobilised EUR 154 billion across 27 Member States in just over one year, which is expected to benefit almost 377,000 SMEs. The EFSI is making a real difference by supporting innovative and strategic projects that contribute to job creation and growth (Box 1).

Given the concrete results of the EFSI, and as announced in President Juncker's State of the Union address, the Commission proposed⁴ in September 2016 to reinforce and expand it through the so-called EFSI 2.0 proposal. With a view to doubling the duration and capacity of the EFSI, in a first step the proposal extends the duration until the end of 2020, increasing the total investment target from EUR 315 billion to at least half a trillion euro. The proposal also puts a greater focus on private sector contributions and additionality and on enhancing transparency in the selection of projects. Further, EFSI 2.0 puts strong emphasis on the combination of EFSI support with other EU funds and with financing from National Promotional Banks (NPBs) as important ways to improve the EFSI's geographical coverage. Furthermore, the proposal includes enhancements of the scope of the European Investment Advisory Hub (EIAH or Advisory Hub), given the need to help construct a steady supply of projects and Investment Platforms that can be financed in all Member States.

In October, the European Council "called on the Council to agree its negotiating position on the Commission's new EFSI proposal at its meeting on 6 December, taking into account the independent external evaluation that will be delivered in November"⁵.

¹ http://ec.europa.eu/priorities/state-union-2016_en

² COM(2016) 725 final.

³ Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments, OJ L 169, 1.7.2015, p. 1.

⁴ COM(2016)597 final.

⁵ EUCO 31/16, 21 October 2016, point 18.

BOX 1 — EXAMPLES OF APPROVED EFSI PROJECTS

- *Creta Farms (Greece)* seeks to make meat products healthier, by injecting extra virgin olive oil into meat products. The technology is used to remove saturated animal fats, that are bad for human health, and replace them with unsaturated ones that help to lower "bad" cholesterol levels. Today, Creta Farms is the biggest player in the Greek cold-cuts meat market and has already successfully expanded abroad. With the EFSI funds, the company will fund further technological advances to introduce "oliving" into snack foods. This will allow it to hire 100 new employees and continue its international expansion.
- *Malin Corporation (Ireland)* is a global life sciences company that invests into innovative R&D companies in their early-stages in the life sciences sector. The recent EUR 70 million EFSI contribution, will enable the company to increase its investments across the European life sciences industry over the next seven years. EUR 40 million of the loan is already being used to support cutting edge innovation and development of new products by private life science companies in Ireland and the UK. Thanks to the EFSI support Malin will be able to help life science companies reach their full potential and achieve commercial success.
- *PEP-Therapy/Quadrivium (France)* PEP Therapy is a research company that was founded in 2014 by scientists working at prestigious French research institutions. The team behind it developed a technique that blocks specific functions of proteins that turn a healthy cell into a cancerous one. The aim is to develop a treatment that will, unlike chemotherapy, only destroy cancerous cells and preserve the good and healthy ones. To fund its project, PEP-Therapy received EUR 1 million support from Quadrivium 1, a French investment fund that received a EUR 20 million injection from the European Investment Fund (EIF).
- *WOW Technology (Belgium)* is a company specialised in the production of tailor-made machinery and automated equipment for various sectors, including: aeronautic, automotive, biotech, pharma, agro-food, environment and energy. Its centrepiece machine, the "Shaker Robot", permits the automation of the large-scale production of cellular cultures that are used in the production of vaccines. Thanks to a loan backed by the EIF under the EFSI, the company plans to double its growth in the next five years by doubling its number of employees and expanding to other European markets such as France, Germany and Switzerland.
- *Accessibility Ports Infrastructure project (Spain)* consists of a framework loan to fund rail and road access investments in state-owned ports in Spain through a State Fund – "PAF" (Port Accessibility Fund). The project will help to improve land connectivity in key ports all located in the Trans-European Network – Transport. The operation will be a continuation of the extensive support provided by the EIB to the development of this seaport network over the last years.
- *Rydgier Hospital (Poland)* in the city of Torun will receive a loan of approximately EUR 57 million from the European Investment Bank (EIB) under EFSI to finance its rehabilitation. The project is part of an investment programme focused on achieving the technical and professional hospital standards required by Polish and EU law. This is the first public-sector transaction in the country benefitting from the EU budget guarantee under the EFSI. This transaction is also a model for combining EFSI financing with EU grant support in the innovative form of a financial instrument: in addition to the EFSI loan, EU Structural and Investment Funds (ESIF) will be used to finance the project.

