© Cultura Creative (RF) / Alamy Stock Photo

EUROPEAN STRUCTURAL AND INVESTMENT (ESI) FUNDS AND THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS (EFSI)

ENSURING COORDINATION, SYNERGIES AND COMPLEMENTARITY

March 2016

WHY ARE COORDINATED EFFORTS NEEDED AT EUROPEAN LEVEL TO REVERSE THE DOWNWARD TREND OF INVESTMENTS IN EUROPE?

The global economic and financial crisis has brought about a sharp drop in investment across Europe, hampering essential investment in infrastructure, innovation and SME financing. Currently, investment in Europe is 15 % below pre-crisis levels.

Investment needs are significant and liquidity is available, but many potential investments don't materialise due to a variety of financial and non-financial barriers. Investor confidence is low due to economic volatility, along with regulatory and other uncertainties.

Europe must address this investment gap in order to recover from the crisis and strengthen its global competitiveness. That is why collective efforts at European level are needed to put Europe on the path of economic recovery. In this context, the Commission decided to tackle the investment gap by launching the Investment Plan for Europe.

WHAT IS THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS (EFSI)?

The European Fund for Strategic Investments (EFSI) represents the first pillar of the Investment Plan for Europe. The European Commission and the European Investment Bank (EIB) Group launched the EFSI to help overcome the investment gap in the EU by mobilising private financing for strategic investments.

With EFSI support, the EIB Group provides financing for economically and technically viable projects, including projects with a higher risk profile than ordinary EIB activities. Emphasis is put on the following key sectors: (i) transport, energy and the digital economy; (ii) environment and resource efficiency; (iii) human capital, culture and health; (iv) research, development and innovation; (v) support to SMEs and Mid-Caps.

The EFSI may finance Investment Platforms, to channel a financial contribution to a number of investment projects with a thematic or geographic focus, as well as operations with National Promotional Banks (NPBs).

WHAT ARE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS?

There are five European Structural and Investment Funds (ESI Funds):

- the European Regional Development Fund (ERDF)
- the European Social Fund (ESF)
- the Cohesion Fund (CF)
- the European Agricultural Fund for Rural Development (EAFRD)
- the European Maritime and Fisheries Fund (EMFF)

These Funds share a common legal framework (Common Provisions Regulation), but are also subject to certain fund-specific regulations[1] . ESI Funds are important contributors to the EU goals of smart, sustainable and inclusive growth. Over the 2014-2020 period, €454 billion will be invested in 500 programmes and targeted at strategic, growth-generating areas, primarily in research, development & innovation, support to SMEs, the low-carbon economy, and information and communication technologies.

The ESI Funds are delivered through nationally co-financed multiannual programmes, approved by the Commission and implemented by Member States and their regions under shared management. Local authorities are responsible for selecting, implementing and monitoring projects supported by ESI Funds.

The reformed framework of ESI Funds for 2014-2020 includes an enlarged scope for the use of financial instruments rather than only grants.

1 For further details, see http://ec.europa.eu/contracts_grants/funds_en.htm

WHAT ARE THE MAIN DIFFERENCES BETWEEN THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS AND THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS (EFSI)?

The risk profile, criteria and delivery mode are different.

ESI Funds

The **ESI Funds** can finance projects via grants and financial instruments and are part of the programmes implemented by Managing authorities in the Member States.

EFSI

The **EFSI** provides risk financing instruments (no grants) via the European Investment Bank with no geographical or sectorial quota but based on market demand for investment financing.

WHAT IS THE ADVANTAGE OF COMPLEMENTARY USE OF EFSI AND ESI FUNDS?

ESI Funds and the EFSI can help in the collective and coordinated efforts to tackle the drop in investment across Europe or in a particular region.

ESI Funds and the EFSI can mobilise additional investments by complementing each other and by mobilising a maximum of private funds. These funds have been designed in a different way but are complementary in terms of rationale, design, and legislative framework. They reinforce each other.

