

Executive Summary

The context

The study undertaken by the Special Task Force on Investment (2014) and studies performed by others in later years, show that there are important investment gaps and market needs in Europe, especially for high risk financing. The gap to invest in R&D, energy, ICT, education, industry, transport & logistics and water & waste is estimated annually up to € 655 billion¹. Furthermore, studies show that the investment gap in Europe is much higher than the one in the USA, affecting the competitiveness of Europe.

In response, the European Fund for Strategic Investments (EFSI) is set up by the European Commission (EC) and the European Investment Bank (EIB) to help resolve difficulties and boundaries to financing and to implement strategic, transformative and productive investments that provide a high level of added value to the economy, the environment and the society, aiming at reducing unemployment levels and boosting economic growth in Europe. Moreover, EFSI should improve access to financing with a special focus on Small and Medium sized Enterprises ('SMEs') and small mid-cap companies which employ not more than 3,000 people.

The EU contributes with a €16 billion guarantee and the EIB Group has set aside €5 billion of own resources. The EIB will use €16 billion of EFSI support by providing financing via the Infrastructure and Innovation Window (IIW), whereas the EIF will use €5 billion through the SME Window (SMEW) aimed at increasing and facilitating the access to finance for SMEs and mid-caps. EFSI is expected to 'crowd in' public and private sector finance, generating total investments in the European Union (EU) of at least €315 billion within 2015-2018.

The European Investment Advisory Hub ('EIAH') was designed to offer advisory support for investments within the European Union. The objective is to build upon existing EIB and EC advisory services in order to provide advisory support for the identification, preparation and development of investment projects and to act as a single technical advisory hub for project financing within the EU.

Scope, methodology and goals of the ad hoc audit

This ad hoc audit is the independent evaluation on the application of the Regulation 2015/1017 on the EFSI and the EIAH. The evaluation covers the time period until 30 June 2016 (first year since EFSI became operational). This evaluation has been conducted from 21 September 2016 (signature of the contract) until 14 November 2016. Data collection took place in the period 3 October - 3 November 2016 and covered desk research, interviews with the main stakeholders (EC, EIB, EIF, National Promotional Banks (NPB)) and surveys among NPBs, Financial Intermediaries and Beneficiaries of the EFSI and the EIAH. The evaluation builds upon earlier evaluations conducted by the EC and the EIB where relevant. The short time frame for data collection posed limitations to the level of depth of this study and of some evaluation questions being answered.

The main goals of the evaluation are to assess the relevance, effectiveness and efficiency of EFSI and the EIAH, as well as the coherence, additionality, and added value of the EFSI intervention and the added value and complementarity of EIAH. Furthermore the use of the EU Guarantee in terms of relevance, effectiveness and efficiency should be assessed and lessons should be drawn from the implementation of the EFSI and EIAH since their establishment until the end-point period of the evaluation.

¹ Source: EIB (2016) Restoring EU Competitiveness

Answering the evaluation questions

EFSI

EFSI is not geographically or sector-specifically earmarked and is demand driven. Up to 30 June 2016, 26 out of 28 countries were reached. However, when having a closer look, it shows that the EU15² received 91% and the EU13 received a mere 9% of EFSI support (excluding multi-country operations). Zooming in further, it proves that EFSI support mainly has been provided in a number of countries. Within the Infrastructure Investment Window (IWW), UK, Italy and Spain received 63.4%, while for the Small and Medium Enterprises Window (SMEW) Italy, France and Germany received 36.1% of total EFSI support.

Reasons mentioned for the lower EFSI support in Central and Eastern Europe are the competition from the European Structural and Investment Funds (ESIF), less capacity to develop large projects, less experience with Public Private Partnerships, a less developed Venture Capital market and the small size of projects. When looking at the sector coverage, it shows that EFSI contributes mainly to R&D (45%), energy (21%) and ICT (17%) sectors. Some sector gaps are less addressed, but this is not seen as a major issue.

The design of EFSI enables the EIB to address more risk financing, both by an increase in the volume of the so-called Special Activities (activities with a higher risk than normal EIB operations) and the development of new financial products for risk financing. In this respect EFSI is relevant in addressing market gaps by increasing the availability of risk financing to eligible projects. However, stakeholders indicate that there is a stronger need for EFSI to provide higher risk financing, in a complementary and subordinated position to other investors. At the start, EIB was not willing to take higher risk, but this has been improved.

