European Economic and Social Committee

ECO/416

Extension of the duration of the EFSI (EFSI 2.0)

OPINION

European Economic and Social Committee

Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub

[COM(2016) 597 final – 2016/0276 (COD)]

Rapporteur: Alberto MAZZOLA
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal basis</td>
<td>Articles 172, 173, 175 and 182 of the Treaty on the Functioning of the European Union</td>
</tr>
<tr>
<td>Section responsible</td>
<td>Economic and Monetary Union and Economic and Social Cohesion</td>
</tr>
<tr>
<td>Adopted in section</td>
<td>29/11/2016</td>
</tr>
<tr>
<td>Adopted at plenary</td>
<td>15/12/2016</td>
</tr>
<tr>
<td>Plenary session No</td>
<td>521</td>
</tr>
<tr>
<td>Outcome of vote</td>
<td>172/0/3</td>
</tr>
</tbody>
</table>
1. Conclusions and recommendations

1.1 The European Economic and Social Committee strongly endorses the Commission's initiative to extend the duration and increase the financing of the European Fund for Strategic Investment (EFSI) and agrees with its purpose and its importance for ensuring stability and certainty for investors and project promoters. The Committee is also in favour of extending EFSI timescales and funding to include an even longer-term outlook, to make sure that intervention is systematic and uninterrupted.

1.2 The EESC welcomes the positive results of the first year of the EFSI in immediately mobilising the value of investment forecasted and judges in particular the SME "investment window" a success. The Committee's Single Market Observatory should undertake constant monitoring of EFSI deployment for SMEs using impact indicators.

1.3 In the Committee's view, EFSI 2.0 should aim for ever greater involvement of private capital, topping the 62% achieved in the first year. In that respect the Committee proposes to carefully consider the extension of its scope to other branches of finance in addition to banks: the bond market and insurance and pension funds. European and international insurance and pension funds could play a crucial part in investments.

1.4 The EESC stresses the importance of keeping a market-driven emphasis, seriously considering the employment and social impact of the EFSI, reinforcing the additionality of the EFSI vis-à-vis other EU instruments and normal EIB business. The EESC regrets that the EFSI does not ensure that funds will be invested in countries with greatest needs. It calls for the EFSI to ensure geographically balanced coverage across the EU, taking on board the overall economic activity of each country, the creation of new jobs and the initiative's demand- and market-driven character, without setting quotas in advance and maintaining enough flexibility among the sectors in which it is used.

1.5 The Committee's view is that EFSI 2.0 should focus its own interventions on sectors of the future such as Industry 4.0, smart energy, digital and transport infrastructure networks and environmental protection, cross border projects, including large-scale European projects in sectors with the highest GDP economic multipliers, based on the amount of investment potential, while not losing sight of agriculture, in order to maximise the impact of growth and jobs – including the possibility of opening up other EU funds, including dual technologies related to the security and defence industries and amend accordingly the list of sectors excluded from the EIB.

1.6 The EESC recommends bolstering the European Investment Advisory Hub (EIAH), which should step up its own operations in the various countries and take a proactive role in the least-favoured regions in particular, strengthen the role of National Promotional Banks as well as the creation of territorial platforms of assistance. The possibility should also be considered of using the structural and investment funds to co-finance EFSI projects seamlessly and without bureaucratic hurdles and to ensure better dialogue with local and regional authorities.
1.7 The EESC calls for reinforcement of the social dimension of EFSI deployment such as in education, training and vocational training for skills and lifelong learning, developing the creative and cultural industries, innovation in healthcare and medicine, and social services, social housing and childcare, tourism and environmental protection infrastructure. The Investment Plan for Europe should clearly support the COP21 commitments.

1.8 The EESC recommends raising the visibility of EFSI funding by means of a major information campaign on the ground throughout the Union, launching an EFSI logo to appear on initiatives financed – especially those for SMEs – and strengthening dialogue with local and regional authorities.

1.9 Given the importance of the success of the EFSI for civil society and the European brand, the Committee asks to be regularly consulted to provide information reports on financial and investment operations and the functioning of the guarantee fund. Particular attention will be given to job creation, environmental impact as well as the evaluation by independent experts of the application of the EFSI regulation and changes using clear socio-economic and environmental indicators and clarifying the additionality of this initiative.

1.10 Against the background of the multiple positive effects of social investment, particularly for the labour market and public finances, the EESC believes that further consideration should be given as to how to link the "Juncker Plan 2" with the Social Investment Package objectives.