They can be combined in a number of ways, depending on the investment in question. The combination of ESI Funds and EFSI may be particularly interesting in certain countries or sectors, where the ESI Funds offer wide opportunities and where the EFSI on its own has not yet been fully mobilised.

Any project that is economically and technically viable, has a potential to positively contribute to growth and jobs in the EU and is in line with EU policies may be eligible for funding from both the EFSI and the ESI Funds.

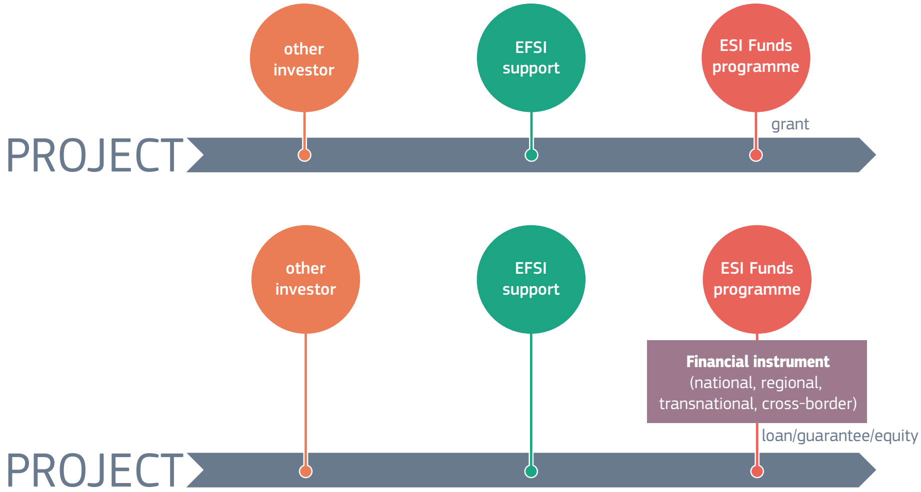
Regional authorities will be able to achieve additional impacts through EFSI co-investments (EFSI contribution and any other co-investors attracted by EFSI). The regional allocations not only safeguard ESIF investments but also give each region (under its regional programme) the possibility to attract EFSI investments to the region.

WHAT ARE THE DIFFERENT WAYS ESI FUNDS CAN BE COMBINED WITH THE EFSI?

ESI Funds can be combined with the EFSI in different ways:

1. Combining ESI Funds with the EFSI **directly at project level**:

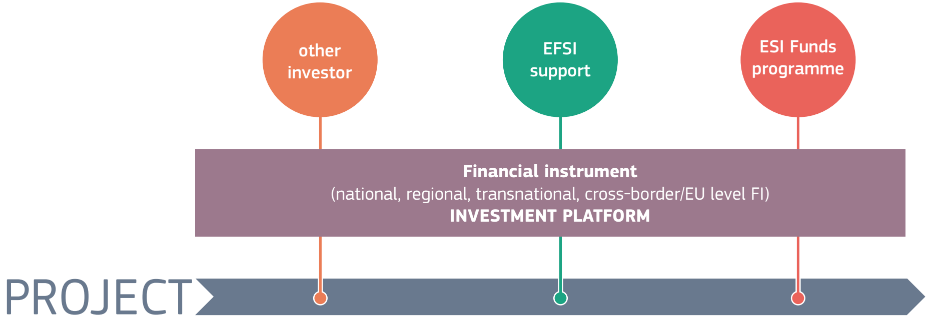
   An eligible project receives funding from the ESIF programme (in the form of a grant or through a financial instrument), from EFSI and possibly also from other investors attracted by ESI Funds and EFSI.



2. Combining ESI Funds with the EFSI at **investment platform level**:

   The managing authority may want to set up a **new** investment platform (considered as a financial instrument) in which EFSI and other investors would invest their resources, including in the form of a layered fund.