The current EFSI Regulation mandates three evaluations: (i) an evaluation from the Commission on the use of the EU guarantee and the functioning of the EFSI guarantee fund⁶ accompanied by an opinion of the Court of Auditors⁷; (ii) an evaluation from the EIB on the functioning of the EFSI⁸; and (iii) an independent external evaluation on the application of the EFSI Regulation⁹. Those evaluations allow stakeholders to gain a comprehensive view of the functioning of the EFSI so far, and are already feeding into the ongoing legislative discussions on EFSI 2.0.

The EFSI 2.0 proposal addresses the issues identified in the evaluations and will ensure a smooth continuation of EFSI operations, without disruptions in financing, assuring project promoters that they can still prepare projects even after the initial investment period.

The Investment Plan for Europe is already making a real difference in a range of sectors by supporting innovative projects that contribute to job creation and growth in local communities, as well as by tackling youth unemployment by supporting innovative and strategic and young companies in their development. Those projects are critical for the future competitiveness of the EU economy and target key areas such as support to SMEs, innovation and R&D, renewable energy, energy efficiency and security of supply, environment and digital, social and transport infrastructure or services. The comprehensive strategy pursued under the Investment Plan has the objective of sustainably increasing investment levels in Europe which have lagged behind since the financial crisis. The first pillar of the Plan, with the EFSI and the objective of improving the use of the EU budget in general, allows the leveraging of scarce public resources by attracting private investors and supporting innovative and strategic projects in Europe that deliver tangible results for jobs and growth.

The second pillar of the Investment Plan – the Advisory Hub and the European Investment Project Portal (EIPP) (Box 2) – help to ensure that investments reach the real economy by promoting the creation of a stable pipeline of bankable projects and boosting transparency.

⁶ Pursuant to Article 18(2) of Regulation (EU) 2015/1017. See SWD(2016) 297 final. The evaluation is available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1473853487429&uri=SWD:2016:297:FIN>

⁷ Pursuant to Article 18(2) of Regulation (EU) 2015/1017 and Article 287(4) TFEU. See Opinion No 2/2016. The opinion is available at: <http://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=7766>

⁸ Pursuant to Article 18(1) of Regulation (EU) 2015/1017. The evaluation is available at: <http://www.eib.org/infocentre/publications/all/evaluation-of-the-functioning-of-the-efsi.htm>

⁹ Pursuant to Article 18(6) of Regulation (EU) 2015/1017. The independent evaluation is available at: https://ec.europa.eu/priorities/publications/independent-evaluation-investment-plan_en

BOX 2 — THE EIPP IS PART OF THE SECOND PILLAR OF THE INVESTMENT PLAN FOR EUROPE

Designed as a bridge between EU project promoters and investors worldwide, the EIPP now offers more than 130 projects: ec.europa.eu/eipp

It boosts the visibility of existing EU investment opportunities in service to investors, providing a transparent forward looking pipeline and facilitating contact to project promoters.



Sustainable investments require a solid and predictable business environment. Under the third pillar of the Investment Plan, actions with the purpose of removing bottlenecks to investment at the level of the EU and Member States help to improve the investment environment, generating long-term and sustainable growth in Europe. The EU and its Member States have taken steps to tackle barriers to investment, but more needs to be done. While the Commission will continue its efforts to improve the overall investment environment at EU level, including by deepening the Single Market, Member States should step up their efforts to remove obstacles to investment at national, regional and local level.

Moreover, experience with the EFSI indicates that those Member States that have benefitted the most so far are those with more developed financial markets and a business environment conducive to investments. This suggests that these Member States are in general more effective in generating EFSI project proposals compared to their peers. In addition, strong NPBs can contribute to the development and co-financing of projects.

The Commission has also put forward concrete initiatives that should facilitate the financing of the real economy. Member States will, for example, benefit from clearer guidance on public accounting rules, particularly in the area of Public-Private Partnerships (PPPs)¹⁰. The Commission is closely monitoring the impact of the interpretation of public accounting rules on the creation of PPPs in different sectors and will consider further action where appropriate. The Commission has also provided practical guidance on the application of State aid rules on the public funding of infrastructure¹¹. Pilot projects have been launched recently to pursue, at EU level, a stronger convergence of the timelines of the different

¹⁰ A guide to the statistical treatment of public and private partnerships, produced by Eurostat in cooperation with the European Investment Bank and addressed mainly to private stakeholders, was released on 29 September 2016, Eurostat / EPEC / European Investment Bank, 'A Guide to the Statistical Treatment of PPPs', September 2016.

¹¹ Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union (2016/C 262/01), OJ C 262, 19.7.2016, p. 1.

procedures regarding strategic infrastructure investment projects. The pilot covers, in a first stage, Belgium and Slovakia. Based on an assessment of these projects, the Commission will extend this initiative to other Member States in the course of 2017, with the ambition to create an effective “one-stop-shop” for all Member States, bringing together all responsible Commission services – including its Representation offices in the Member States – in a single investment policy team.

