

Special Report

European Fund for Strategic Investments: Action needed to make EFSI a full success

(pursuant to Article 287(4), second subparagraph, TFEU)



EUROPEAN
COURT
OF AUDITORS

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Executive summary

I The European Fund for Strategic Investments (EFSI) was set up in 2015 as part of the “Investment Plan for Europe” designed to tackle the **investment gap** that emerged following the financial and economic crisis, which began in 2008. It was established within the EIB and is governed by a Steering Board composed of representatives of the Commission and the EIB. EFSI was initially set up to use a €16 billion EU budget guarantee and €5 billion of EIB own resources to enable the EIB Group to provide around €61 billion of finance with the goal of mobilising an additional €315 billion, by July 2018, of strategic investments in infrastructure and SMEs, covering most EU policy areas and all Member States.

II The **audit objective** was to assess whether EFSI was effective in raising finance to support additional investment within the whole EU. Based on a risk assessment, we examined whether:

- (a) the EIB provided the expected level of higher-risk financing by July 2018;
- (b) EFSI replaced other EIB and EU financing operations;
- (c) investment projects could have been financed in the EFSI implementation period with other public or private funds;
- (d) reported estimates of investments mobilised by EFSI were realistic in terms of their impact on the real economy;
- (e) the EFSI investment portfolio was suitably balanced in terms of relevant EU policy areas and geographic concentration.

III Our audit covered the EFSI operations from its launch in 2015 up until July 2018. As part of our **audit work**, we reviewed reports on EFSI’s performance published by the time of our audit, analysed the EFSI portfolio of operations, and reviewed a sample of operations as well as interviewed and surveyed Commission and EIB group officials, EFSI counterparts, and experts in the field.

IV We conclude that EFSI has been effective in raising finance to support substantial additional investment in the EU. However, the reported estimate of investment mobilised does not take account of the fact that some EFSI operations replaced other EIB operations and EU financial instruments or the fact that a part of the EFSI support went to projects that could have been financed from other sources, albeit on different

terms. In addition, action needs to be taken to improve the geographic spread of EFSI supported investment.

V We found that the EIB Group had succeeded in approving more than €59 billion of EFSI financial operations as at 30 June 2018. Moreover, EIB Group approved financing reached €65.5 billion by 17 July 2018. A number of factors contributed to this result, including establishing EFSI as a budgetary guarantee provided to the EIB, providing it with operational flexibility, setting few targets or constraints on the EFSI investment portfolio, introducing streamlined governance arrangements, and enhancing cooperation with National Promotional Banks or Institutions.

VI EFSI support enabled the EIB to achieve a four-fold increase in its higher-risk financing operations compared to 2014. However, the value of EFSI related higher-risk financial operations actually signed by the EIB was lower than planned. The EIB undertook higher-risk financing by offering classic senior investment loans with longer maturities, taking unsecured positions where all or most other lenders were secured, and dealing with higher-risk counterparts, while making relatively little use of other available higher-risk financial products.

VII EFSI also partly replaced funding from other centrally managed EU financial instruments, in particular in the fields of transport and energy. In addition, we identified a need for the Commission and the EIB to consider the potential future overlaps between operations under the EFSI Infrastructure and Innovation Window and the European Structural and Investment Funds financial instruments.

VIII The fact that an EFSI operation was assessed as providing additionality in line with the EFSI Regulation's definition and classified as being higher risk than a normal EIB operation did not necessarily mean that the project could not have been financed from other sources. Our survey results showed that nearly a third of Infrastructure and Innovation Window financed projects would have been undertaken even without EFSI support. Project promoters largely preferred EFSI financing because it was either cheaper or offered a longer payback period. We found some cases where the EFSI projects could have been financed by private and other public sources or by the EIB as a normal operation albeit under different terms.

IX The methodology used to estimate the investment mobilised overstated, in some cases, the extent to which EFSI support actually induced additional investment in the real economy. The lack of comparable performance and monitoring indicators for all EU financial instruments and budgetary guarantees diminishes transparency and the ability to assess results.

X The EFSI portfolio at the end of 2017 was within the indicative limits set for investing in specific policy sectors. However, the **geographic concentration** of EFSI signed financing operations was not sufficiently balanced, mostly ending up in a few of the larger EU 15 Member States. The countries with the highest EFSI uptake were those with the most developed and active National Promotional Banks and Institutions, thus suggesting a need to provide support, including technical assistance, to those that are less developed.

XI Based on these observations, we make recommendations for:

- (a) promoting the justified use of higher-risk EIB products under EFSI;
- (b) encouraging complementarity between EU financial instruments and EU budgetary guarantees;
- (c) improving the assessment of whether potential EFSI projects could have been financed from other sources;
- (d) estimating better the investment mobilised;
- (e) improving the geographical spread of EFSI supported investment.

Introduction

01 In November 2014, immediately after taking office, the new European Commission and the European Investment Bank Group (“the EIB Group”) jointly announced the Investment Plan for Europe (the IPE or “Juncker Plan”)¹. The IPE was launched as a response to the decline in investments in Europe following the financial and economic crisis which began in 2008. At the same time, the Commission recognised the fiscal constraints facing Member States and the limited flexibility provided by the existing EU spending programmes. The Commission estimated the investment gap to be between €230 and €370 billion per year below the “sustainable” investment levels in the EU².

02 The overall aim of the IPE is to increase investment levels and remove obstacles to investment in the EU. It consists of three mutually reinforcing pillars: (i) the European Fund for Strategic Investments (EFSI), providing finance for investment; (ii) the European Investment Advisory Hub, providing technical assistance to project promoters, and the European Investment Project Portal, providing visibility and exchange of information for projects looking for finance; and (iii) regulatory and structural reforms to remove barriers to investment.

03 The EFSI is not a separate legal entity from the EIB but it has a distinct governance structure, comprising a Steering Board, composed of three Commission’s representatives and one EIB representative in which decisions are taken by consensus, an Investment Committee and a Managing Director. The governance structure was finalised in January 2016 when the Investment Committee was appointed. In the interim, the approval for the use of the EU guarantee was given by the Commission. EFSI operations also need to be approved by the EIB and EIF governing bodies under the same policy, rules and procedures that apply to non-EFSI operations.

04 EFSI was set up in order to mobilise €315 billion in new investments in the real economy in the three year period to July 2018 to fund (strategic) investments in a wide range of EU policy areas (transport and energy, education, research and innovation, etc.), as well as to increase access to finance for small businesses³. This was to be

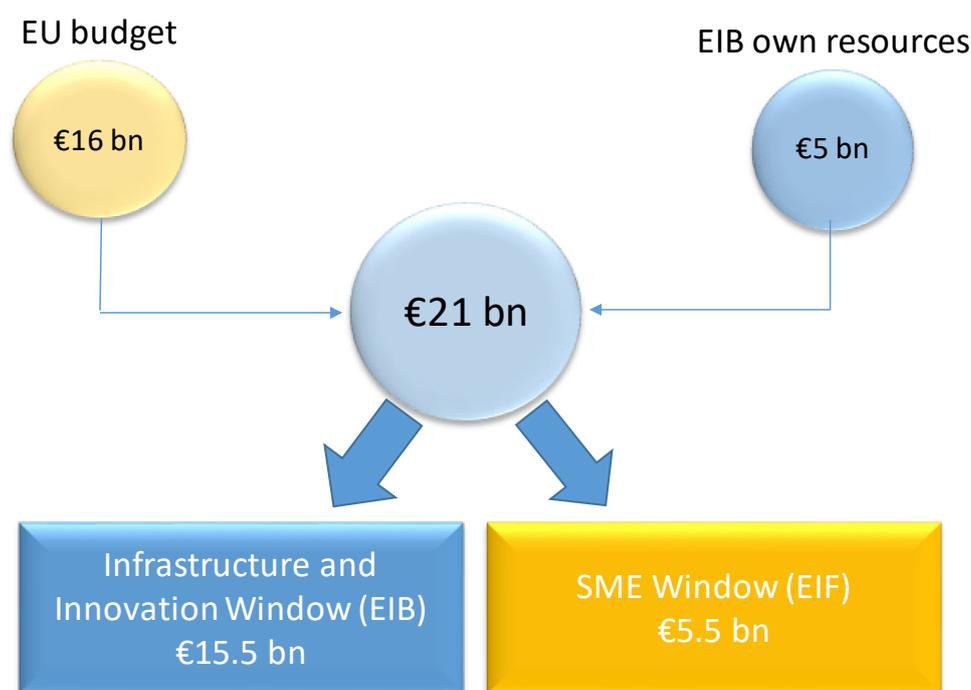
¹ COM(2014) 903 final of 16.11.2014.

² https://ec.europa.eu/commission/publications/why-eu-needs-investment-plan_en.

³ Article 3 of Regulation (EU) 2015/1017 of the European Parliament and of the Council (OJ L 169, 1.7.2018, p. 1) (“EFSI Regulation”).

achieved using €21 billion of risk-bearing capacity, composed of a €16 billion guarantee from the EU budget and €5 billion from the EIB's own resources, in order to enable the EIB Group to provide additional financing (**Figure 1**), initially estimated at €61 billion⁴.

Figure 1 – EFSI set-up as adjusted in July 2016



Source: EIB, Report to the European parliament and the Council on 2017 EIB Group financing and investment operations under EFSI.

05 EFSI's investment operations take place within two thematic areas or "windows": (i) the Infrastructure and Innovation Window (IIW) managed by the EIB and aiming to provide financing to strategic projects, and (ii) the SME Window (SMEW) managed by the EIF and aiming to support SMEs and mid-caps (enterprises with up to 3 000 employees). Each of the windows has debt-type and equity-type operations⁵.