2. The EFSI development context: situation now

2.1 On 28 June 2016, the European Council concluded that "[t]he Investment Plan for Europe, in particular the European Fund for Strategic Investments (EFSI), has already delivered concrete results and is a major step to help mobilise private investment while making smart use of scarce budgetary resources".

2.2 Since An Investment Plan for Europe was presented in November 2014 some elements of confidence has started to return in the economy and growth. Even so, there are still 22 million people unemployed, investment remains 15% below that recorded before the crisis in 2008 and a further EUR 300 billion of investment would be needed annually to get back to pre-crisis levels. For the fourth consecutive year the EU is recording moderate recovery, with a GDP growth of 2% in 2015: although larger investment projects cannot produce macroeconomic effects immediately, the commitment wholeheartedly embraced with the investment plan is already yielding tangible results.

2.3 In its first year of operations, the EFSI has demonstrated the solidity of the initial plan: implemented and co-sponsored by the EIB Group, it is on track to deliver the objective of mobilising at least EUR 315 billion in additional investments in the real economy by mid-2018. Operations approved in that first year were worth more than EUR 115 billion, 62% of it financed by private investors - at 15 November, 2016 EUR 154 billion and 49% of the expected total1.

1 EIB Group figures. 12 October 2016.
2.4 Take-up from the market has been particularly swift with regard to the SME window, where EFSI results far exceed expectations: for this reason, the window was scaled up in July 2016 by EUR 500 million within the existing parameters of Regulation (EU) No 2015/1017. At the end of the first year, operations benefiting SMEs had been approved to the tune of more than EUR 47 billion – 64% of what had been expected for the entire three years.

2.5 A joint initiative of the European Commission and the European Investment Bank, but with its own governance, the EFSI is also helping to fund innovation and infrastructure projects in a number of sectors: at 15 November 2016 research and development (20%), energy (22%), digitalisation (12%), transport (7%), the environmental and efficient use of resources (4%), and social infrastructure (4%).

2.6 The Committee welcomed the launch of An Investment Plan for Europe and appreciated "the change of tone away from austerity and fiscal consolidation". It stressed that the "Investment Plan is a step in the right direction but it does face a number of serious questions about its size relative to Europe's huge investment needs, the high degree of leverage expected, the potential flow of suitable investment projects, the involvement of SMEs – with particular attention to micro and small-sized enterprises - and the Plan's timescale". Nevertheless the EESC regrets that the EFSI did not ensure that funds were invested in countries with greatest needs, Members states experiencing excessive deficit procedure under the corrective arm of the stability Pact cannot benefit any possible flexibilities (ECOFIN 2012 and ECOFIN 2014).

2.7 The Committee has benefited from the experience and the opinions, largely positive on EFSI, of representatives of the social partners and of organised civil society at the hearing held on 10 November 2016.

3. The Commission's proposals

3.1 The Commission proposes extending the duration of the EFSI by two more years – to 2020 – and raising the EU guarantee from EUR 16 to 26 billion and the EIB contribution from EUR 5 to 7.5 billion – the aim being to trigger investment for around EUR 500 billion over the duration. To this end, the Commission proposes increasing the guarantee fund by EUR 1.1 billion, bringing it up to EUR 9.1 billion. This hike will mostly be financed with Connecting Europe Facility (CEF) funds and the revenue from EFSI-related EIB operations.

3.2 EFSI 2.0 multiannual strategic objectives to support investment for growth in line with EU budget priorities have been drawn up for the following priority sectors:

- strategic infrastructure with digital and energy investments in line with EU policies;
- transport infrastructure in industrial centres, the environment, education, and research and innovation;

2 EESC opinion on An Investment Plan for Europe, OJ C 268, 14.8.2015, p. 27.
– investments boosting employment, in particular through SME funding and measures for youth employment;
– human capital, culture and health.

3.3 According to the European Commission, the initiative should enable the EIB and the EFSI to carry out higher-volume financing and investment operations in these areas and, in the case of the EIB, in more risky but economically sustainable projects thanks to the EU guarantee it receives. The multiplier effect involved is capable of generating a EUR 15 investment in projects for each euro of guarantee – totalling at least EUR 500 billion between now and the end of the current Multiannual Financial Framework.