In addition, work on the Energy Union, the Capital Markets Union, the Single Market Strategy, the Digital Single Market Strategy, the circular economy and international trade and investment agreements covers specific measures that, when fully implemented, will help remove barriers, promote innovation and improve the environment for investment. The Commission will shortly adopt an energy package to boost clean energy transition and energy efficiency, to support EU global leadership in renewable energies and to provide a fair deal for energy consumers. The package will aim to provide predictability for businesses, investors and society and to facilitate investment at national level, notably through National Energy and Climate Plans. Similarly to the proposals made to reduce capital charges for insurers investing in qualifying infrastructure projects¹², the Commission proposed on 23 November 2016 a reduction of bank capital charges for certain infrastructure investments¹³. On 22 November 2016, the Commission put forward a cross-cutting agenda of actions to support start-ups in Europe¹⁴, as well as a proposal¹⁵ for a Directive to increase the efficiency of insolvency procedures and preventive restructuring and second chance frameworks, removing the barriers to investment resulting from divergences in such frameworks across Member States.

Member States also need to step up their efforts in implementing the necessary reforms with a view to remove obstacles to investment that were identified in the context of the European Semester, most recently in the Annual Growth Survey¹⁶. The reforms identified in the country-specific recommendations take into account specific national factors. They are necessary to sustain and increase investment levels in Member States. Despite action taken by some Member States, in particular by euro area countries heavily hit by the crisis, progress to address barriers to investment has been overall uneven and more needs to be done. In addition to tackling barriers and bottlenecks to investment, the Commission also encourages Member States to set up planning and coordination structures across all administrative levels and funding sources. Against the background of Member States’ investment policies, these structures can create and strategically manage stable pipelines of key public sector projects, facilitate the regulatory and administrative procedures for authorisation and can, in turn, cooperate closely with the Commission services and the Advisory Hub.

¹² Commission Delegated Regulation (EU) 2015/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings (OJ L 85, 1.4.2016, p. 6).

¹³ COM(2016) 850.

¹⁴ COM(2016) 733.

¹⁵ COM(2016) 723.

¹⁶ COM(2016) 725 final.

2. HOW HAVE THE EFSI AND ITS INVESTMENTS IN THE REAL ECONOMY BEEN EVALUATED SO FAR?

In this section, a summary is provided of the key arguments made in the three evaluations, followed by a description of how the EFSI 2.0 proposal addresses these points.

Relevance and additionality of EFSI support

The evaluations conclude that the EFSI has been relevant in addressing investment needs in Europe. The independent evaluation points to the persistent investment gaps and market needs and concludes that the EFSI is contributing to closing that gap by addressing the need for high-risk financing.

Such high-risk financing needs to provide additionality (defined as EIB Special Activities¹⁷, i.e. operations with a higher risk profile) and crowd-in a maximum of private sector finance. The EIB evaluation underlines that the EU guarantee allowed the EIB to significantly increase the level of its Special Activities, from around EUR 4 billion to an expected EUR 20 billion per year. The evaluations underline that the EFSI allowed the EIB to expand its client and product base, in particular by developing new subordinated products, that helped the EIB to adapt and respond to market needs.

However, the independent evaluation notes that notwithstanding the fact that all EFSI operations were EIB Special Activities, in some cases stakeholders perceived them not to provide for a higher risk compared to what the commercial market could offer. In the same context, the EIB evaluation points to the need for a clearer definition of additionality in relation to Special Activities in order to ensure higher consistency in project selection while mitigating potential reputational risks to the EFSI. Similarly, the independent evaluation stresses that the fulfilment of the additionality criterion should go beyond “ticking the box” of EIB Special Activities, and that the underlying assessment for additionality should be made more transparent.

Multiplier and mobilisation of private investment

The independent evaluation concludes that the EFSI is effective in increasing access to financing and mobilising private capital, noting an expected portfolio multiplier of 14.1 for signed operations (fully in line with the target of 15 over the whole EFSI-investment period) and 63% of private investment mobilised (no precise target was set) as of 30 June 2016. Both the EIB and the independent evaluation note that the two EFSI windows (infrastructure and innovation window and SME window) progressed at different speeds. For instance, in implementing the SME window, the EIF accelerated the roll-out of existing mandates and only later introduced new products. In contrast, in implementing the infrastructure and innovation window, the EIB, while being able to use some existing

¹⁷ Special activities are activities for which the EIB internal rating is below investment grade, i.e. riskier activities than EIB standard operations.

products, needed time to develop a new range of products, which are characterised by having both a higher risk profile and sometimes higher (external) multipliers. Those new products are expected to complement existing products and are being rolled out after EFSI's first year of implementation.