06 EFSI support is not specifically earmarked by sector or geographical area, but is instead demand driven. Nevertheless, the EFSI Steering Board set an indicative geographical diversification and concentration limit for the IIW, that the share of

⁴ Recital 31 of the EFSI Regulation; EIB Group Corporate Operational Plan (COP) 2015-2017, Foreword and p. 10, and EIB Group COP 2016-2018, p. 8.

⁵ Debt-type operations include mainly standard loans, guarantees and counter guarantees. Equity-type operations include direct and indirect equity and quasi-equity participations and subordinated loans.

investment in any three Member States together (measured by approved and signed loan/investment amounts) should not exceed 45 % of the total EFSI portfolio⁶ by the end of investment period (end 2020 for approvals and end 2022 for signatures). There are no concentration limits set for the SMEW.

07 The Commission also recognised the need for effective involvement on the part of the National Promotional Banks and Institutions (NPBIs) in order to enhance the impact of the IPE and EFSI on investment, growth and employment. By July 2015, eight NPBIs had committed to provide co-financing to projects and investment platforms for a total financing volume of up to €34 billion⁷. The EFSI Regulation lays down several ways in which NPBIs can contribute to EFSI, including participation in investment platforms or in individual EFSI projects as co-financiers.

08 According to the EFSI Regulation, the EU guarantee should be granted in support of projects that, among other things, provide “additionality”⁸. This means that, in principle, EFSI finance is intended for operations which address market failures or sub-optimal investment situations and which could not have been carried out in the same period during which the EU Guarantee can be used⁹, or not to the same extent, by the EIB, the EIF or under existing EU financial instruments without EFSI support.

09 EFSI should also “complement and be additional to ongoing EU programmes and traditional EIB activities”¹⁰ and contribute to “achieving Union policy objectives such as those set out in the COSME Regulation, Horizon2020 Regulation and CEF Regulation”¹¹. The introduction of EFSI took place in the context of an already larger share of the EU budget being allocated to financial instruments during the 2014-2020 Multiannual Financial Framework (MFF). As shown in **Figure 2**, the Commission had already established centrally managed financial instruments under seven EU programmes

⁶ EFSI Strategic Orientation, 15 December 2015 (http://www.eib.org/attachments/strategies/efsi_steering_board_efsi_strategic_orientation_en.pdf).

⁷ COM(2015) 361 final of 22.7.2015.

⁸ Article 5 of the EFSI Regulation.

⁹ The initial investment period during which the EU guarantee may be granted for supporting financing and investment operations covered by the EFSI Regulation lasts until 5 July 2019 (approvals) and 30 June 2020 (signatures) and was extended until 31 December 2020 (approvals) and 31 December 2022 (signatures).

¹⁰ Recital 8 of the EFSI Regulation.

¹¹ Recital 13 of the EFSI Regulation.

covering different policy areas, with an initial budget or ‘financial envelope’ of around €7.4 billion. In addition, the amount of financial instruments under European Structural and Investment Funds (ESI Funds) in the 2014-2020 period is expected to be €20.2 billion¹², which is almost double that of the previous period.

Figure 2 – Overview of financial instruments supported by the EU budget and the EFSI (initial financial allocation at the time of the set-up)

	Financial instruments under indirect management <i>(EU budget allocation: €7.4 bn)</i>	EFSI <i>(EU budget allocation: €16 bn) adjusted in July 2016</i>	ESI Funds <i>(EU budget allocation: €20.2 bn)</i>
Infrastructure (Transport, Energy and Tele-communications)	Connecting Europe facility (CEF) Risk Sharing and Equity instrument – up to €2.6 bn	Infrastructure and Innovation Window Debt - €10.5 bn EU guarantee, Equity - €2.5 bn guarantee	Member States Financial instruments part of the Operational programmes for 2014-2020 +/- €20 bn
	Private Finance for Energy Efficiency (PF4EE) and Natural Capital Financing facility (NCFE) Guarantee - €140 m		
Research, Development and Innovation	Horizon 2020 (InnovFin) Equity and Risk Sharing Instrument - €2.6 bn	SME Window (SMEs and small Midcaps) Equity and Debt - €3.0 bn guarantee	of which, SME initiative guarantee – ESI Funds contribution €1 160 m, COSME and Innovfin share €32 m
Growth, Jobs and Social Cohesion	Competitiveness&SME (COSME) Equity and Debt - €1.4 bn		
	Social &Innovation (EASI) Guarantees for Micro enterprises - €112 m		
	Creative Europe Guarantee facility - €121 m		
	Erasmus+ Guarantee facility - €0.5 bn		

Source: ECA, based on the Draft general budget of the European Union for the financial year 2019 (Working document part X).

10 At the end of 2017, the European Parliament and the Council approved, on the basis of a Commission proposal, the extension of EFSI until 2020 (“EFSI 2.0”) and an increase in its risk-bearing capacity to €33.5 billion, composed of €26 billion from the EU guarantee and €7.5 billion from the EIB’s own resources¹³. With this increase, it aims to mobilise €500 billion of public and private investment until the end of 2020.

¹² Open Data Platform (<https://cohesiondata.ec.europa.eu/dataset/ESIF-2014-2020-categorisation-ERDF-ESF-CF/9fpg-67a4>) as of 22.05.2017.

¹³ Regulation (EU) 2017/2396 of the European Parliament and of the Council (OJ L 345, 27.12.2017, p. 34) (“EFSI 2.0 Regulation”).

11 In June 2018, the Commission proposed an integrated investment model called “InvestEU” as part of the package of proposals for the next multi-annual financial framework. It will support EU investment priorities and encourage synergies between different EU financial instruments in the period 2021-2027¹⁴. The proposal aims to build on the experience of EFSI and financial instruments within the meaning of the Financial Regulation and to mobilise the investment of a further estimated €650 billion by making available an additional €38 billion EU budgetary guarantee. It could therefore represent a continuation of a large investment programme that was started with EFSI. According to the Commission, the InvestEU will be market-driven and will focus on four main policy areas: (i) sustainable infrastructure, (ii) research, innovation and digitisation, (iii) SMEs and small mid-cap companies and (iv) social investment and skills.

¹⁴ Proposal for a regulation of the European parliament and the Council establishing the InvestEU Programme (COM(2018) 439 final of 6.6.2018).

Audit scope and approach

12 The aim of the audit was to assess whether EFSI is effective in raising finance to support investments in the EU. We examined whether:

- (a) the EIB provided the expected level of higher-risk financing by July 2018;
- (b) EFSI replaced other EIB and EU financing operations;
- (c) investment projects could have been financed in the EFSI implementation period with other public or private funds;
- (d) reported estimates of investments mobilised by EFSI were realistic in terms of their impact on the real economy;
- (e) the EFSI investment portfolio was suitably balanced in terms of relevant EU areas and geographic concentration.

13 We also took note of the Commission's proposal to set up the InvestEU Programme and we carried out a preliminary analysis.

14 This audit covered the EFSI operations from its launch in 2015 until July 2018. We focused primarily on the IIW, which accounts for nearly three quarters of the amount of the EFSI guarantee. The SMEW was partially covered by a previous ECA Special report¹⁵. Our audit work consisted of:

- (a) a review of various Commission and EIB evaluations (including the June 2018 EIB evaluation of the EFSI¹⁶), EIF evaluations, official documentation, operational reports, etc. relating to EFSI and existing financial instruments, as well as third-party analyses and publications;
- (b) a portfolio analysis of EFSI operations that had been signed by 31 December 2017 and a detailed review of 15 IIW operations selected from the 124 IIW operations

¹⁵ Special Report 20/2017 "EU-funded loan guarantee instruments: positive results but better targeting of beneficiaries and coordination with national schemes needed" (<http://eca.europa.eu>).

¹⁶ Evaluation of the European Fund for Strategic Investments, EIB (Operations Evaluation), June 2018.

signed by 31 December 2016 (covering the EIB's appraisal, approval, reporting and monitoring documentation);

- (c) interviews with officials from the Commission, the EIB and the EIF, with selected IIW project promoters and Member States' NPBIs, the European Bank for Reconstruction and Development and other relevant stakeholders;
- (d) our surveys of the EIB's IIW direct counterparts (project promoters, investors and financial intermediaries) and NPBIs;
- (e) consultation with experts on the various aspects covered by this audit.

Observations

The EIB Group approved close to the expected levels of higher-risk financing under EFSI

15 In order to reach the target of €315 billion of mobilised investment, the EIB expected to approve €61 billion of EFSI supported financing by July 2018. The EFSI portfolio should have an overall higher risk profile than the portfolio of investments supported by the EIB under its normal investment policies before the EFSI Regulation entered into force. Projects supported by the EFSI should also typically have a higher risk profile than projects supported by normal EIB operations¹⁷.

The total approved EFSI financing in the first 3 years reached the amounts % originally expected

16 As at 30 June 2018 the total approved EFSI financing amounted to €59.3 billion, close to the expected levels. % By 17 July 2018, the EIB had approved €65.5 billion of financing, surpassing the indicative volume of finance to be raised. The total signed EFSI financing for the two windows on 30 June 2018 amounted to €42.9 billion. The EIB had signed 312 operations for an amount of €30.5 billion under the EFSI IIW and 384 operations amounting to €12.4 billion under the SME Window. ***Annex I*** summarises the EFSI data reported as at 30 June 2018.