3.4 The main changes the Commission proposes to Regulation 2015/1017 concern:

– strengthening the additionality of projects, including cross-border infrastructure projects and related services, which have been specifically identified as providing additionality;
– increasing the penetration of the EFSI in less developed and/or transition regions and making it easier to combine the European Structural and Investment (ESI) Funds, Horizon 2020 and the Connecting Europe Facility with EFSI support;
– support to less-developed and transition regions through an explicit reference to any industry that would not otherwise be covered in the general objectives;
– greater EFSI concentration on projects to meet COP 21 goals and climate change priorities;
– the possibility of including defence-related investment projects in EFSI, given the significant economic multiplier effect;
– promoting the EFSI’s sectoral and geographical diversification goals while safeguarding the market-driven emphasis;
– greater transparency in the EFSI governance process.

4. General comments

4.1 The EESC welcomes and strongly endorses the Commission's initiative to extend both the duration and financing of the European Fund for Strategic Investment (EFSI), agreeing with the purpose and its importance in promoting the development of investment in the European Union. The Committee reiterates the position it voiced earlier on the need for a European growth and jobs plan that incorporates a more ambitious EFSI together with other Community growth programmes, especially Horizon 2020, the CEF and the Structural Funds. The EESC supports the opening up of other EU Funds to financially support the investment guarantee in their specific sectors.

4.2 These grant programs as well as public investments have to be maintained and not undermined in their specificity for their importance and their scope for growth and employment.

4.3 The EESC welcomes the positive outcome of the first year of the EFSI in immediately mobilising the value of investment forecast - while still waiting for more precise quali-

3 See footnote 1.
quantitative analysis of the results - and judges the SME "investment window" a success. It delivers what the Committee has said about the role of the EFSI regarding risk capital and the need to finance the growth of job creation, business, especially SMEs.

4.4 The Committee's view is that the success of the EFSI for SMEs comes partly as a result of persistent problems in the mechanism for transferring funds from banks to companies, as demonstrated by the deposits left untouched at the ECB: in this connection, the EESC's Single Market Observatory should constantly monitor the deployment of the EFSI for SMEs using impact indicators.

4.5 In the Committee's view, EFSI 2.0 should aim for ever greater involvement of private capital, if possible topping the 62% achieved in the first year. In that respect the Committee proposes to carefully consider the extension of its scope to other branches of finance apart from banks: financial sectors, the bond market and insurance and investment funds. The EESC agrees with the need for an additional fund geared primarily to mobilising private investment. At European level, institutional investors manage assets to the tune of EUR 13 500 billion, less than 1% of which is invested in infrastructure.

4.6 The EESC asks the European Institutions to reflect on the possibility of allowing more flexibility for Member States in difficult situations to increase public investments, to fund through the EFSI infrastructure and research, high-quality education, childcare, healthcare and social services.

4.6.1 Increasing these funds requires changing the rules of the single market for capital, such as Solvency II, that hamper infrastructure investment by European insurance and pensions funds. In Canada, for example, the share of these funds in infrastructure investment – including European infrastructure – reaches 15% of managed assets. A platform financed by the CEF, the EIB and insurance funds could alleviate these problems and guarantee the proper use of these funds.

4.7 It is important for the success of EFSI 2.0, in the Committee's view, to maintain its market-driven character and to strengthen the EFSI's additionality vis-à-vis other EU instruments and the EIB's core activity: each individual project should not only be consistent with EU policies, but also judged on its own merits and the economic outcomes expected.

4.8 The EESC agrees on the necessity to bolster the additionality of EFSI-supported projects and so increase the bankability/financeability of riskier projects. In addition, admissibility criteria must include the requirement that supported projects address market failures and sub-optimal investment situations, and that cross-border infrastructure projects and related services are specifically identified as projects that intrinsically meet the requirement of additionality, thus

4 EESC opinion on Growth and sovereign debt in the EU: two innovative proposals, OJ C 143, 22.5.2012, p. 10.
5 See footnote 1.
6 EU Action Plan making the best use of new financial schemes.
ensuring that the investment plan effectively reboots Europe’s economy and promotes job creation and economic and social cohesion.

4.9 The EESC calls emphatically for the EFSI to be deployed more intensively in education, training and vocational training for skills and lifelong learning, in developing the creative and cultural industries, healthcare and social and tourism infrastructure.

4.10 The Committee maintains that the EFSI must move towards a balanced geographical coverage across the EU that takes on board the overall economic activity of each country and the initiative’s demand- and market-driven ethos, without setting quotas in advance and while maintaining enough flexibility in allocating funds between sectors. The EESC agrees that it makes sense to strengthen the European Investment Advisory Hub (EIAH) so that it steps up its own operations in the various countries. It also endorses the possibility of using the structural and investment funds to co-finance EFSI projects seamlessly and without bureaucratic hurdles.