► Addressing additionality of EFSI support and mobilisation of private investment in the EFSI 2.0 proposal

Since its launch over one year ago, the EFSI, implemented and co-sponsored by the Commission's strategic partner for investments, the EIB Group, is firmly on track to deliver the objective of mobilising at least EUR 315 billion in additional investments in the real economy by mid-2018 while endeavouring to maximise private sector contributions.

The market absorption has been particularly quick under the SME window where the EFSI is delivering well beyond expectations. This is in line with the very positive reception that EFSI has received from SME stakeholders. To ensure that sufficient funding is available to continue providing finance to SMEs with EFSI support, in July 2016 the SME Window was scaled-up by EUR 500 million within the existing parameters of Regulation (EU) 2015/1017. The projects approved by the EIB Group under both windows by mid-November 2016 under the EFSI mobilise EUR 154 billion in total investments across 27 Member States and to support some 377,000 SMEs.

A key element of EFSI 2.0 is a further reinforcement of additionality of the projects supported. The Commission's EFSI 2.0 proposal makes it even clearer that projects under the EFSI need to address sub-optimal investment situations and market gaps, as part of the eligibility criteria. In the current context of low interest rates and ample liquidity, the key factors to assess the additionality of the EFSI are higher risk coverage including through subordination, exposure to specific risks – such as unproven technology and higher-risk counterparts – as well as investments in new cross-border infrastructures, which in turn will increase confidence and overall access to finance, in particular for high risk operations. In view of their importance for Europe, the new proposal identifies cross-border infrastructure projects, including related services, as providing additionality. This is an area which is currently underdeveloped, and which needs to be stimulated to facilitate investments.

The mechanisms of the Investment Plan for Europe work and EFSI 2.0 proposes to reinforce them to continue the mobilisation of private financing for investment in sectors important to Europe's future and where market failures or sub-optimal investment situations remain. The aim of the EFSI continues to be to support investments that could not have been carried out in the same period or to the same extent by the EIB, the EIF or under existing Union financial instruments without the EFSI support. In line with the initial investment period, private investment should be attracted to the maximum extent possible, and SMEs will be a key beneficiary of the support provided.

Geographic and sectorial distribution of EFSI support

The three evaluations point to a good overall coverage by sector and Member State, given that at the time of the evaluations the EFSI already covered 26 Member States in all eligible sectors¹⁸. However, both the EIB and the independent evaluation note that the EFSI portfolio is highly concentrated in a number of Member States¹⁹. The independent evaluation notes that possible reasons for lower EFSI support in Central and Eastern Europe could stem from less availability of the necessary technical expertise to develop large projects and private-public partnership structures, the absence of central planning and coordination structures, the relative smaller size of projects, less developed venture capital markets, but also the need for more complementarity with the ESIF in particular. It stresses the importance of capacity development in the preparation of projects to enhance the geographic coverage of the EFSI. While both the independent evaluation and the EIB evaluation also point to a certain sectorial concentration of EFSI support, it was not identified as a major issue by stakeholders.

Coherence and complementarity with other sources of Union funding

The three evaluations point to a high potential in developing new forms of cooperation between the EFSI and other sources of EU funding, but also underline the need to carefully monitor the interaction between some of those Funds with the EFSI. The independent evaluation finds that the EFSI, COSME²⁰ and Horizon 2020 Innovfin²¹ complement each other well, as the EFSI enabled those funds to be frontloaded to respond to the high market needs in the SME window of the EFSI. Another concrete illustration of the possibility to efficiently combine those funds was delivered by the launch on 8 November 2016 of the Pan-European Venture Capital Fund(s)-of-Funds²²: by pooling different resources, this programme aims to further address Europe's equity gap, the fragmentation of the venture capital market and to attract additional private funding from institutional investors into the EU venture capital asset class, in order to support the growth of innovative enterprises.

With respect to the financial instruments of the Connecting Europe Facility (CEF) and Horizon 2020 (H2020), the EIB evaluation finds that those programmes may potentially compete with the EFSI, and that the EIB sometimes privileges EFSI over the CEF or H2020

¹⁸ Currently projects across 27 Member States have been approved for EFSI support.

¹⁹ Both evaluations identify the following Member States in which the EFSI portfolio is concentrated: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. However, a more balanced coverage is observed if the impact of EFSI investments is compared to the GDP of the countries concerned.

²⁰ EU programme for Competitiveness of Enterprises and SMEs. More information on this programme can be found on: https://ec.europa.eu/growth/smes/cosme_en

²¹ EU finance for innovators. More information can be found on: <http://www.eib.org/products/blending/innovfin/>

²² More information can be found on: http://www.eif.org/what_we_do/equity/paneuropean_venture_capital_fund_of_funds/index.htm

operations in view of the pressure to deliver on the EFSI. As for ESIF, the independent evaluation notes that some stakeholders found that those funds compete with the EFSI, in particular in cohesion countries.