For the implementation of EFSI, cooperation with National Promotional Banks/National Promotional Institutions is important, as these institutions are close to the local markets. Currently, NPBs/NPIs are searching for the best cooperation with the EIB Group in their local markets, which is sometimes constrained by capacity issues. Next to this, the set-up of investment platforms in which different sources of financing can be blended is foreseen to facilitate the implementation of EFSI.

However, till 30 June 2016 no investment platform had been set up yet, possibly due to the fact that it takes time and depends on the regulatory environment. The first platforms were established in the third quarter of 2016, hence after the period considered in this evaluation. Stakeholders mention that they would need more information on the specific role of the EIB in the platforms and that Technical Assistance would be needed to facilitate setting them up, especially in the EU13.

Effectiveness

When looking at the progress of the implementation of EFSI, it shows that approvals are on track after its first year. Especially the SMEW showed a quick take up, the reason being that the EIF agreed with the EC and the EIB to use EFSI to accelerate the roll-out of existing mandates (COSME³ and InnovFin⁴), in line with EFSI Regulation. These EC mandates were constrained by their annual budgets, but EFSI enabled them

² EU15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom
EU13: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

³ COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs). It runs from 2014 to 2020 with a planned budget of €2.3 billion.

⁴ 'InnovFin - EU Finance for Innovators' is a joint initiative launched by the European Investment Bank Group (EIB and EIF) in cooperation with the European Commission under Horizon 2020.

to be 'frontloaded' so that they could i) enter more guarantee exposures and ii) reach out to more SMEs in a shorter period of time avoiding therefore possible disruption due to EC annual budget allocation. Similarly, EFSI enabled the EIF to increase the investment limits under the EIB's RCR mandate. In parallel to this, new products could be developed under the SMEW in view of a roll out in the second half of 2016. For the IIW the take up is slower, also due to the nature of the projects and the time it takes to develop new products under this window. Actual signatures are lagging behind (at 21% of the 315 billion target), especially for the IIW.

Based on the portfolio at 30 June 2016, the expected multiplier is 14.1, i.e. just below the targeted 15. The IIW multiplier is lower than the SMEW, but is expected to increase due to an increased roll-out of new products that are higher leveraged than the more classic products which were mainly used during the first year of EFSI. In view of the quick take up of the SMEW and the fact that projects are under preparation for IIW, it seems likely that EFSI will reach its targets set on the total portfolio after 3 years.

In terms of the objectives relating to growth and jobs, no targets have been set for EFSI. The EIB Group will work on modelling tools to estimate the impact, but no figures are available yet (it is also too early for these effects to materialize).

Efficiency

Governance structures are in place and are working well. There are only a few issues identified in the EIB evaluation for improvement. Beneficiaries and intermediaries have indicated the need to speed-up the approval/due diligence process.

In terms of awareness and clarity over what EFSI has to offer, still further efforts are needed to explain the specific products and the role of the Investment Platforms. Stakeholders indicate that it was insufficiently clear what EFSI can offer and how to benefit from it.

Additionality, Coherence and Added Value

Firstly, in terms of added value, the new products developed by the EIB for taking higher risks, are additional to the products the EIB already provided. These new products are valued by the market, although sometimes perceived as still not risky enough.

Additionality is a key issue and linked in the Regulation to 'Special Activity' as per the EIB's governing documents. However, in some cases Special Activities are not perceived by the market as having a higher risk compared to what the commercial market can offer, albeit possibly at different conditions.

Respondents to surveys and interviews, especially those from NPBs, indicated that some of the financed projects could have been financed without EFSI support, meaning that these investments could be interpreted as not being fully additional. For other projects the investment could not have been made to the same extent as with EFSI support. Overall, the fact that the promoters decided on EFSI financing suggests that the alternatives did not provide the financing to the same extent, conditions or in the same time frame. Some beneficiaries indicated that EFSI is attractive as it is cheaper compared to other investors, and support has a longer tenor than alternative support instruments.

The project applications submitted to the EFSI Investment Committee for support under the IIW revealed a growing substantiating description of the additionality aspect. However the market (in particular NPBs and beneficiaries) is still in doubt whether additionality is always met. Overall, there is a need to better clarify/define the concept of additionality, which is understood differently by the various internal and external stakeholders.