17 A number of factors contributed to this result:

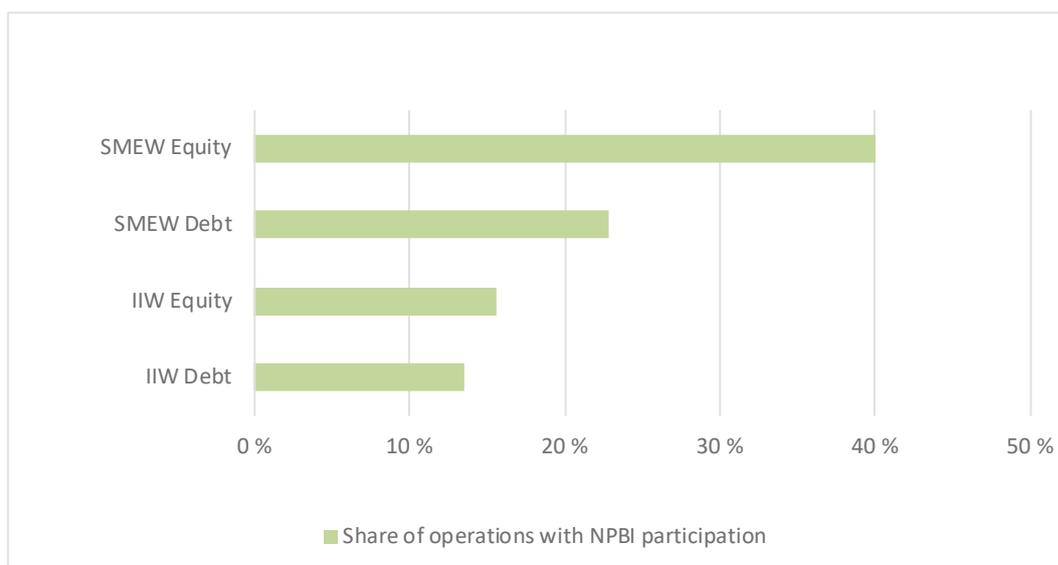
- (a) Establishing EFSI outside the Financial Regulation made it possible to set it up within a short timeframe, without an ex-ante evaluation or an impact assessment;
- (b) The inherent flexibility of EFSI to fund a wide range of projects through many types of financial products and with few sectors or geographical constraints allowed for a large number and volume of potential financial operations (see ***Annex II***). In particular, interventions financed from the EIB's own resources are not subject to State aid assessment. This makes the EFSI approval process swifter and more flexible than the approval processes of EU financial instruments under shared management;

¹⁷ Article 5(1) and Annex II.2 of the EFSI Regulation.

- (c) The streamlined governance arrangements enabled the EIB to include new operations quickly in the EFSI portfolio, especially those that had already undergone the EIB’s appraisal and approval process.

18 In addition, unlike with the other EU financial instruments, the EFSI Regulation recognised the important role the National Promotional Banks and Institutions (NPBIs) can play in the implementation of EFSI by identifying and developing projects, and attracting potential investors¹⁸. **Figure 3** below illustrates the share of NPBI operations in the different EFSI sub-windows. Cooperation between the EIB and NPBIs was enhanced by setting up working groups and collaborative investment platforms. Our NPBI survey and interviews showed that the majority of NPBIs appreciated the increased cooperation with the EIB group.

Figure 3 – Share of EFSI operations involving NPBIs (by relative number of operations) as of 30 June 2018



Source: EFSI IIW SMEW operational reports from 30 June 2018.

EFSI increased the EIB’s higher-risk financing less than expected

19 The EIB refers to its higher-risk financing operations as Special Activities – **Box 1**, and these are mentioned in Article 5 of the EFSI Regulation in the context of defining the additionality of EFSI operations.

¹⁸ Recital 34 of the EFSI Regulation.

Box 1

Special Activities and EFSI

Special Activities entail a greater risk than the risk generally accepted by the EIB and are defined as follows:

- Debt operations with a risk profile of D- or below (i.e. with an expected loss above 2 %);
- All equity and equity-type operations (e.g. infrastructure funds and other fund participations, venture capital activities, equity operations and other operations with an equivalent risk profile).

All EIF operations under the SMEW are deemed to be equivalent to the risk profile of the EIB Special Activities. This is because investment in SMEs is considered to be sub-investment grade (i.e. with an expected loss greater than 2 %).

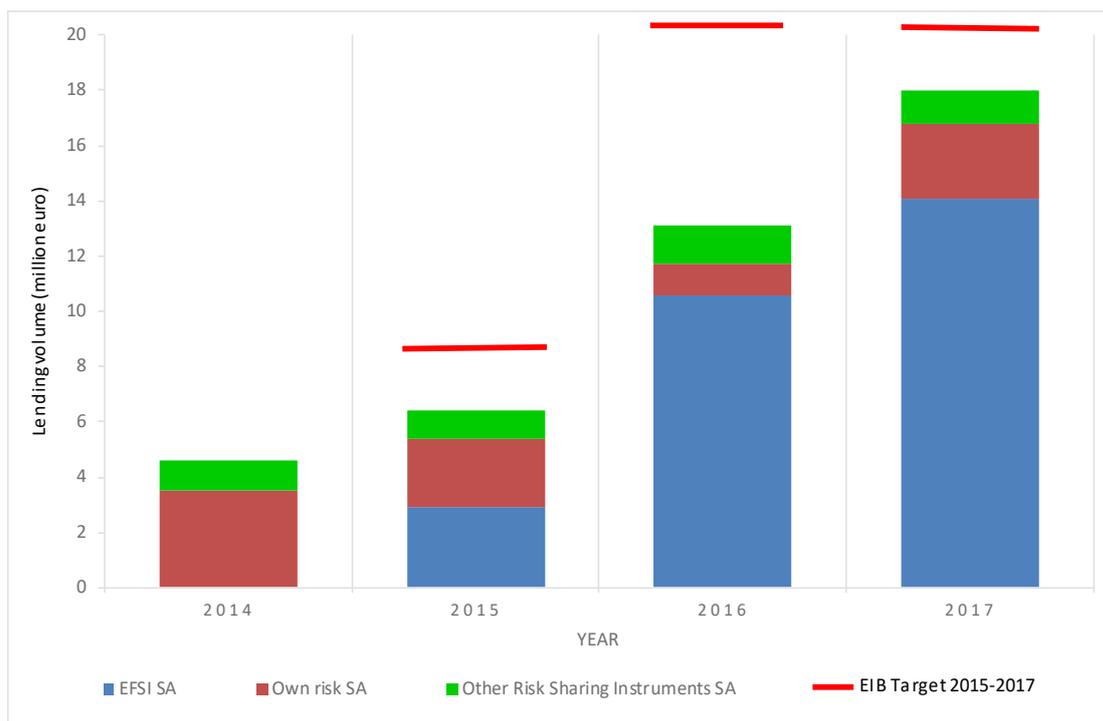
The EIB's Special Activities can be classified into three categories: (i) operations at EIB's own risk, (ii) operations under the EFSI IIW, (iii) operations other than EFSI, where the EIB shares part of the underlying risk with third parties, notably with the EU budget under agreements with the Commission, e.g. InnovFin, CEF or similar EU programmes.

20 We reviewed whether EFSI increased the EIB's higher-risk lending activities and we compared the risk profile of the EFSI portfolio of operations with the EIB's non-EFSI portfolio.

21 With the deployment of EFSI, the EIB initially expected its overall level of Special Activities to increase from the 2014 baseline of €4.5 billion (or around 6 % of all signatures), to €8.6 billion in 2015 (12 %), and up to €21 billion (30 %) in 2016 and 2017¹⁹. **Figure 4** compares the actual and planned values of the EIB's Special Activities over the period 2014-2017, broken down by their category.

¹⁹ EIB COP 2015 – 2017, Foreword, pp. 11 and 12. EIB's COP signature targets have a 10 % upward and downward flexibility limits.

Figure 4 – EIB Special Activities signatures for the period 2014-2017



Note: COP signature targets have a 10 % upward/downward flexibility limit.

Source: ECA, based on analysis of data from various EIB's financial reports and corporate operational plans (COPs) covering the period 2014-2017.

22 The volume of EIB Special Activities signatures increased from €4.5 billion in 2014 to €18 billion in 2017. Despite this fourfold increase, we calculated the cumulative shortfall over the period 2015-2017 compared to the planned levels to be around €13 billion, i.e. 26 % of the cumulative target of €50.6 billion²⁰. This shortfall comprised around €7 billion of EFSI Special Activities, €1.5 billion of EIB's own risk Special Activities, and €4.5 billion of Special Activities under other risk-sharing mandates.

23 As regards the risk profile of the EFSI portfolio of operations, as at 30 June 2018, 98.5 % of the EFSI portfolio was made up of operations in the Special Activities category²¹. Our analysis confirmed that the aggregated risk profile of the EFSI portfolio was higher than the risk profile of the EIB's non-EFSI portfolio.

²⁰ ECA calculation, based on the reported levels of total and Special Activities signatures in the EIB's Financial Reports for the years 2015, 2016 and 2017.

²¹ EFSI IIW SMEW Operational Reports as at 31 December 2017.

The EIB has scope to further promote the use of higher-risk financial products for EFSI

24 The EFSI investment guidelines provide that EFSI can be deployed through a wide range of products to finance, directly or indirectly, new operations²². The EFSI operational strategy further specifies the different products that the EIB Group can use to deploy EFSI²³. These include senior and junior loans, risk-sharing instruments, capital market instruments (e.g. corporate hybrid bonds), equity or quasi-equity participations. Furthermore, the rules on operations with investment platforms and NPBIs²⁴ mention subordination as one of the key principles for EFSI operations with NPBIs (i.e. EFSI support should preferably be subordinated to other forms of financing, where justified)²⁵.

25 Under the SMEW, the EIF primarily relied on the existing products targeted at SMEs that were already used under the COSME, InnovFin, Creative Europe Guarantee facility (CCS), Employment and Social Innovation Programme (EaSI) and EIB-EIF Risk Capital Resources mandates. Under the IIW, the EIB, in addition to relying on its classic long-term senior loans for corporate and project finance, expanded the use of existing higher-risk products and developed new ones, including equity, risk-sharing, Asset Backed Securities mezzanine (“ABS mezzanine”²⁶) and corporate hybrid bonds.

