European Commission - Fact Sheet

Investment Plan for Europe: One year of the European Fund for Strategic Investments (EFSI) – Frequently Asked Questions

Brussels, 1 June 2016

Summary of the Communication on Taking stock of the Investment Plan and next steps

- Stocktaking of progress made so far under the Investment Plan for Europe, including the latest figures and results of the European Fund for Strategic Investments (EFSI)
- The extension of the lifetime of the EFSI beyond 2018
- The rapid scaling-up of the SME window, given its great success
- The announcement of the exploration of an investment model to crowd-in private investors to EU instruments in non-EU countries
- An explanation of how to combine EFSI support and European Structural and Investment (ESI) Funds in a simple way
- A description of what Investment Platforms are and why they are useful in mobilising investments
- A suggestion to continue developing the market for sustainable/green investment projects, such as through the green bond market and improved coordination of existing efforts
- The European Investment Advisory Hub and how it can be reinforced further
- The launch of the European Investment Project Portal
- Stocktaking of initiatives delivered at the EU and national level in order to remove barriers to investment

What is in the Communication Taking stock of the Investment Plan and next steps?

The Communication sets out what has been achieved to date under the Investment Plan for Europe and its European Fund for Strategic Investments. It also clearly states the Commission's intentions for the future. These are:

- **A reinforced EFSI will continue beyond the initial three-year period** to address remaining market gaps and failures and continue to mobilise private sector financing in investments crucial for Europe's future job creation, growth and competitiveness with strengthened additionality. The Commission will make legislative proposals in the autumn to extend the duration of the EFSI, bearing in mind the scarcity of budgetary resources.
- One of the biggest success stories of the EFSI has been the strong interest and participation by intermediary banks across the EU to provide finance to SMEs, the so-called **EFSI SME window. This will be scaled up quickly**, under the current framework, for the benefit of SMEs and mid-cap companies in all Member States. The Commission will work with the EFSI Steering Board to use all the existing possibilities under the EFSI-Regulation to reinforce the SME window.
- The Commission will explore the possibility of using an EFSI-type model for investments in **developing third countries**.
- The **combination of EFSI support and ESI Funds** will be further simplified and legislative and other obstacles to such combinations removed.
- **The Advisory Hub will be enhanced to be able to work more locally** and to enhance its cooperation with National Promotional Banks.
- Establishing **Investment Platforms** will be further encouraged, with strong engagement from the Commission, the EIB Group, National Promotional Banks and other relevant actors. This is particularly important for small projects to reach scale and attract investors.
- Energy efficiency is undoubtedly one of the most successful sectors under the EFSI. The EFSI will continue to contribute to the development of the market for **sustainable/green projects**, by encouraging the development of a green bond market in Europe and improved coordination of

existing efforts.

- The Commission will continue to deliver on its **Single Market priorities**. Together with Eurostat, the Commission will provide further clarity and review, where appropriate, relevant guidance as regards accounting aspects of public-private partnerships.
- Member States should also establish clear priorities, prepare concrete investment projects with the help of the Advisory Hub – in particular as regards cross-border projects – and structure their projects in an optimal way to ensure a greater use of financial instruments. In the context of **the European Semester process**, Member States should implement the country-specific recommendations to address national barriers to investment.

The European Fund for Strategic Investments

Do you need to take more money from the EU budget in order to extend the lifetime of the EFSI?

Having been fully operational for less than a year, the EFSI is delivering tangible results and should trigger already EUR 100 billion in investments out of the EUR 315 billion earmarked for the three-year period. The EFSI has been a success and that is why we plan to continue it beyond the initial three-year period.

We will not need changes in the Multiannual Financial Framework (MFF) in order to extend the EFSI's lifetime. The Commission will propose changes to the EFSI-Regulation to increase the duration of the EU guarantee to the EIB in order to mobilise EFSI investments also beyond 2018.

How will you increase the SME window without increasing the budget?