4.10.1 The role of the European Investment Advisory Hub (EIAH) and that of National Promotional Banks should be expanded not only to provide technical assistance services more targeted at the local level throughout the EU, but also to ensure better communication between local and regional authorities and EFSI 2.0.

4.10.2 The role of the National Promotional Banks in the success of EFSI is also essential. The EU and national government, through the EFSI, helped and should continue to increasingly support both greenfield and brownfield projects that would otherwise not be financially viable. This is particularly true for projects with unquantifiable usage/demand risk. Some of this risk could be mitigated through partial usage of guarantees provided by National Promotional Banks, which in many cases could turn an unmarketable transaction into one which would be marketable to institutional investors.

4.11 The EESC agrees with the idea that: “contributions to the European Fund for Strategic Investments (EFSI) from Member States will not be included in budget deficit calculations” and would like to see this principle extended to investment programmes, e.g. in the form of a full-blown Golden Rule for strategic public investment.

4.12 In the Committee's view, in order to both trigger European investment and attract foreign investment, to be provided for in the regulation on a reciprocal basis — and to effectively achieve a 1 to 15 leverage between guarantee and investment, not only do Europe's economy and growth have to be rebooted, but the full implementation of the third pillar of the investment plan has to be accelerated by making structural reforms, removing obstacles to investment, and incorporating the EFSI contribution.

4.13 The EESC recommends making EFSI funding more visible by means of a major information campaign on the ground and putting the EFSI logo, particularly in the case of SMEs, on every funding contract that includes EFSI support. The Committee considers the monitoring of financing and investment operations and of the running and workings of the guarantee funds to

---

7 See, for example, the Chinese One Belt One Road programme.
be important for the whole of civil society that it represents and for local and regional authorities – as, too, is the evaluation by independent experts of the application of the EFSI regulation and amendments to it. The EESC therefore requests that reports of this kind be presented not just to Parliament and the Council, but also to the EESC and the CoR.

5. **Specific comments**

5.1 In terms of priority sectors, EFSI 2.0 should provide balanced and flexible funding, based on the volume of potential investment, to the various sectors of the economy and especially to energy and digitalisation, the circular economy and the COP 21 goals, sustainable transport and cross-border networks, as well as sectors such as agriculture, bioeconomy, manufacturing and services in less-developed and transition regions in order to make the best possible impact on employment, including dual technologies related to the security and defence industries supporting the launching of a single strong and more clearly defined European Defence Technological and Industrial Base (EDTIB) with "stronger coordination and joint planning, with a view to moving towards a European Defence Union".

5.1.1 The Committee especially recommends supporting the digitalisation of the manufacturing industry (Industry 4.0), the secure and uniform development of cloud networks and data centres.

5.2 As far as EFSI governance is concerned, the EESC thinks it would make sense to rotate representation from the European Commission, except for DG ECFIN, and the EIB in the steering committee so as to bring in representatives of DGs in sectors such as transport, digitalisation and the environment, in order to promote balanced funding across all sectors. The committee for investment that decides which projects will be supported by the EU guarantee must also be entirely independent and take transparent decisions without interference from the EIB, the European Commission or other public or private contributors. It should also be expanded to include sector-specific experts who can provide specialist knowledge on the situation of geographical markets for intervention.

5.3 The EFSI has far greater funding than other Community initiatives and as such enables investment in large-scale European projects worth more than EUR 10 billion, supported mainly by private capital. To implement these projects, the Committee thinks the Commission's proactive role needs to be strengthened so it can support the joint launching of various European programmes and determine the appropriate regulatory framework, especially in the sector of transport, energy and ICT networks, which have the highest GDP economic multipliers.

---

9 For example: the European air traffic control system, the European Railway Traffic Management System (ERTMS), Connected and Automatic Driving, the North Sea meshed offshore grid for wind farms, industrial Gigabyte, High Performance Computing, and broadband rollout across Europe.
5.4 In the EESC’s view, the EFSI should be place more focus on collaborative digital economy in Europe promoting European Investment Platforms to nurture the growth of start-ups in this sector creating quality jobs. Rights of workers shall be guaranteed, as well as consumers protection.

Brussels, 15 December 2016

Georges Dassis
The president of the European Economic and Social Committee