Figure 5 below illustrates the use of EIB products under the EFSI IIW as at 31 December 2017.

²² Annex II to the EFSI Regulation, Section 2.

²³ EFSI strategic orientation, updated in June 2017.

²⁴ Rules applicable to operations with Investment Platforms and National Promotional Banks and Institutions, SB/10/2016, Section 3.2

²⁵ Subordination used in this context means lending under conditions that are less favourable to the lender (in this case the EIB) than they are for other forms of support, for example: longer maturity, order of repayment, access to security as well as ranking in case of default and allocation of losses.

²⁶ Asset-Backed Security is a class of investments whose cash flow is backed by a pool of assets.

Mezzanine means that it is a part of the pool of securities that is subordinated only to the senior debt.

Figure 5 – Overview of the use of the EIB’s products under EFSI IIW



Source: ECA, based on the available data on the EIB IIW signed operations as at 31.12.2017.

26 The majority of the IIW portfolio of operations consisted of classic long-term senior loans for corporates or project finance (around €17 billion or ca. 62 % of the total IIW amount signed). Our review of IIW operations showed that the EIB achieved higher-risk status for investment loans mainly through longer maturities, taking unsecured positions where all or most other lenders are secured, and dealing with higher-risk counterparts, but made little use of contractual subordination for debt products for corporates or project finance.

27 Under EFSI, the EIB significantly increased its equity-type financing, amounting to €3.3 billion as of 31 December 2017. It also started targeting SMEs and mid-cap equity funds within the EU, through investments in SMEs and mid-cap equity funds alongside NPBI or the EIF. This area, is also under the remit of the EIF.

28 The EIB also developed risk-sharing instruments (RSIs)²⁷ with NPBI or commercial banks, targeting SMEs and mid-caps. The EIB market analysis indicated that a strong demand existed for this type of instrument. However, as at 31 December

²⁷ Risk sharing instruments are classified as linked (the EIB or the financial intermediary select loans on predefined criteria) and de-linked (the EIB takes the risk on a set of pre-approved existing loans while the financial intermediaries commit to generate a new portfolio of eligible loans).

2017 the EIB had signed only 14 EFSI RSI operations totalling €2.9 billion²⁸ (around one third of the business target for this product), of which only four of these operations were signed with NPBI, for a volume of €0.7 billion²⁹. This was due to EIB's complex due diligence needed for delegation and regulatory requirements.

29 In addition, very few RSI operations where EIB took a higher proportion of risk than NPBI were signed, despite the fact that our interviews and analysis of NPBI associations' position papers³⁰ indicate that the NPBI would welcome such operations.

EFSI partly replaced funding from other financial instruments supported by the EU budget

30 EFSI should complement and avoid replacing the use of other EU financial instruments³¹, namely financial instruments under indirect management and financial instruments under shared management (i.e. financial instruments under the European Structural and Investment Funds). We examined the impact of EFSI on other risk-sharing mandates implemented by the EIB (financial instruments under indirect management) and on financial instruments under shared management.

EFSI and indirectly managed financial instruments

31 We focused our analysis of possible overlaps of EFSI with the largest financial instruments for the programming period 2014-2020, the implementation of which is delegated to the EIB Group: the CEF Debt Instrument, InnovFin (InnovFin facilities

²⁸ €1.4 billion de-linked, mainly for SMEs and mid-cap portfolios, €0.5 billion linked with full delegation and €1 billion linked with partial delegation.

²⁹ HBOR Risk-Sharing for MidCaps & Other priorities – de-linked guarantee; CDC France Efficacite Energetique Logement Social (Investment Platform) – funded linked risk-sharing loan with full delegation; KfW MidCap Investment Platform (Investment Platform) – linked risk-sharing guarantee with full delegation; AFD French Overseas Territories Economic Development (Investment Platform) – linked risk sharing guarantee with partial delegation.

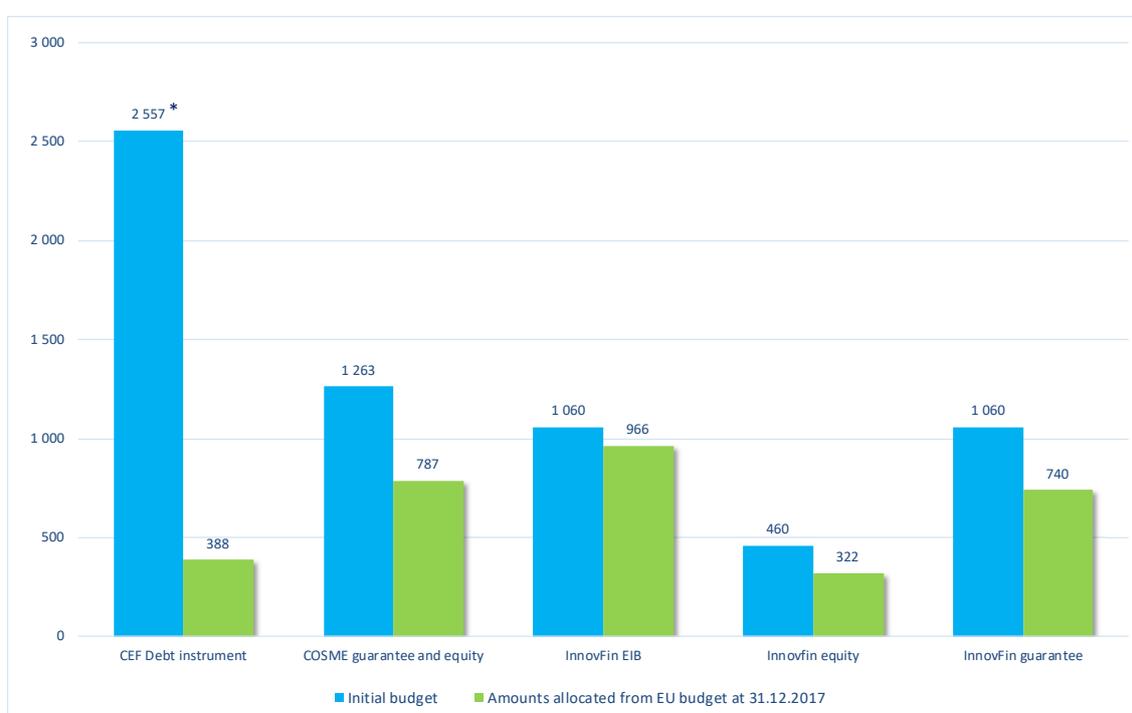
³⁰ European Association of Public Banks (EAPB), "Position paper on the extension of the Investment Plan for Europe", November 2016; European Association of Long-Term Investors (ELTI), "Investment Plan for Europe – Experience of National Promotional Banks and Institutions and possible improvements", November 2016.

³¹ Annex II to the EFSI Regulation, Section 3.

implemented by the EIB, InnovFin equity and guarantee facilities implemented by the EIF) and COSME financial instruments (for an overview, [Figure 2](#)).

32 We compared the initial budgeted amounts for the entire implementation period of these financial instruments with the amounts allocated until 31 December 2017 ([Figure 6](#)). The amounts allocated to financial instruments remained within the expected levels for COSME and InnovFin programmes. However, the amounts for the CEF Debt instrument have lagged behind due to low level of actual signatures of operations.

Figure 6 – Initial budgeted amounts for InnovFin, COSME and CEF financial instruments and budget allocations as at 31 December 2017



* Amount for CEF Debt instrument represents a ceiling set by the legislator and not the initial budget

Source: ECA, based on the Draft general budget of the European Union for the financial year 2019 (Working document part X) and Operational reports for the selected financial instruments.

33 Our analysis and other evaluations confirmed that EFSI partially replaced the CEF Debt instrument. This was mainly due to its overlap in terms of objectives, eligibility criteria, target sectors and types of beneficiaries. EFSI operations are not bound to the specific eligibility criteria set for other EU Financial instruments. The scope of projects to be financed under energy and transport sector can therefore be much larger than for the CEF Debt instrument, for example. The COSME and InnovFin guarantees and Innovfin Equity were an exception in this regard: in the case of guarantees, EFSI complemented these by initially making it possible to frontload them above the

initially planned annual volumes, while keeping the underlying requirements of the programmes. In the case of InnovFin Equity EFSI participated in a new a risk sharing structure alongside Horizon 2020 and EIF resources resulting in enhanced product offer to the market.

In the case of COSME equity product, the Commission intentionally designed the new EFSI SMEW equity product to cover part of the existing equity product pipeline, so as to enable the COSME financial instruments budget to refocus more on guarantees, for which the market demand was judged to exceed available budgetary resources.

34 The Commission has taken steps to increase complementarity between EFSI and existing centrally managed financial instruments and to address the overlaps between them. For example, it is using the financial instruments to explore new products and markets which EFSI can then scale up, or to provide the riskier share of financing when co-investing with EFSI. In addition, in June 2018, the Commission proposed to set up the InvestEU programme, an integrated investment model that will support critical investment priorities and allow synergies between EFSI and other EU financial instruments³². Based on the information available at the time of the audit, our preliminary analysis concluded that the InvestEU programme still had to clarify how it will address the issues related to the estimation of the investment mobilised, the additionality of projects and the geographical spread.

EFSI and financial instruments under shared management (European Structural and Investment Funds or “ESI Funds”)

35 In the 2014-2020 period, financial instruments under ESI Funds can be used for all 11 ESI Funds thematic objectives and can be combined with grants. With the exception of thematic objective 11 (“Institutional capacity”), the areas covered by EFSI coincide with the thematic objectives of the ESI Funds. However, while EFSI is aimed at addressing the investment gap in general, financial instruments under the ESI Funds are intended to contribute to achieving cohesion objectives by covering specifically identified market gaps in a given region or country. ***Annex III*** summarises the last available data on the implementation of ESI Funds financial instruments as at the end of 2016.