Given its success, the EFSI SME window will be scaled up quickly, under the current framework, for the benefit of SMEs and mid-cap companies in all Member States. The Commission will work with the EFSI Steering Board to use all the existing possibilities under the EFSI Regulation to reinforce the SME window. This includes shifting up to EUR 500 million from the EU guarantee from the Infrastructure and Innovation window to the SME window; and using the EFSI guarantee to top-up InnovFin and COSME loan guarantee instruments as well as the EU Programme for Employment and Social Innovation (EaSI). This will lead to an increase in the overall volume of actions for these instruments and will allow the EIF to finance a significant extra volume of operations.

How do you respond to criticism that the EIB is just lending to "business as usual" and there is no so-called "additionality" with these EFSI projects?

Additionality is a main feature of EFSI investments. The concept refers to the criterion that a project should be selected only if it would not have been realised at all or in this form without EFSI support. Obviously, not all projects are equally different or innovative but all projects have to pass this general additionality test. And the EIB has increased substantially its so-called “ special activities”, which represent projects with a higher risk profile, from EUR 4 billion to EUR 20 billion per year.

EFSI projects must be 'additional' in the sense that they point to a market failure or suboptimal investment situations and therefore would – in principle – not have been financed in the same period by the EIB without EFSI support, or not to the same extent. The level of risk is an essential element of how to assess the additionality of projects supported by the EFSI guarantee.

When selecting projects for use of the EU budget guarantee, the independent EFSI Investment Committee uses strict criteria laid down in the EFSI Regulation and agreed by Member States and the European Parliament. The EU budget guarantee can only be extended to projects which demonstrate a good use of tax-payers' money and fulfil all the criteria of the EFSI Regulation.

Geographical coverage is not balanced: Eastern Europe mainly benefits from SME agreements under the EFSI so far. What can you do about this?

One of the EFSI’s most important features is that there are no quotas – regional or sectorial – and that project support is demand driven. Despite this, the Commission agrees that geographical coverage can be further improved. There are several tools available to this end, including combining the use of the EFSI with other EU funds, including European Structural and Investment Funds (ESI Funds), setting up Investment Platforms (e.g. national, regional, cross-border), and more targeted outreach from the European Investment and Advisory Hub. The Communication makes clear that work needs to continue on all these three fronts.

The Commission is committed to ensuring a better use of all EU funds across the different policy areas and will take further action to ensure that EU funds and EFSI support can be easily combined. Such combinations, in particular in the case of ESI Funds, can be particularly useful to ensure a wide geographical coverage of the EFSI.

The Advisory Hub can be a very useful tool to help project promoters develop better projects, in particular for regions or sectors where additional outreach and technical capacity are needed. The combination of the EFSI with other EU funds, such as ESI funds, as well as the establishment of Investment Platforms could help achieve a more balanced geographical coverage.

The Commission and the EIB will continue their local outreach campaigns to help explain and promote the benefits of the Investment Plan across the EU. In some cases, the EIB will open new offices in Member States to provide more support locally. This proved successful in Greece where the EIB recently expanded their support team, which soon showed positive results with the first EFSI project approved in Greece in April. Also, the enhanced cooperation with NPBs (for instance through the framework of the Advisory Hub) should help generate more projects in countries less covered so far.

You had targeted a leverage effect of 1:15. Was that goal too ambitious?

The multiplier effect has to be looked at on a portfolio basis – some projects will have a higher, others a lower, multiplier effect.

As it is portfolio-based, the exact final multiplier of EFSI-backed EIB Group operations can only be measured exactly at the end of the investment period (i.e. in mid-2018). However, current projections indicate that we are on track to meet the target multiplier of at least 15.

The multiplier is made up of an internal and an external component. The internal multiplier reflects the fact that 1 Euro of initial EFSI endowment allows the EIB to generate financing worth 3 Euros to its clients. The external multiplier shows the co-investment that is taking place as each EIB investment under the EFSI will in turn trigger investment worth five times the EIB's contribution by attracting other sources of finance to the project.

Does the current low-yield environment in Europe have an impact on how investors are approaching the Investment Plan?