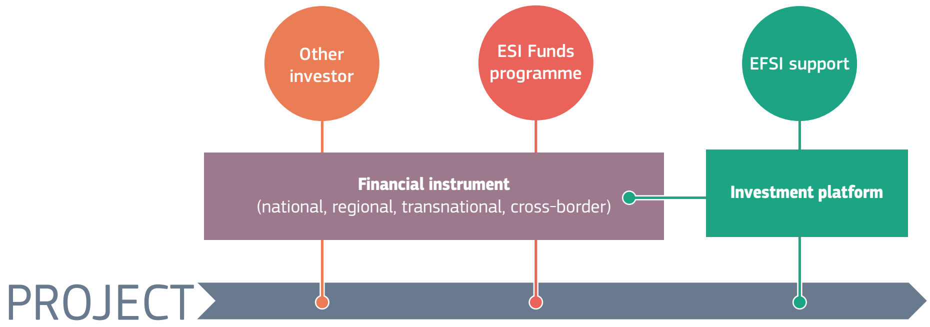
   Another possibility is that the managing authority makes an ESI Funds programme contribution into an **existing** investment platform (considered as a financial instrument) which was set up with EFSI resources at national, regional, transnational or cross-border level. The investment platform would then invest EFSI and distinct ESI Funds programme contributions in projects (other investors may participate).



3. Combining ESI Funds with the **EFSI support (channelled through an investment platform)** at the level of financial instrument or at project level:

   In this scenario, the managing authority sets up a financial instrument in which the investment platform set up with EFSI support participates as an investor. Other investors may also participate. The financial instrument would then invest EFSI and distinct ESI Funds programme contributions in projects (other investors may participate).

   Another option would be an intervention by an investment platform, set up with EFSI support, directly at project level on a deal by deal basis.



CAN ESI FUNDS CONTRIBUTE TO THE EFSI?

ESI Funds programme resources cannot be transferred directly to the EFSI.

CAN THE EFSI BE USED AS NATIONAL CO-FINANCING IN AN ESI FUNDS PROGRAMME?

Given its nature and structure, EFSI support to a project cannot count as national co-financing of an ESI Funds programme.

However, national co-financing of an ESI Funds programme could still be provided through another EIB/EIF financial product, either through a Structural Programme Loan or through intervention at project level.

It is also possible that, under certain circumstances, additional resources leveraged and triggered by the combined ESI Funds and EFSI interventions could be treated as national co-financing for the ESI Funds programme.

HOW DO STATE AID RULES APPLY WHEN COMBINING ESI FUNDS WITH THE EFSI?

The EFSI does not constitute State aid and is not subject to EU State aid rules. ESI Funds provided to businesses, unless granted on market terms, may entail State aid, which is subject to EU State aid rules.

The Commission will assess ESI Funds entailing State aid on the basis of its modernised State aid framework. To facilitate the deployment of the EFSI, the Commission will assess the compliance of ESI Funds with State aid rules as a matter of priority and give it fast-track treatment (within 6 weeks from the moment it receives complete information).

WHERE CAN PROJECT PROMOTERS GET HELP IN SHAPING THEIR PROPOSALS?

Project promoters should make full use of the European Investment Advisory Hub which is the gateway to technical and administrative investment advice and support. Designed jointly by the European Commission and the European Investment Bank, the Hub helps public authorities and project promoters identify, prioritise, prepare, structure and implement strategic projects and make more efficient use of EU funds by mobilising private capital. Part of this one-stop-shop is "fi-compass", an advisory service on financial instruments for ESI Funds.

Furthermore, the European Investment Project Portal (EIPP) is a brand new web portal enabling EU-based project promoters – public or private – to reach potential investors worldwide. The portal is hosted by the European Commission and is designed in response to investors' desire to see more potential EU investment opportunities in a central platform.

More information
European Structural and Investment FUNDS and European Fund for Strategic Investments complementarities
Investment Plan for Europe / ESI Funds Open Data Platform
@jyrkikatainen @CorinaCretuEU @EIBtheEUbank #InvestEU
Contribution of the European Structural and Investment Funds to the Commission's priorities