36 With respect to SMEs, the combination of EFSI with other financial instruments under indirect management could compete with ESI Funds financial instruments, as they all target the same beneficiaries in the same regions. For example, the recent

³² See “The InvestEU programme – legal texts and factsheets”, https://ec.europa.eu/commission/publications/investeu-programme_en.

independent evaluation of EFSI pointed to competition issues between the ESI Funds financial instruments and the COSME guarantee product³³, which is topped up by EFSI. However, the experts we consulted considered that there was little replacement among the different funding sources targeting SMEs because of SMEs' high financing needs overall.

37 For the IIW, there is currently little overlap between EFSI and ESI Funds financial instruments targeting the same thematic objective, especially because projects supported under shared management are usually of a smaller size and not necessarily applicable for EFSI support. However, greater overlap and possibilities of combinations may appear once the managing authorities for the ESI Funds come under pressure to spend the committed funds. Our interviews with experts and NPBI indicate that such an overlap is likely to occur.

Nearly a third of projects signed under Infrastructure and Innovation Window could have been financed without EFSI support, but not on such favourable terms

38 At individual project level, one of the eligibility criteria³⁴ for use of the EU guarantee is that projects should provide additionality³⁵.

39 During project appraisal under the IIW, the EIB assesses projects' eligibility for the EU guarantee. The EFSI Investment Committee reviews these appraisals and decides whether to use the EU guarantee, based on the documentation³⁶ prepared by the EIB. The SMEW has different arrangements for determining eligibility. Rather than the Investment Committee determining eligibility on a project-by-project basis, the EFSI Steering Board and the EFSI Managing Director, in consultation with the Investment Committee, determine eligibility on a product-by-product basis.

³³ ICF, "Independent Evaluation of the EFSI Regulation", Final Report, June 2018, pp. 82-83.

³⁴ According to Article 6 of the EFSI Regulation, projects supported by EFSI should be: (i) economically and technically viable; (ii) consistent with Union policies; (iii) provide additionality; (iv) maximise, where possible, the mobilisation of private capital; (v) contribute to the general objectives in Article 9(2); (vi) eligible counterpart, project type and financial instrument/product; (vii) provided for the financing of new operations.

³⁵ Article 5 of the EFSI Regulation.

³⁶ The EFSI Guarantee Request Form and the EFSI Scoreboard.

40 In relation to the IIW, EFSI operations were considered to provide additionality, in line with Article 5 of the EFSI Regulation, if they were classified as EIB Special Activities. While the assessment of additionality takes into account market failures or suboptimal investment situations, it did not necessarily include assessing whether the project could have taken place with other sources of finance.

41 We assessed whether projects could not have taken place without EFSI support through a survey of the EIB's direct counterparts (project promoters and financial intermediaries), complemented by a review of the appraisal and approval documentation for a sample of 15 EFSI IIW operations, accompanied by interviews with the beneficiaries and co-investors.

42 Of the 86 respondents to this survey, 59 (69 %) responded that they could not have carried out their project without EFSI support, or at least not to the same extent or within the same timeframe. The main reasons they opted for the EIB financing, in order of preference, were: (i) the EIB's experience and non-financial contribution (62 %); and/or (ii) the cost of funding was lower than the alternatives (58 %); and/or (iii) the longer maturity (50 %); and/or (iv) it lowered the risk to other investors (25 %).

43 However, 27 of the 86 respondents (31 %) stated that their project could have been fully financed from other sources. The latest EIB evaluation of the EFSI from June 2018 includes a similar finding³⁷. Nearly all of the operations in our survey were financed through investment loans. The main reasons they opted for EIB EFSI financing, in order of preference, were: (i) the cost of funding was lower than the alternatives (88 %); and/or (ii) the longer maturity (52 %); and/or (iii) the EIB experience and non-financial contribution (30 %).

44 The survey results highlight that part of the IIW financed projects would have been undertaken even without EFSI support. This risk is particularly high in relation to projects financed directly through investment loans. This shows the importance of assessing whether projects lack sufficient financing because of market failures, in order to reduce the risk of replacing other available sources of finance.

45 Our review of EFSI IIW operations showed that, in practice, the EIB assessed and, to some extent, documented some qualitative aspects of additionality related to

³⁷ EIB survey result show that “roughly 33 % of IIW operations... could have gone ahead, unchanged and within the same timeframe without the EFSI-backed EIB participation” (EIB Evaluation Services, “Evaluation of the European Fund for Strategic Investments”, p. 57).

market failures or sub-optimal investment situations. Nevertheless, for some of the earlier IIW operations we reviewed, the market failures or sub-optimal investment situations were not clearly and consistently justified and documented.

46 In certain cases, the more favourable financial conditions offered by the EIB were used to justify the additionality of an operation. Here the additionality is questionable, as EIB financing might be preferred simply because it is cheaper than the market, in which case there is the risk of displacing other sources of finance. This is particularly relevant for operations financing infrastructure and utility projects (**Box 2**), where we identified some projects that would have been financed by the market. Similarly, a report covering the UK infrastructure market found that the “EIB can play an important role in providing confidence to other lenders to a project. However, it can also provide cheaper credit than commercial debt providers, as such there can be questions about the extent to which EIB is truly catalytic or whether its role is largely one of reducing the cost of finance faced by projects”³⁸.

Box 2

Example of an EFSI project that would have been financed by the market, although not on such favourable terms

We reviewed a direct senior investment loan to a utility company operating in the energy sector (gas transmission and distribution). The EIB loan finances around half of the company’s investment programme for the period 2015-2018.

The EIB justified the additionality of this operation on the basis that it had a higher risk profile than projects supported by the EIB’s normal operations (i.e. it was a special activity), which was the result of the long maturity of the loan (20 years, resulting in subordination to the company’s existing debt) and the credit risk profile. It also cited the fact that the EIB loan would enable the company to maintain a significant level of capital expenditure, despite a highly leveraged capital structure. In addition, the EIB also claimed that its financing would have a “strong signalling effect for future crowding-in of further bank lenders and institutional investors”.

The borrower, a new EIB client, was a utility company, with access to bank and capital market financing. For example, in recent years (including shortly before signing the loan agreement with the EIB), the company had finalised two senior unsecured bonds issues (totalling €0.9 billion with maturities up to 12 years) and had secured a revolving credit facility with commercial banks.

³⁸ National Infrastructure Commission, “Review of the UK Infrastructure Financing Market – Final report”, CEPA, 10 February 2017, p. 34.

Our interview with the borrower's representatives indicated that it would have been possible to secure financing from other sources to meet the investment needs, but that the EIB offered better conditions with respect to the loan maturity, type of interest rate and cost of finance. The borrower identified a NPB as another source of finance it had considered but not ultimately pursued, as the EIB had offered sufficient financing but with better conditions than the NPB.

This illustrates that, although the project was in a priority sector for the EU and had a higher risk status, it could have been financed by other sources.

47 The EIB assessment focuses on whether EFSI support attracts other sources of finance rather than whether it avoids displacing available sources of finance from commercial banks, capital markets, NPBs, or even EIB-managed EU financial instruments or the EIB's own-risk financing (**Box 3**).

Box 3

Example of an EFSI operation replacing traditional EIB financing

One of the projects examined was for financing the investment programme of a large listed company in the energy sector. The borrower was a utilities company operating both on the regulated and non-regulated market and a recurring EIB client, having signed several financing agreements with the Bank in the past. For this project, the EIB's Board of Directors had initially approved a senior loan for the same amount as the subsequent EFSI-supported financing. The loan had been approved as an EIB normal operation (i.e. outside the Special Activity category).

The initially approved loan was never signed, as the EIB instead offered the borrower a pilot hybrid bond backed up by the EFSI guarantee, a new product that the EIB was developing at the time (the Corporate Hybrid Debt). When structured as a hybrid bond, the risk rating of the operation was downgraded to Special Activity level. This was due to the weaker contractual protection of the deeply subordinated hybrid bond and the longer grace period for interest payments as compared to the senior loan. This pilot hybrid bond enabled the EIB to develop and test an innovative higher-risk product.

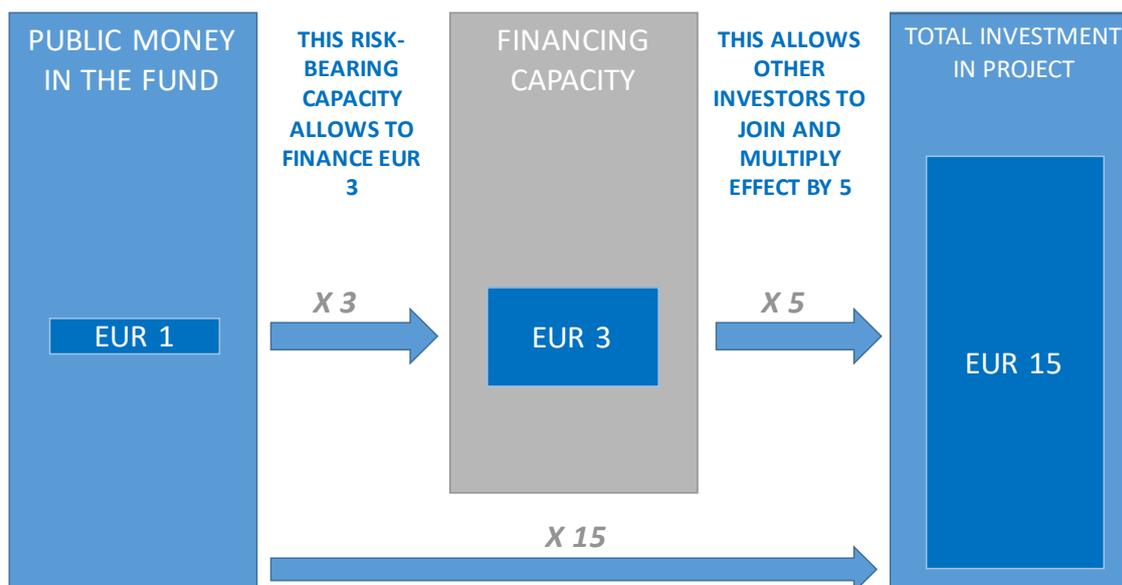
The company appreciated the financial conditions of the new product, which would have been difficult to match via the market. In addition, the 50 % recognition as equity was important to avoid increasing an already high leverage ratio and thus reducing the re-financing risk.