Private investors have shown a lot of interest in the Investment Plan.

For the EFSI operations approved so far, around 85% of the total investment expected to be triggered comes from other private and public investors outside the EIB Group. So the EFSI model of providing the first loss guarantee is working well.

How does the average interest rate for loans for EFSI backed projects or SME agreements differ from non-EFSI loans?

The pricing of EIB and EIF products is calculated on the basis of EIB Group policies for both EFSI and non-EFSI business. For the EIB, EFSI will support projects with a higher risk profile than normal activities and will carry a risk pricing in line with risk. For the EIF, guarantees covered by the EU budget are priced under the InnovFin, COSME and EaSI programmes at very attractive levels, and the EFSI is allowing scaling up of these instruments at the same conditions.

What is the average loan maturity so far for the approved EFSI projects?

The average loan maturity for EFSI projects so far is approximately 10-15 years for EIB and 2-3 years for EIF (guarantees) or 3-5 years for EIF (equity). For the SME window, these are indicative estimates.

Do project promoters need to ensure collateral or is the EU budget guarantee enough?

The EU guarantee allows the EIB to finance projects where the EIB risk is higher than in their normal activities. The risk is defined in terms of "expected losses" which are calculated on the basis of various criteria (including collateral but also rating of counterpart, project risk, loan payment and repayment profile, loan term, level of subordination).The result is project-specific.

EFSI supporting Research and Innovation

How does EFSI support Research and Innovation?

Research, Development and Innovation (RDI) is one of the priority areas of the instrument, as identified by the EFSI Regulation. On the one hand, RDI is a priority sector under the EFSI Infrastructure and Innovation Window (IIW). But on top of that, thanks to the horizontal nature of research and innovation, projects in other priorities sectors of the instrument also have a strong RDI element. That is the case both in other priority sectors of IIW, such as Digital, Energy or Transport as well as in the EFSI SME Window, where debt and equity finance products supporting the growth of innovative SMEs and small mid-caps.

RDI financing accounts for 10% under the former window, and for 57% under the latter. The total share of EFSI financing devoted to research and innovation is 23% at the end of May 2016 (€3 billion out of €12.8 billion).

How does EFSI support innovative SMEs and mid-caps?

So far, 185 financing agreements have been approved under the EFSI SME Window (SMEW), benefitting 141,800 start-ups, SMEs and mid-caps. €2 billion in financing out of a total of €3.5 billion in SMEW, or 57% of the financing, supports RDI.

EFSI means faster and more support to innovative SMEs and small mid-caps. Faster support because €9 billion loan portfolio under InnovFin SME Guarantee, a loan guarantee product developed under Horizon 2020, the EU research and innovation funding scheme, will be available already this year instead of in 2020, which was the original objective. And it means more support, because thanks to the forthcoming EFSI top-up, the total amount of loans available for innovative SMEs and small mid-caps under this joint Horizon 2020-EFSI guarantee scheme will increase to a total of around €15 billion.

The European Investment Project Portal (EIPP)

What is this Portal?

We have officially launched the EIPP today. This is an online platform that brings together project promoters and investors. It helps to increase the visibility and the financing opportunities for investment projects across Europe. One can think of it as an online dating platform for projects and investors, who may otherwise not find each other.

So far, more than 130 projects have been submitted to the Portal.

Does submitting a project to the Portal guarantee EFSI or EIB financing?

Submitting a project to the European Investment Project Portal (EIPP) will boost its visibility to potential investors worldwide. The Portal is a match-maker between projects and investors. Submissions to the EIPP will not be treated as applications for financing under the EFSI or other EU/EIB instrument and do not guarantee financing, from the EFSI, from the EIB or from anyone else. The Portal is a facilitator for interested parties.

European Investment Advisory Hub

What does the Advisory Hub do?