Concerning the Special Activities of the EIB, there is a risk that Special Activities

identified by the EIB are channelled to EFSI rather than other existing instruments. In particular, this holds true for the complementarity with the debt instrument under the Connecting Europe Facility, targeting the same type of projects that could be financed by EFSI under the IIW, as well as for certain instruments managed by the EIB under Horizon2020. There is a high complementarity with COSME and InnovFin under the SMEW, as EFSI enables to finance these funds upfront to respond to the market needs. There is a wish to better combine the European Structural and Investment Funds and EFSI. Besides the regulatory constraints to do so, the main constraint for this seems to be the competition between the two financing initiatives, especially in the Cohesion countries.

In terms of added value, the projects are scored by EIB on different criteria, such as contribution to the EFSI objectives, additionality, economic and technical viability of the projects and maximisation of private investment. However, there seems to be no clear definition on a minimum threshold per criterion, nor a weighting.

The EU Guarantee

The EU Guarantee was used for the upfront financing of SMEs and Midcaps under COSME and InnovFin and was relevant as there was a high demand for the products offered under those initiatives. For the IIW, the Guarantee is used as a first loss piece for the supported operations, allowing the EIB to take on higher risk. In this sense, the guarantee proved to be relevant.

Despite the recent start and objectives set at the end of the 3-year period, the EU Guarantee proved adequate to cover investments done by the EIB and EIF under EFSI. However, there was an unequal take up under the two windows, and recently this is addressed by a shift of Guarantee resources from the IIW to the SMEW.

As mentioned before, the market conditions have not changed and stakeholders indicate that the demand for risk financing is likely to remain the same or increase. Hence, the EU Guarantee supporting investments under EFSI still responds to the identified needs.

The European Investment Advisory Hub (EIAH)

Relevance and Effectiveness

The EIAH was set up in September 2015. Its governance structure is in place and it started working on developing the activities relating to its mission as indicated in the Regulation. There is a high need for technical assistance support and it is expected by stakeholders that this need will grow in the coming years. In terms of its mandate to provide a single point of entry for technical assistance for authorities and project promoters, the EIAH website acts as a good access point, but the EIAH is also reached through existing contacts within the EIB and the EC.

In terms of effectiveness and the type of support provided to the users of the EIAH services so far, it is clear that due to the short time the EIAH exists, not all expected services are fully developed and promoted yet. The services include the provision of basic information, signposting of requests to other services, assistance in the structuring of projects to improve access to financing, project preparation and implementation and management of Financial Instruments.

To date, the capacity of the EIAH itself is not yet sufficient to provide for the full support mentioned in its mandate, but the EIAH directs the promoters to the right services provided by the EIB or other service providers. It is becoming clear that there is a need for tailor made services also within the Member States and this will add to the workload and complexity of the EIAH. A complicating factor for this is that NPBs do not always have the capacity to provide such services and, in case they have this capacity, there might be administrative issues in terms of contracting for delivering these services under the EIAH umbrella.

The requests for EIAH support are most frequent in Energy, Transport and Urban regeneration, which is in line with the mandate given by the EFSI Regulation. The geographical spread of the services covers 27 Member States. However, it is becoming evident that there is a need for more local support in countries with less capacity, for which the EIAH may need to develop local capacity and/or to develop partnerships with NPBs/local service providers. Some NPBs are uncertain on the scope and nature of the future cooperation between the NPBs and the EIAH (a perception that is in common with EFSI investment platforms), meaning that there is still room for clarifying and improving the cooperation between the NPBs and the EIAH.

Efficiency

The EIAH is in a ramp up phase and therefore the budget has not been fully allocated so far, although higher absorption is expected in the forthcoming years. No issues have been identified as concerns the governance model, but as noted, there is a need to accommodate evolving demands on the model for provision of services (notably availability of advisory support at local level). The awareness on the services provided by the EIAH is still relatively limited.

Added value and complementarity

There is a growing awareness of the high need for tailor made support, in which the EIAH could improve. There is a clear need for the advisory services offered by the EIAH. In terms of complementarity, there are services provided by others, such as private sector consultants, trade and commercial associations, NPBs, EC funded technical assistance services, etc. It is therefore important that the EIAH continues to exercise care in avoiding crowding out of the private sector and to ensure complementarity of its services.