Without diminishing the merits of the EIB's new hybrid bond product and its benefits to the company, EFSI support was not necessary to carry out this project. Indeed, the project could have been supported by a normal EIB operation.

The reported “investment mobilised” and “multiplier effect” are overstated

48 The original target for EFSI was to mobilise €315 billion in new investments over three years (i.e. by July 2018)³⁹. The target for new investments was based on an expected *multiplier effect* of 15x the EFSI contribution (i.e. €21 billion) – **Figure 7**.

Figure 7 – The multiplier effect of EFSI



Source: COM(2014) 903 of 26.11.2014, p. 8.

49 We therefore assessed whether the achievement of EFSI’s objectives is measured using reliable and relevant indicators calculated on the basis of a sound methodology.

EFSI performance and monitoring indicators

50 EFSI’s effectiveness in mobilising additional investments is measured through key performance indicator (KPI) 3 “total investment” (or “investment mobilised”)⁴⁰. The EIB also reports on the relationship between the EFSI contribution and the estimated total investment mobilised, through key monitoring indicator (KMI) 3 “the notional internal guarantee multiplier and the external guarantee multiplier” (or “multiplier”).

³⁹ Recital 8 of the EFSI Regulation.

⁴⁰ The EFSI Agreement and the EFSI KPI-KMI Methodology define KPI 3 as follows:

- (i) For the IIW it represents the volume of additional EFSI-eligible investment (public or private, including financing mobilised through the EIF under EFSI) in real economy.
- (ii) For the SMEW it represents the maximum amount of financing available to final recipients multiplied by 1.4.

The multiplier effect expresses the total investment mobilised as a multiple of the total EFSI contribution. In addition, the EIB reports on the amount of “private finance mobilised” (KPI 4). This is calculated by subtracting any public funding (including from the EIB Group) from the total investment mobilised (KPI 3). **Annex IV** provides a complete list of EFSI indicators.

51 For KPI 3, the initial target was to mobilise €315 billion of new investments by July 2018. The EFSI Regulation does not specify whether the target refers to operations approved or signed. As at 30 June 2018, the EIB reported the estimated total eligible investment mobilised for approved operations at around €299 billion (95 % of the initial target), while for signed operations the figure was €236 billion (75 % of the initial target), with an estimated overall multiplier effect of 15x (**Annex I**)⁴¹. Thus, according to its operational report, EFSI almost reached the target in terms of approvals, but missed it in terms of signatures.

52 This difference between approvals and signatures reflects the fact that considerable time may pass between the approval and the signature of an operation, and that some approved operations may never be signed. For example, we found three operations approved during 2016 as investment platforms that were still pending signature at the end of 2017. Thus, since it is based on operations approved rather than signed, the reported investment mobilised of €299 billion is in effect an ex-ante estimate. The economic impact of EFSI only materialises once the funds are disbursed and investments are actually made.

53 Although EFSI is expected to maximise the mobilisation of private capital where possible⁴², no specific target was set for KPI 4, which assesses EFSI’s performance in this regard. At the end of June 2018, the EIB reported that EFSI operations had mobilised €160.2 billion in private finance (i.e. 68 % of the total investment mobilised based on signed operations)⁴³.

54 The EIB calculates the KPIs by aggregating its estimates for each operation’s expected investment mobilised, and the KMIs by aggregating the corresponding estimated multipliers⁴⁴. The investment mobilised equals to EFSI eligible project

⁴¹ EFSI Year End Operational Report as at 30 June 2018.

⁴² Article 6(1)(d) of the EFSI Regulation.

⁴³ EFSI Year End Operational Report as at 30 June 2018.

⁴⁴ The EIB Group performs the calculation based on multiplier calculation methodologies approved by the EFSI Steering Board: EFSI EIB Multiplier Calculation Methodology of

costs⁴⁵. Thus, the multiplier expresses the eligible cost as a multiple of the EFSI contribution. These indicators are calculated at the project appraisal stage before the financing operation is approved, based on the information available at that time.

55 Hence, the figure the EIB reports as having been “mobilised” by EFSI includes all eligible investment generated by the project as a whole, regardless of the share actually mobilised by EFSI. In some cases, other sources of funding may have already been secured before the EIB became involved, and the mobilisation of the funds reported may be primarily attributable to other public financing sources. **Box 4** illustrates such examples.

Box 4

Financing of an infrastructure project

This case concerns the co-financing of a project through a senior loan. The EIB initially approved a loan representing around 29 % of the eligible project investment cost. At signature, the loan amount was reduced to around 9 % of the eligible cost. The existing senior institutional co-investors made up the difference between the funding initially approved and the amount finally signed by the EIB, covering around 80 % of the eligible cost.

The EIB reported a multiplier effect of around 53x and an investment mobilised corresponding to the full eligible project investment costs, including the financing secured before the intervention of the EIB. EFSI investment mobilised includes more financing than is directly attributable to the EFSI intervention.

56 We examined a case where a national Fund of Funds (FoF)⁴⁶ that was fully owned by a NPB provided alternative sources of finance for companies through Growth Funds (GFs), Venture Capital Funds and Incubators Funds. GFs accounted for around 70 % of the overall volume funded by the FoF. The FoF was established before EFSI, with an initial endowment of €1.2 billion. In 2015, the NPB increased the endowment of the

October 2015 and the EIF EFSI Multiplier Calculation Methodology of December 2015, updated in March 2018. Though set out in different documents covering each of the two EFSI windows (i.e. IIW and SMEW), the two methodologies apply similar principles.

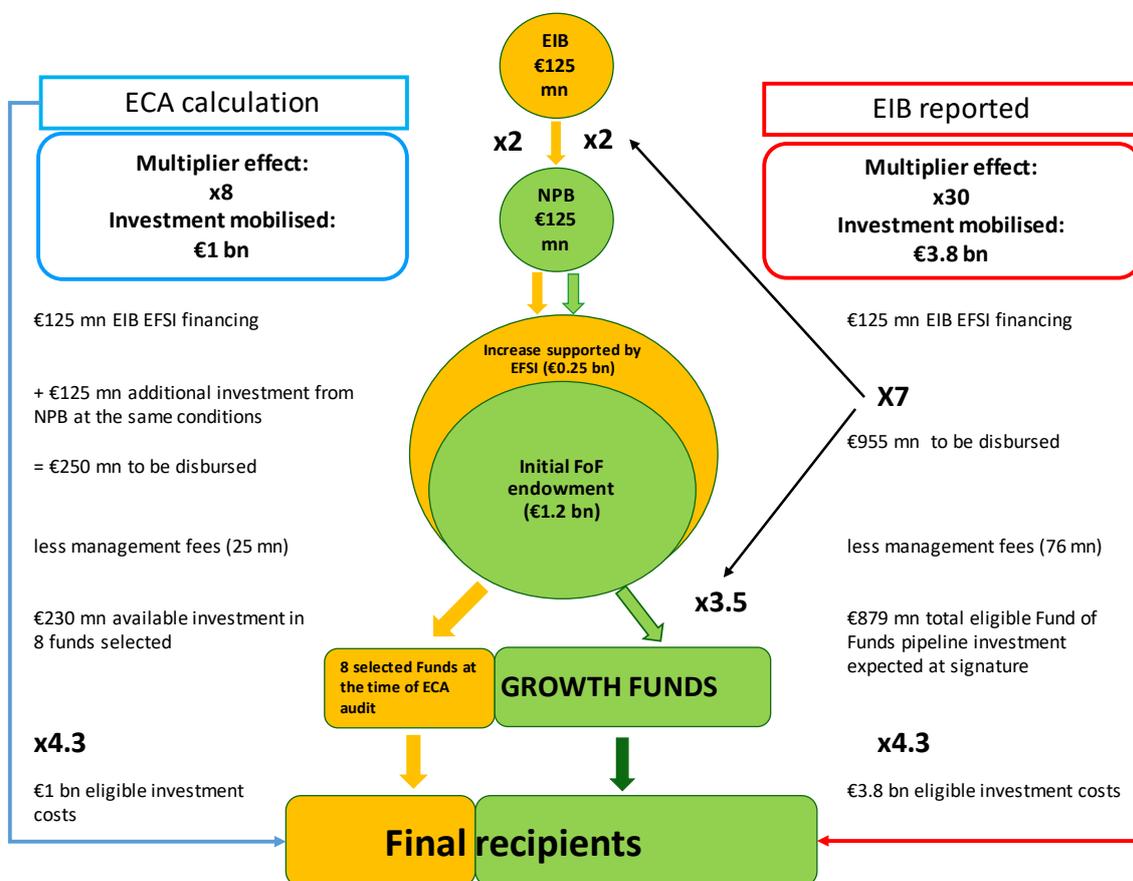
⁴⁵ The EFSI eligible project cost is arrived at by deducting non-eligible components, such as the cost of land or management fees, and those costs financed from other EU funding sources from the overall project investment cost.

⁴⁶ A fund of funds (FOF) is an investment strategy in which a fund invests in other types of funds.

FoF to €1.5 billion, following discussions with the EIB regarding EFSI financing for the FoF.