However, both the EIB and the Commission evaluation see strong potential for complementarities and synergies between all of those funds and the EFSI. In particular, resources from the CEF and H2020, and similarly the ESIF, could finance the first-loss piece of EFSI operations, where it is needed to take projects off the ground and maximise private sector contributions, while the EIB, with EFSI support, could finance mezzanine tranches. In this respect, the financing structure for the EFSI 1.0 included the transfer of EUR 500 million from the CEF financial instruments to the grant part of the CEF. The EIB and the independent evaluations find that the limitations to the combination of the ESIF with EFSI support need to be assessed, including the possible role for advisory services. Beyond the guidance²³ provided by the Commission on how EFSI and ESIF can be combined, the Commission has tabled a proposal²⁴ to facilitate such combination. The Commission is committed to continuing the work to ensure an improved level playing field for the various EU instruments.

Cooperation with NPBs and Investment Platforms

The EIB evaluation shows that around one-third of EFSI operations involved co-financing from NPBs. This is in line with the announcements by various Member States to contribute up to EUR 42 billion to EFSI projects or Investment Platforms. The EIB Group has also developed several initiatives to better respond to the needs of NPBs, including an equity platform²⁵, a securitisation initiative²⁶ and a range of new financial products²⁷.

According to the independent evaluation, in some cases the EFSI competed with NPBs for the same project, in particular for larger projects. This risk should be mitigated through the EIB taking subordinated positions in EFSI co-investments with NPBs. Despite their potential to address the high demand for risky financing of smaller projects, the independent evaluation also notes that at the cut-off date of the evaluation, no Investment Platform had been set up. The first Investment Platform was established after 30 June 2016. Further Platforms, including in the SME window, are in the pipeline and are expected to be approved still this year.

²³ http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/efsi_esif_compl_en.pdf

²⁴ COM(2016) 605 final.

²⁵ EIF-NPI equity platform. More information can be found on:
http://www.eif.org/what_we_do/equity/NPI/index.htm

²⁶ EIF and NPIs Securitisation Initiative. More information can be found on:
http://www.eif.org/what_we_do/guarantees/ENSI/index.htm. The EIF has for example signed a Memorandum of Understanding with Cassa Depositi e Prestiti (Italy) and is in the process of signing further Memoranda.

²⁷ <http://www.eib.org/efsi/how-does-a-project-get-efsi-financing/index.htm>

► Addressing geographic and sectorial distribution of EFSI support and complementarity with other sources of Union funding in the EFSI 2.0 proposal

EFSI 2.0 will extend the duration of the EFSI until the end of the current Multiannual Financial Framework and should provide a total of at least half a trillion euro of investments by 2020. The proposal is consistent with the revision of the Financial Regulation that the Commission proposed at the same time to set up a robust framework for the management of the financial liabilities of the Union. In order to enhance the firepower of the EFSI even further and to reach the stated aim of doubling the investment target, the Commission calls on Member States to also contribute as a matter of priority.

Furthermore, an important objective of the EFSI 2.0 proposal is to reinforce the take-up of the EFSI in less-developed regions and transition regions. The support to less-developed regions and transition regions in Europe is therefore enlarged by an explicit reference to any industry that would not otherwise be covered in the general objectives. In addition, EFSI-support to motorways, which should be in general avoided would be allowed in cohesion countries under certain conditions. It is critical that Member States develop the capacity to prepare projects. EFSI 2.0 will enhance technical assistance through the Advisory Hub. The use of the services provided by the Advisory Hub can also contribute to strengthened planning and coordination of key investment projects at national level.

An easier combination of other sources of Union funding such as the ESIF, Horizon 2020 and the Connecting European Facility (CEF) with EFSI support is also a key element and may contribute to mobilising additional private sector investment. In September 2016 the Commission therefore adopted a proposal²⁸ for an omnibus Regulation amending several Regulations to facilitate such combinations at the level of Investment Platforms as well as regards individual projects. The Commission also has proposed in its EFSI 2.0 proposal to improve the EFSI's focus on EU political priorities as regards climate change, for example by setting a minimum target for climate-friendly projects under the Infrastructure and Innovation window of the EFSI. Moreover, the Commission recognises the importance of using part of the Union budget, such as the one available under the CEF, in the form of grants for blending with the EFSI. In this respect, a CEF blending call will be launched early in 2017 to combine EUR 1 billion grants with EFSI and financing from NPBs and the private sector.

The EFSI is promoting social entrepreneurship and, thus, has an important social dimension. A comprehensive set of innovative financial instruments under the EFSI SME window, aiming to support social entrepreneurship, sustainable employment and social innovation has been developed. They include the enhancement of the Employment and Social Innovation²⁹ guarantee on loans to microenterprises and social enterprises as well as an equity product for EIF investments in support of social enterprises including co-investments with business

²⁸ COM(2016) 605 final.