Conclusions

EFSI

- ▶ EFSI allows the EIB to increase its risk bearing capacity, which is relevant in the current market and prevailing investment gaps in Europe, where risk averseness is the main issue, while there is ample liquidity.
- ▶ While the design of EFSI was and remains relevant, concerns are expressed regarding additionality, possible crowding out and suitability of the EFSI support for the different countries in Europe.
- ▶ While sector coverage is generally not seen as an issue by the stakeholders consulted, there is a serious concern on the geographical spread. The EU13 receive significantly less support than the EU15. There are indications that this is due to the limited capacity for project development in these countries, their lack of experience with PPP, the competition with ESIF, the size of the markets and projects.
- ▶ There are indications that there is a need for financing of projects of a smaller size as opposed to large projects under the IIW.
- ▶ In terms of uptake, COSME and InnovFin gave a boost to the SMEW, while the uptake of IIW showed a relatively slower start. In terms of approvals, EFSI reached its target in its first year, however signatures and disbursements lag behind.
- ▶ Stakeholders indicated that there is competition with other EU funds such as certain financial instruments under CEF and H2020 or financial instruments and grants under ESIF.
- ▶ Based on the expected multiplier, the target multiplier is almost reached on the current portfolio. There is no target set for the maximization of private capital under the EFSI Regulation.
- ▶ Contribution to growth and jobs is currently insufficiently measured and monitored, while these are key ultimate objectives for the longer term.
- ▶ In general, further communication on EFSI among stakeholders seems to be needed to raise further awareness. More information is needed e.g. on the cooperation

with NPBs/NPIs and the set-up of investment platforms and the role of the EIB in this respect.

EU Guarantee

- ▶ The guarantee proved to be relevant in terms of enabling EIB to provide targeted high risk financing, both under the IIW and the SMEW.
- ▶ Procedures on the decision of application of the EU guarantee and minimum thresholds could be made clearer.
- ▶ The EU guarantee allowed for upfront financing under COSME and InnovFin, guaranteeing continuation in financing.
- ▶ The targeted provisioning of 50% at the outset seems to be cautious and prudent to cover potential losses on the existing portfolio. It is important to closely monitor the investment strategy of the resources held in the Guarantee Fund going forward.

EIAH

- ▶ EIAH's mandate is relevant as there is a clear need for technical assistance, knowledge sharing and information.
- ▶ As EIAH is on its ramp-up phase, it is too early to draw conclusions on the effectiveness.
- ▶ EIAH currently has limited capacity and works in a centralised manner. There is an acknowledged need for larger cooperation with national services (authorities, NPBs). However there are issues relating to the capacity of providing advisory services at national level by local entities and to the administrative arrangements to be agreed for the provision of such services under the EIAH umbrella.
- ▶ The services are not yet widespread known and beneficiaries expressed mixed views on the services provided in the ramp-up period.

Recommendations

EFSI

It is recommended to:

- ▶ Further investigate the specific needs and market gaps in countries that make less use of EFSI support and their ability for absorption of EFSI, in order to better address the needs of those countries
- ▶ Establish clear selection criteria that guarantee the additionality of the EFSI operations financed to complement the Special Activity selection criteria.
- ▶ In view of the need to better address financing of smaller projects, attention should be paid to offering better solutions for smaller projects under the IIW.
- ▶ Continue the development of new tailor made products for higher risk financing.
- ▶ Closely review the procedures and to investigate where these can be optimised. Close monitoring is recommended.
- ▶ Identify further relevant indicators and establish monitoring procedures to reveal information on the contribution of EFSI to these objectives.
- ▶ Further develop and facilitate complementarity and synergy, and avoid overlaps, with other financing sources.
- ▶ Further raise awareness on EFSI.

EU Guarantee

It is recommended to:

- ▶ Better weigh the different assessment criteria in the scoreboard and to set minimum thresholds for each of the four criteria according to their importance.
- ▶ Clearly monitor the division of the EU Guarantee budget between the IIW and the SMEW. A further shift of budget to SMEW, in addition to the recent budget allocation which was decided by the EFSI Steering Board, may be needed if the SMEW continues to evolve at its current pace.
- ▶ Further increase the support to high risk project financing.

- ▶ Closely follow up on the future evolution of risk on the EFSI portfolio.

EIAH

It is recommended to:

- ▶ Increase communication and raise awareness on potential services.
- ▶ Increase the capacity of the EIAH and strengthen links with other, local, service providers.
- ▶ Establish a formal feedback procedure.