57 The EIB agreed to invest €125 million of EFSI supported finance, on condition that the NPB matched the contribution. Through this investment, the EIB agreed to assume equity risk on a number of GFs from the FoF's overall portfolio of GFs. The EIB selected eight of the 23 GFs in the FoF's current portfolio, representing 12 % of the total value of the GFs. The EIB calculated the total EFSI eligible investment mobilised and the multiplier based on the total estimated value of the portfolio of GFs as a whole, giving a multiplier effect of 30x and a total investment mobilised of €3.8 billion. Estimates were based on the information available at approval and signature of the operation. We estimate that the actual additional funding from EFSI (i.e. €125 million) in the eight selected GFs, for which the EIB assumed the risk, actually mobilised €1 billion of investments, and that the actual multiplier effect was around 8x (***Figure 8***).

Figure 8 – Example of estimated investment mobilised for a Fund of Funds (FoF) structure



Source: ECA

Risk of double counting in calculating the total investment mobilised and the multiplier effect

58 The EIB Group can finance an investment through a number of different channels and operations. This creates a risk of double counting when calculating and reporting the total investment mobilised and the multiplier effect.

59 The EFSI KPI-KMI methodology recognised this risk and required adjustments when reporting aggregated indicators. However, at individual operation level, the multiplier calculation methodology provided guidance on making adjustments where an EFSI operation is financed from both the SMEW and the IIW but did not detail the scenario, where the EIB supports an investment both directly and indirectly through different EFSI operations⁴⁷.

⁴⁷ EFSI EIB Multiplier Calculation Methodology of October 2015.

60 We found that the EIB Group made such adjustments in the case of debt-type EFSI operations jointly financed from the SMEW and the IIW. However, at the time of the audit, no cases of adjustments for other types of double counting had been reported in the EFSI operational reports.

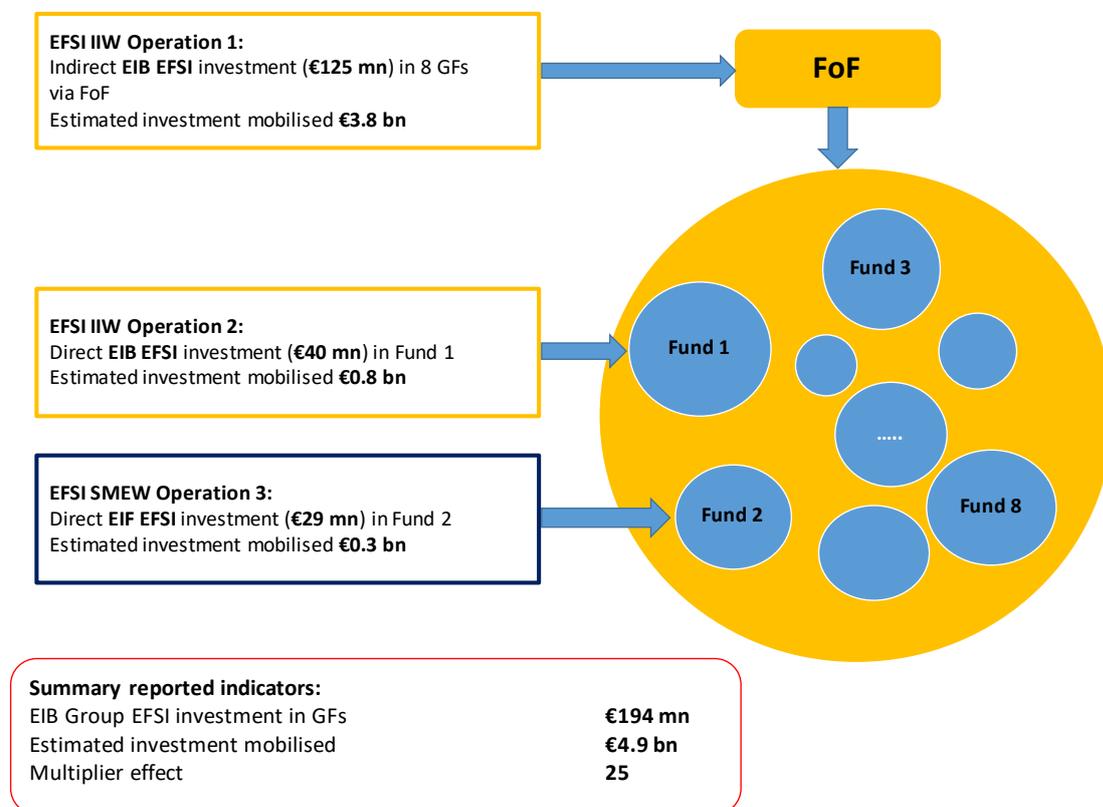
61 We found a case where both the EIB and the EIF had agreed to invest directly in two funds that the EIB had also agreed to support indirectly via a FoF⁴⁸. The EIB reported a direct investment of €40 million, with an estimated EFSI investment mobilised of €0.8 billion⁴⁹. The EIF reported a direct investment of €29 million, with an estimated investment mobilised of €0.3 billion⁵⁰. In addition, the EIB reported a €125 million investment in the FoF, with an estimated investment mobilised of €3.8 billion. Thus, the EIB Group reported an EFSI financing totalling €194 million (40+29+125 million) and estimated investment mobilised by EFSI totalling €4.9 billion (0.3+0.8+3.8 billion), giving an average multiplier effect of 25x. However, it did not adjust for double counting. Allowing for double counting, we estimate the investment mobilised for the three EFSI operations to be €1 billion and the average multiplier effect to be 5x. **Figure 9** illustrates this case.

⁴⁸ The FoF is the same as mentioned in **paragraph 56**.

⁴⁹ Calculated as follows: Target fund*84 % (adjustment for management fees)*2.54*90 % (assuming 10 % co investments outside the EU).

⁵⁰ Calculated as follows: Actual fund size*75 % (adjustment for management fees)*2.5.

Figure 9 – Example of a case of investment in private equity funds via different channels, leading to double counting of the estimated investment mobilised



Source: ECA.

Comparison with the leverage effect

62 Given that EU financial instruments and EFSI operate in similar ways, there should be a common framework for monitoring and assessing their performance in catalysing investments. In our previous report⁵¹ we recommend to the Commission to provide a definition for the leverage of financial instruments applicable across all areas of the EU budget. This definition should clearly indicate how the amounts mobilised by the EU and national public contributions are determined, possibly following the OECD's guidelines on the subject.

63 The EIB and the Commission introduced the *multiplier effect* specifically for EFSI, in line with the EFSI regulation. For existing EU financial instruments supported by the EU budget, the Commission reports on the *leverage effect*, as required by the Financial

⁵¹ Recommendation 3 of ECA Special report 19/2016 "Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period".

Regulation⁵². Whereas the *multiplier effect* expresses total investment mobilised as a multiple of the total EFSI contribution, the *leverage effect* expresses the total finance made available to the final beneficiary as a multiple of the EU's contribution.

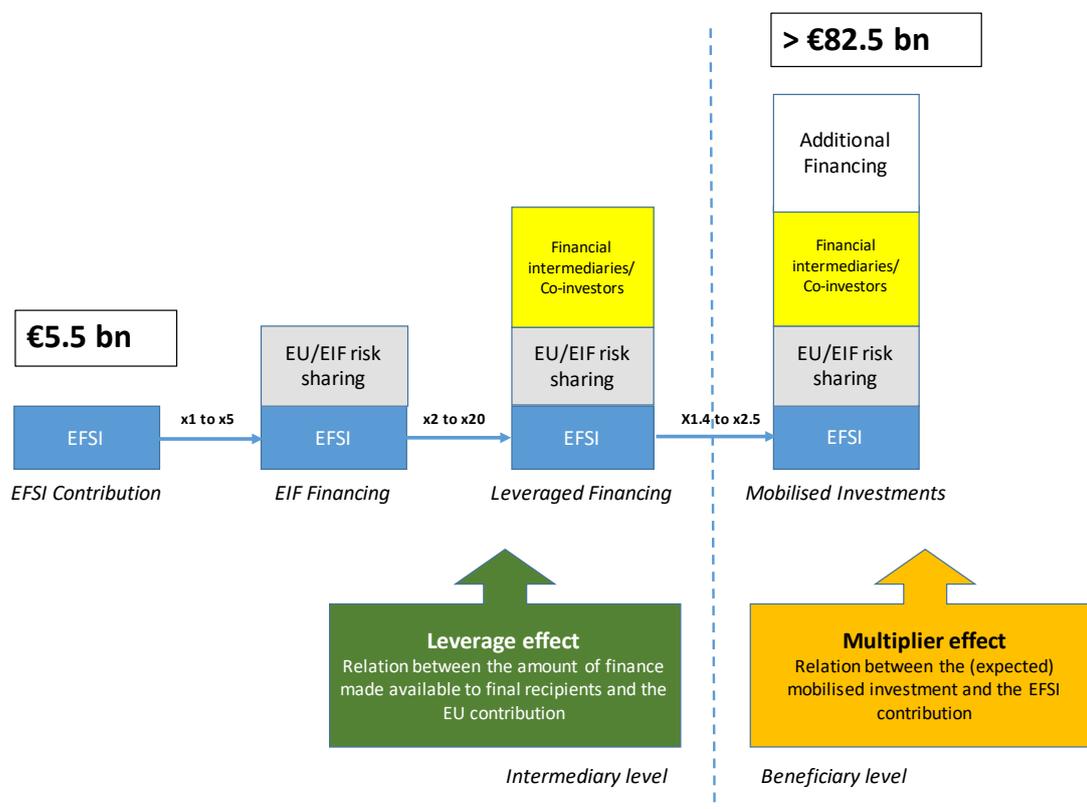
64 The *leverage effect* is calculated on the basis of the finance made available to final recipients, excluding any contributions they may make that are not directly attributable to the financial instrument. The *multiplier effect*, on the other hand, is based on the investments made by the final recipients (i.e. with funds received from the EIB/EIF or the financial intermediary supported by the EIB Group, the final recipient's own funds and/or funds made available by other investors, etc.). Hence, the *multiplier effect* will generally have higher values than the *leverage effect*⁵³. **Figure 10** shows the relationship between the two indicators, based on an example of an intermediated operation⁵⁴.