²⁹ EU Programme for Employment and Social Innovation. More information available at <http://ec.europa.eu/social/main.jsp?catId=1081>

angels and investments in or alongside intermediaries linked to social incubators, accelerators and payments-by-results schemes.

Finally, under the EFSI 2.0 proposal, the EIB and the EIF are called upon to ensure that the final beneficiaries, including SMEs, are informed of the existence of EFSI support.

Governance

The EIB and the independent evaluations find that the governing bodies of the EFSI have been set up and are functioning well. The recommendations include making some improvements, including clarifying the respective roles and responsibilities of the EFSI Managing Director's office, the EFSI Secretariat and EIB services. The EIB evaluation also recommends to improve the lines of communication amongst EFSI's governing bodies. The independent evaluation further recommends to review and streamline the procedures for EFSI operations.

► **Addressing governance in the EFSI 2.0 proposal**

EFSI 2.0 will enhance transparency in the investment decisions and governance procedures. The Investment Committee will have to further explain in its decisions, which are made public, the reasons why it deems that a particular operation should benefit from the EU guarantee, in particular as regards additionality. In addition, the scoreboard of indicators will be published once an operation is signed under the EU guarantee. Moreover, the EFSI 2.0 proposal also envisages an obligation for the EIB and the EIF to inform the final beneficiaries, including SMEs, that they received EFSI support, or require the relevant financial intermediaries to do so.

Moreover, it will be explored whether certain procedures for the approval processes of EFSI operations can be further streamlined.

Functioning of the EU guarantee and the guarantee fund

Both the Commission and the independent evaluation find that the EU guarantee has been relevant, efficient and effective in enabling the EIB Group to increase considerably its volume of EIB Special Activities and EIF guarantees in favour of SMEs and mid-caps. The EU guarantee has also proven to be a flexible instrument that can adapt to emerging needs, with for instance the reinforcement of the SME window of the EFSI by EUR 500 million. The independent evaluation nonetheless finds that the procedures on the decision of the use of the EU guarantee should be further clarified and monitored in greater detail.

The independent evaluation notes that the targeted provisioning of the guarantee fund of 50% at the outset seems to be cautious and prudent to cover potential losses on the existing portfolio and recommends to closely monitor the investment strategy of the resources held in

the EFSI Guarantee Fund. The Commission evaluation assesses the risks of the different products supported by the EU Guarantee. It concludes that overall the Union budget would also be adequately shielded from potential calls under the EU Guarantee with an adjusted target rate for provisioning the Guarantee Fund of 33.4%, taking into consideration recoveries, revenues and reflows from EIB operations.

The Commission evaluation also stressed that, given that the ability of the EIB to implement risk-sharing instruments and take subordinated positions is key to enhance the capacity of private sector investors to support riskier and more innovative projects as well as SMEs, a strong emphasis should be put on subordination. Finally, the Commission evaluation finds that the EU Guarantee was not designed to cover the potential impact of currency fluctuations. That gap has a bearing on the capacity of the EIB to deliver long-term fixed-rate financing in certain non-euro countries with less developed financial markets, thereby potentially negatively affecting the geographic coverage of the EFSI.

► Addressing the EU Guarantee and the Guarantee Fund in the EFSI 2.0 proposal

The Commission evaluation concluded that the Union budget would also be adequately shielded from potential calls under the EU Guarantee with an adjusted target rate for provisioning the Guarantee Fund of 33.4% (from 50% currently). An adjusted target rate of 35% is reflected in the Commission proposal for EFSI 2.0. In line with the Commission evaluation, the EFSI 2.0 proposal also includes a stronger focus on risk-sharing instruments and subordinated financing and the possibility for the EU Guarantee to cover the potential impact of currency fluctuations.

Communication

Overall, the three evaluations stress the need for enhanced communication on the EFSI.

The independent evaluation recommends to raise awareness further – in particular at the local level – on the EFSI support and its products, notably for new products in order to ensure their quick take-up. It also recommends to better communicate and explain the possibilities for the set-up of Investment Platforms, including the EIB’s role in this respect.

The independent evaluation also notes that communication methods could be improved internally, within the EIB Group and EFSI governance structures.