The European Investment Advisory Hub is another tool to strengthen Europe's investment and business environment. The Hub offers a single access point to a 360 degree offer of advisory and technical assistance services. The Hub is a joint initiative of the Commission and the EIB, which provides technical assistance and tailored advice to private and public project promoters. The Hub has already dealt with more than 160 requests. Whilst this is a promising start, the Commission and EIB are indeed working on making the advisory services more local and closer to the final beneficiaries.

To make the services of the Advisory Hub more accessible at national and local level, the EIB and the Commission have been working closely with National Promotional Banks as well as with other international partners such as the European Bank for Reconstruction and Development and the World Bank. The aim is to enhance the presence in Member States as well as to provide advisory support in areas currently not delivered by the EIB. The EIB is developing its network of local offices, which will also help increase resources. It is also developing more tailor-made technical assistance at local level. These local Hubs would be available in the national languages.

The EIB and the Commission will also explore the possibility for the Advisory Hub to advise Member States in the development of local technical assistance schemes for smaller projects, which could be supported by ESI Funds.

Why is there a cost for using the Hub and the Portal? What is the cost?

The Hub is free of charge for public authorities. Private parties pay a small fee. This was decided by the co-legislator and was deemed appropriate to avoid abusive calls on the Hub. Member States are not charged as they already contribute to the EU budget. These costs include the costs of the EIB staff involved, travel expenses as well as the cost of external consultants, if any, hired by the EIB to deliver advisory services.

For the Portal, currently a reduced fee of EUR 100 is being charged to private project promoters after their project forms have been confirmed complete and ready for processing. This procedure will apply only during the current initial phase, after which the fee will be increased to up to EUR 250. Public sector project promoters are, and will remain, exempt from the project submission fee.

Combining EFSI support and other EU funds

What will the Commission do to facilitate combining other EU funds with the EFSI?

The Commission is committed to ensuring a better use of EU funds across all different policy areas and will take further action to ensure that other types of EU funds and EFSI support can be easily combined to deliver additional investments. Such combinations, in particular in the case of ESI Funds, can be useful to deliver additional investments in those Member States with more difficulties in mobilising private investments. There are already concrete examples: in France, a fund has combined resources from ESI Funds, private investor capital, finance from France's National Promotional Bank, traditional EIB finance and support from the EFSI. The Platform provides risk financing to projects fostering a low-carbon economy.

The Commission has already published concrete guidance on combining ESI Funds and the EFSI, and will continue to simplify further the overall framework to develop such combinations. For instance, the Commission is preparing proposals to change the Common Provisions Regulation to better accommodate the combination of ESI Funds with the EFSI to facilitate in particular in EFSI Investment Platforms, in blended instruments, and to encourage the general use of financial instruments as opposed to grants.

Can you give some examples of where an EFSI project has combined EFSI finance with private capital, and indeed with other EU funds?

The project example in Nord-Pas-de-Calais is a first real case showing how to usefully combine ESI Funds and EFSI support, in particular as it enabled a maximising of the private sector participation. The project aims to develop a low-carbon economy in the region (Third Industrial Revolution - TRI) and intends to make the Region a "zero-emissions" energy model by 2050, while at the same time creating employment, developing the overall economy and combating fuel poverty. To this end, a "layered" fund was set up which invests risk capital in enterprises developing TRI projects: the Region will participate, using ESI Funds, providing equity financing alongside public and private investors. The EIB, supported by EFSI, will provide mezzanine debt to the fund and commercial banks will provide senior debt at project level. In addition to financing, the Region also offers technical assistance thanks to a grant of up to EUR 2.5 million drawn from ESI Funds resources.

Another example of blending grant resources under the Connecting Europe Facility and ESI Funds with investments under EFSI is the project on "Accessibility Ports Infrastructure" in Spain. An EIB loan under EFSI will support a special entity dedicated to support investments of eligible rail and road projects improving the multimodal connections of 13 pre-identified ports of the trans-European transport network for the period 2015-2020, with a total cost of EUR 485 million. In addition to the EIB loan under EFSI to the special entity, grants from ESI Funds and from CEF co-financed some of the projects regrouped under the entity, such as the rail accesses to the Ports of some of cities in the country.