► Addressing communication in EFSI 2.0

The recommendations relating to enhanced communication do not require an amendment of the EFSI Regulation and will be addressed through enhanced efforts by both the Commission and the EIB. The Commission will, in close cooperation with the EIB Group, further strengthen the communication on the EFSI in order to raise awareness about the availability of funding and technical assistance across the EU. Communication efforts are ongoing and will be further enhanced in the coming months. Information on funding solutions, technical

assistance and procedures, including through good practice examples and case studies, can stimulate new ideas and boost investment initiatives. Given the crucial importance of continuously updated and easily accessible information on all aspects of the Investment Plan for Europe, in all its aspects, further communication efforts will be made both at the EU level, as part of the Commission's corporate communication efforts, and in particular, at the local, regional and national levels.

3. HOW HAS THE EIAH PROVIDED TECHNICAL ASSISTANCE SO FAR?

Relevance and effectiveness

The independent evaluation confirms the relevance of the EIAH given the high need for technical assistance, which is expected to grow in the coming years. The evaluation notes a good coverage of EIAH support with 214 requests coming from 27 Member States during the evaluation period. It has been most effective in providing services in the energy, transport and urban/rural development sectors. Through a more pro-active stance of the EIAH, additional sectors are expected to be covered in the future. Out of the 214 requests, 78 related to financing or funding advice, 78 to technical assistance and funding, 13 to proposed cooperation and 33 to general information. Appropriate expertise, where necessary, was mobilised either from EIB operational services or from relevant advisory services and programmes.

Overall, the independent evaluation concludes that it is too early to assess the effective use of existing expertise by the EIAH. The preliminary analysis however points to the need for the EIAH to have a more regional and local presence. Although it is already active locally for specific projects, the EIAH needs to develop further local capacity or partnerships with NPBs and local service providers – in particular in regions where this support is most needed. The evaluation also highlights the need for more advisory support on the establishment of Investment Platforms.

Finally, the independent evaluation notes that there is still room for clarifying and further shaping the overall cooperation between NPBs and the EIAH. At the cut-off date of the evaluation, 18 Memoranda of Understandings (MoU) had been signed between the EIAH and NPBs. One MoU was also signed with the International Union of Railways. Their implementation should be steered and monitored, including by following up on the administrative arrangements for the services provided by decentralised organisations under the EIAH umbrella. Special attention should be paid to countries that have less technical assistance capacity.

Efficiency

According to the independent evaluation, it is too early to draw conclusions on the efficiency of the EIAH. No issues have been identified with its governance model, and a higher absorption of the budget is expected as the implementation of the EIAH continues, with the expectation that the full budget will be spent.

However, the independent evaluation also sees a need to decentralise the EIAH's provision of services, underlining existing positive experience with local technical assistance and support in some Member States. The EIB evaluation notes that the EIAH could contribute further to the EFSI, including through the identification of potential EFSI projects, advisory support to individual EFSI projects, and possibly support to dissemination and promotional activities (see below), particularly for Investment Platforms.

Added value

The independent evaluation finds that the EIAH does not overlap with other advisory services within the EIB, with most of its services considered to be unique. Potential overlaps with service providers from the private sector should be monitored. The independent evaluation notes that the stakeholders consulted provided mixed feedback on the quality of the services provided to them in the early stage of the EIAH development. In particular, the evaluation recommends that the EIAH should develop more tailored services and speed up response times, which some stakeholders perceive as being too long. The evaluation also recommends establishing a structured feedback procedure, so that the EIAH can take into account the opinion of stakeholders to constantly improve its services.

Communication

The EIAH website is considered to be a good access point for requests with 70% of the requests having been submitted through the website. Similarly to the conclusions drawn for the EFSI, the independent evaluation recommends to significantly ramp up communication on the EIAH given that the awareness of the services it provides is still relatively limited.

► **Addressing Technical Assistance reinforcement in the EFSI 2.0 proposal**

The EIAH has made an overall positive start. As stressed by the independent evaluation, it is too early to draw definite conclusions on the functioning of the EIAH and more experience will be gained as its implementation moves forward. The Commission proposal on EFSI 2.0 nonetheless includes a number of targeted enhancements of the EIAH, which respond to most of the recommendations of the independent evaluation. It is worth noting that the recommendations relating to enhanced communication do not need to be addressed through legislative changes. Work is on-going to raise awareness of the EIAH further.

The Commission proposal foresees that the EIAH should not only leverage local knowledge to facilitate EFSI support across the Union, but also contribute to the objective of sectorial and geographical diversification of the EFSI, in particular by supporting the EIB in

originating operations. This is in line with the recommendations made by the independent evaluation. The Commission also stresses in its proposal that the co-operation with NPBs and the managing authorities of ESIF should further enhance the provision of advisory support, financial and technical expertise at the local level, in particular in those Member States which face difficulties in making use of innovative financing mechanisms. A clear link is made between such co-operation and local support, including on the combination of other sources of Union funding with the EFSI. This will not only help project promoters to structure their projects in a better way, but should also contribute to achieving a better geographic balance of the EFSI.

In addition, in view of their importance for the financing of smaller projects, the Commission proposes that the EIAH should provide pro-active support on the establishment of Investment Platforms. That proposal responds to the evaluations, which have pointed to the need of more clarity and advice on the establishment of such Platforms.

Finally, the EFSI 2.0 proposal also foresees that the EIAH should support the preparation of: climate action and circular economy projects or components thereof, in particular in the context of COP21, projects in the digital sector, as well as cross-border projects. This is in line with the EU priorities to fight climate change, to develop a Digital Single Market, and to promote cross-border projects considering their high added value for the Union.

4. OPINION OF THE COURT OF AUDITORS

In line with the requirements of the EFSI Regulation³⁰, the Court of Auditors issued an opinion on the Commission evaluation of the use of the EU guarantee and the functioning of the EFSI Guarantee Fund. **The Court of Auditors finds that the Commission's main conclusion, namely the proposed adjustment of the provisioning of the EFSI Guarantee Fund from 50% to 35%, is in line with the updated estimate of expected losses.**

In addition to the EFSI Regulation requirement, the Court of Auditors also assessed the other elements of the EFSI 2.0 proposal. The main elements of this assessment are the following:

- *On timing*, the Court of Auditors is of the opinion that it is too early to propose an increase of the EU budget guarantee. The Commission believes, however, that building on the success achieved and taking into account that the legislative process may take some time, its proposal allows for a smooth continuation of the operations and sends a clear signal to investors and project promoters. In a still subdued investment environment, such certainty is crucial to ensure that jobs, growth and investment continue to be supported across the Union. The October European Council³¹ also called on Member States to agree their

³⁰ Article 18(2) of Regulation (EU) 2015/1017.

³¹ EUCO 31/16.

negotiating position on the Commission proposal at the ECOFIN meeting on 6 December, taking into account the external evaluation³².

- *On evidence*, the Court of Auditors believes that more evidence is needed to justify the increase of the EU guarantee. The Commission notes that the EFSI 2.0 proposal is based on the experience and lessons learnt during the first year of implementation. As set out in the Communication of 1 June 2016³³, the results after the first year were positive. More specifically, given the high market demand, the Commission proposed that part of the EU guarantee allocated to SMEs should be increased. Considering that infrastructure and investment projects take more time to mature, not increasing the guarantee for the SME window would have meant foregoing an extra effort to boost investment and to create jobs and growth in Europe.
- *On additionality*, the Court of Auditors is of the opinion that the additionality criterion is too broadly defined. One of the key elements of the EFSI 2.0 proposal is to reinforce additionality. The Commission proposes that projects under the EFSI must address market failures or sub-optimal investment situations as part of the eligibility criteria for EFSI support. In addition, a more detailed definition of additionality has been proposed, so as to increase transparency on the compliance of projects with this crucial criterion. The Commission also addresses a concrete bottleneck to investments of high EU added value, by considering cross-border infrastructure projects (and related services) as additional by definition.
- *On governance and transparency*, the Court of Auditors expressed support for: (i) the proposal to include a provision on tax avoidance; (ii) the proposals to take action on reinforcing the Hub and the EFSI's increasing sectoral coverage; (iii) the proposals to reinforce the governance structure of the EFSI, in particular as regards the management of potential conflicts of interest of the Investment Committee members.

5. CONCLUSION

The Commission notes that three evaluations mandated by the EFSI Regulation, including the external, independent evaluation, have been presented in time to inform the legislative process. The three evaluations concur on the success of the EFSI and the EIAH so far and on the need to reinforce these initiatives as regards specific aspects (additionality, technical assistance, combination with other EU funds), which have already been addressed in the EFSI 2.0 proposal.

The Commission considers that the EFSI is achieving its objectives and that maintaining a scheme for supporting investment is warranted.³⁴ The Commission will continue to cooperate

³² Published on 11 November 2016, available at https://ec.europa.eu/priorities/publications/independent-evaluation-investment-plan_en

³³ COM (359) final.

³⁴ See Article 18(7) of Regulation (EU) 2015/1017.

closely with the EIB Group to build on this success. The Commission therefore invites the co-legislators to deal with the EFSI 2.0 proposal as a matter of priority, as recalled by the October European Council, that called for a Council position in the Ecofin Council on 6 December, in order to address quickly the issues identified in the different evaluations and deliver an even higher volume of high-quality investments.

The Commission will continue to support the European Parliament and the Council during the legislative negotiations and will continue its dialogue with all relevant stakeholders to reinforce and consolidate the Investment Plan for Europe. At the same time, work at the national as well as the European level, to ensure that the business environment is as conducive to investments as possible, should be continued.

The Commission will also draw on the experience with the implementation of the EFSI in the upcoming discussions on the new Multiannual Financial Framework.