Investment Platforms

What role do Investment Platforms play? How do you set one up?

Investment Platforms can help to finance smaller projects and bundle funds from different sources to enable diversified investments with a geographic or thematic focus. They can also render smaller or local investment opportunities financially attractive to new investor groups, for example pension funds or institutional investors.

The set-up of EFSI Investment Platforms is flexible. Both public and private actors can establish such platforms (they typically also provide part of the financing), with the legal form and the financing structure to be determined depending on the projects' needs and the main investors' interests (managed account, co-investment agreement, Special Purpose Vehicle, etc.). The Advisory Hub can give specific advice to structure Investment Platforms. Advanced projects can apply directly to the EIB Group for EFSI financing for a Platform.

First examples of Platforms include a Fund set up in February 2015 to boost productive investment in France. The "Fonds SPI Sociétés de Projets Industriels" aims to boost productive investment in France. The Platform's objective is to promote the development of industrial clusters in particular with respect to ecological and energy transition. It aims to intervene in equity through minority shareholdings alongside majority private industrial partners in newly created project companies to finance their transition to the industrialisation phase of new technologies and new sectors. The Fund has high value added features, combining in particular high capital intensity, longer than usual return on investment and a particular risk-mix. Thanks to EFSI support, this is the first investment by the EIB in a Platform supporting industrial companies in Europe. By working systematically in partnership with industrial partners, the Fund will catalyse private investments in promising sectors, resulting in high value added jobs and contributing to sustainable development. It is estimated that the projects in which the Fund will invest will generate more than 4,000 direct full-time posts during operation.

Other EFSI Investment Platforms are under preparation.

Sustainable/green projects

What do you have in mind for green bonds? Will the EIB issue them?

To foster sustainable investments in line with the EU's strong commitments made through the Paris Climate Agreement, reflections on how to develop the overall financial policy framework in support of green finance should be taken forward on the basis of ongoing international work. The Commission also encourages broader uptake of green public procurement to align public spending with sustainable development objectives.

The EFSI will continue to contribute to the development of the market for sustainable/green projects, including by encouraging the development of a green bond market in Europe and improved coordination of existing efforts.

Green Bonds are any type of bond instruments where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Green Projects, i.e projects and activities that will promote progress on environmentally sustainable activities.

An EFSI-type model for non-EU countries

How will you use the EFSI model to make it work for third countries? Will there be a new EU guarantee fund? Will it be done via the EIB again? When will you make the proposal?

Ways to mobilise private investments in developing third countries should be explored. The EFSI Regulation limits the scope of EFSI investments to EU Member States and cross-border investments with neighbouring countries. This is logical since investment conditions, the regulatory environment and conditionality are very different in the European Union compared to the situation in developing countries. However, a distinct but similar scheme could prove useful also for the EU's external cooperation programmes. The Commission will assess the possibilities for using an EFSI-type model for investments in third countries, for example a scheme that would allow international financial institutions to address specific bottlenecks to investment and in that way crowd-in private actors. The EIB and other International Financial Institutions like the European Bank for Reconstruction and Development (EBRD) could be involved, for example. It could also enable different international financial institutions to expand operations in challenging investment environments, such as fragile and post-conflict countries, as well as in migration-related projects. We will come forward with a proposal soon.

Single Market Strategy and removing barriers to investment

What else will the EU do to remove barriers to investment, besides the Solvency II amendment? What about helping pension funds to invest?

The Communication on Delivering the Single Market Agenda, also published today, outlines the many strands of work that have been or will be carried out at EU level to create a business-friendly environment that encourages innovation and invests in skills and jobs. This work ranges from simplifying VAT rules, to improving access to venture capital for start-ups, to creating a true digital single market in which to trade cross-border. Member States also need to continue their structural reforms to remove bottlenecks and red-tape which act as a barrier to investment.

In its e-Commerce package of 25 May, the Commission launched a comprehensive approach to tackling barriers to cross-border e-Commerce. This includes a ban on unjustified geo-blocking and other forms of discrimination based on nationality or residence, measures to improve regulatory oversight and reduce the costs of cross-border parcel delivery, effective cross-border consumer protection as well as updated guidance for the application of the Directive on Unfair Commercial practices to ensure better enforcement. Together with our proposals to harmonise rules for digital contracts adopted in December 2015, and upcoming VAT simplification proposals, these measures will give consumers better and cheaper access to online goods and services across Europe.

The follow-up initiatives to the VAT Action Plan will set out the path to the creation of a single EU VAT area. It will remove administrative barriers and reduce regulatory costs inside the internal market. This will create an environment conducive to growth and favourable to trade as it will drastically simplify cross-border e-Commerce and provide for a lighter SME regime. Consumers and businesses as well as national treasuries will benefit from this.

The Commission will shortly propose an amendment to EU venture capital legislation to build up scale, diversity and choice in order to increase their market penetration, enabling more companies to benefit from this alternative source of funding. In parallel, the Commission will propose to establish a Venture Capital Fund-of-Funds that will combine public finance with private capital to bring scale and stimulus for the support of the most promising new enterprises. We will make this proposal shortly.

It is up to Member States to regulate what pension funds may and may not invest in. There are some high level principles in EU legislation on portfolio diversification and prudence in the relevant directive, but this is mainly a national matter.

We encourage and expect pension funds to be interested in infrastructure projects since long-term assets often match the pension funds' long-term liabilities. This is a potential bottleneck to investment that needs to be addressed at the national as well as EU level. In that context, we encourage Member States to make sure that national rules don't stand in the way of long-term infrastructure investments.

What should Member States prioritise in terms of reforms to remove national barriers to investment and red tape?

The Commission has found (through stocktaking in the context of the European Semester) that the highest number of barriers to investment is related to regulatory or administrative bottlenecks, such as the low degree of efficiency and transparency of public administration, ineffective judicial systems and weaknesses in the business environment. These include high regulatory and administrative burden, the lack of a predictable regulatory framework and sector-specific regulations (involving cumbersome and lengthy approval procedures), which can hamper investment in large infrastructure projects.

The Commission has come forward with its recommendations to Member States in the context of the European Semester on 18 May. Several recommendations deal with concrete barriers to investment that Member States need to overcome. In general, Member States have advanced reforms over the last year, but the pace of such progress needs to be accelerated to contribute, as it should, to jobs, growth and investment, and more progress should be made in generating a business and employment friendly and regulatory environment, increasing female labour market participation and reducing barriers in the services sector.

Non-EU countries' participation

How can non-European countries participate? Does this give them the right to get involved in the decision making?

In order to maximise the impact of the EFSI, it is important that it is open to contributions by third parties, including entities outside the EU, provided EU regulations are fully respected. Non-EU countries can co-invest in EFSI projects, either directly or via co-investment platforms. Subject to the agreement of the Steering Board, non-EU countries can also contribute with cash directly to the EFSI, but this shall not give them any right in the EFSI's governance or decision-making processes.

The Commission is in contact with several non-EU countries about potential co-investments in projects in the context of the Investment Plan.

EFSI financing can flow to entities from certain non-EU countries, but only as part of cross-border projects that involve EU countries. These are countries falling within the scope of the European Neighbourhood Policy including the Strategic Partnership, the Enlargement Policy, and the European Economic Area or the European Free Trade Association, or to an Overseas Country or Territory.

How much did China finally commit to contributing to the Investment Plan? What kind of projects will they invest in? Are other non-EU countries interested?

At the High-level Economic and Trade Dialogue (HED) in China on 28 September 2015, China made a commitment in principle to the Investment Plan. The Commission and the EIB are working closely with the Chinese authorities to determine the technical details of the contribution, including the choice of appropriate investment vehicles. The HED agreed to put in place a working group with representatives of the Commission, the EIB and Chinese counterparts. Work in this group is now advancing.

MEMO/16/1967

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