⁵² In accordance to Article 140(8) of the Financial Regulation, for each financial instrument, the Commission should report on the *leverage effect*. Article 223 of the Rules of Application further defines the *leverage effect* as being "equal to the amount of finance to eligible final recipients divided by the amount of the Union contribution".

⁵³ For example, for the InnovFin – H2020 Loan Services for R&I, the target leverage is 9x and the multiplier effect is 18x. (Source: Draft General Budget of the European Union for the Financial Year 2019, Working Document Part X – Financial Instruments, COM(2018) 600, May 2018, p. 30).

⁵⁴ An operation where the EIB makes a loan to local banks or other intermediaries which subsequently provide additional lending to the final beneficiaries.

Figure 10 – Simplified example of the relationship between the various levels of the financing chain for intermediated operations



Source: ECA, based on illustrations in the EIF EFSI Multiplier Calculation Methodology of December 2015, updated in March 2018.

EFSI reaches different sectors but its geographical distribution is not balanced

65 There are no geographical or sectoral quotas for EFSI, and it supports projects on a demand-driven basis. Nevertheless, EFSI's investment guidelines stipulate that "excessive sectoral and geographical concentration" should be avoided⁵⁵, and the EFSI Strategic Orientation⁵⁶ sets the indicative limits for such concentrations for the IIW, which are not binding targets. The combined share of IIW signed amounts in any three Member States should not exceed 45 % of the total volume of the EFSI portfolio at the end of the investment period. Additionally, IIW signatures should not exceed the 30 % concentration limit in any sector.

⁵⁵ Annex II to the EFSI Regulation, Section 8.

⁵⁶ EFSI Strategic Orientation of 15 December 2015.

66 We therefore analysed the distribution of EFSI portfolio per sector and Member State. We further examined the role of NPBI, and investment platforms in addressing the issue of geographical concentration. Furthermore, cooperation and coordination between the EIB and NPBI, including at the level of Investment Platforms, should reinforce EFSI project pipeline by supporting the identification and development of projects and thus contribute to a better geographic reach.

Sectoral and geographical distribution of EFSI

67 Regarding the distribution per sector as at 30 June 2018, the different sectors covered by EFSI under the IIW were within the threshold of 30 %, with the energy sector accounting for 27 %, research, development and innovation for 22 %, financial support to SMEs and mid-caps for 19 % and transport for 15 %. ICT, environment and resource efficiency, and human capital account for the rest⁵⁷.

68 As at 30 June 2018, financing under the IIW was concentrated (47 %) in three Member States⁵⁸, thus exceeding the IIW geographical concentration limit of 45 % in any three Member States as set in EFSI's Strategic Orientation. There are no concentration limits set for the SMEW, but the same three Member States accounted for 30 % of the financing.

69 Several studies have pointed out EFSI's unbalanced geographical distribution as at the end of 2016⁵⁹. The latest "Independent Evaluation of the EFSI Regulation" of June 2018 also concludes that "EFSI financing still remains highly concentrated"⁶⁰ at the end of 2017. In particular, it points out that 82 % of all signed EFSI financing went towards the 15 Member States pre-dating the 2004 EU enlargement (the "EU 15").

70 EFSI financing mostly ended up in the EU 15 countries, both in absolute amounts and per capita. EFSI financing was addressing investment needs of some of the most crisis-hit countries: Italy, Spain, Greece and Portugal. Although the average GDP per capita in EU 13 is significantly lower than the EU 15 average, the EU 13 received less

⁵⁷ i.e. for 9 %, 5 % and 3 % respectively.

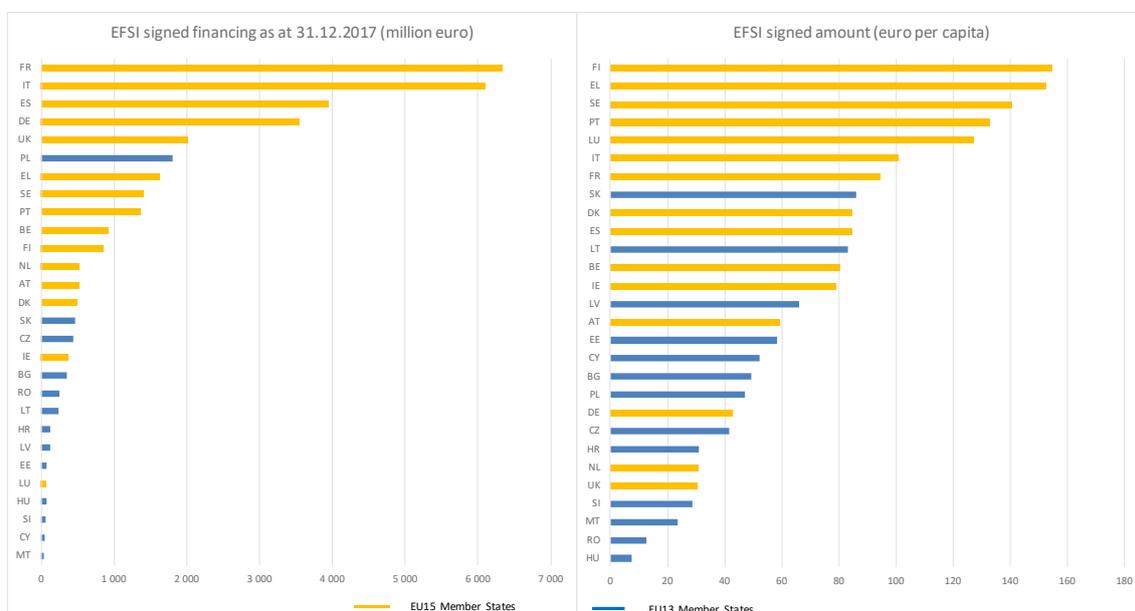
⁵⁸ France (18 % or €6.2 billion), Italy (17 % or €6 billion) and Spain (12 % or €4.3 billion).

⁵⁹ EIB, "Evaluation of the functioning of the European Fund of Strategic Investments (EFSI)", September 2016, Section 2.2, p. 6 and 7, and Ernst & Young, "Ad-hoc audit of the application of the Regulation 2015/1017", 14 November 2016.

⁶⁰ "Independent Evaluation of the EFSI Regulation" of June 2018, p. 11.

EFSI support per capita (**Figure 11**). We note, however, that EFSI is not an instrument of cohesion policy and operates in a demand driven manner.

Figure 11 – Geographical distribution of EFSI signed financing as at 31 December 2017



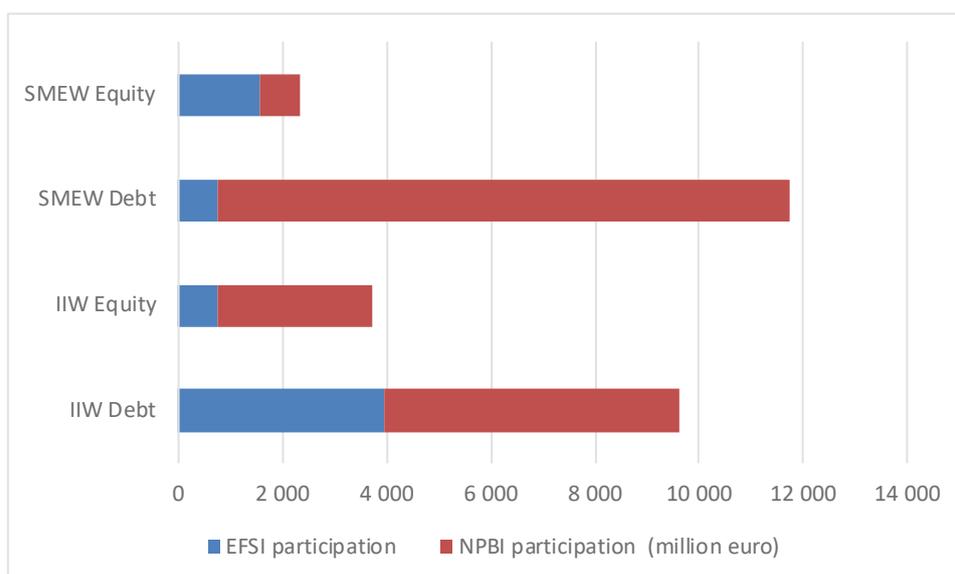
Note: Multi-country operations corresponding to the SMEW are not represented.

Source: ECA, based on 2017 EFSI operational reports and Eurostat data.

NPBIs' contribution to geographical diversification

71 As at 31 December 2017, NPBIs' total participation in EFSI projects amounted to €20.4 billion of signed operations, spread between 140 EFSI operations. This is still far from the indicative amount of up to €34 billion that NPBIs originally pledged to provide at the launch of EFSI in 2015. **Figure 12** shows their involvement in the different EFSI sub-windows.

Figure 12 – NPBI involvement in EFSI signed operations as at 31 December 2017



Source: ECA based on EIB and EIF data.

72 IIW operations were mainly co-financed by NPBI from four Member States: France, Germany, Italy and Spain. These accounted for 27 out of the 39 signed operations with NPBI (69 %) as at 31 December 2017, and €3.6 billion out of the total EFSI signed amount of €4.7 billion (77 %). Under the SMEW, operations co-financed with NPBI were also concentrated mainly in Italy, France and Germany (debt portfolio), and had as an investment focus (when excluding the multi-country operations) Spain, France and Germany (equity portfolio). **Annex V** presents detailed information on NPBI involvement per Member State.

73 Due to the wide variety of NPBI in the EU and their differing levels of experience, scope of activities and involvement in financial instruments, their contribution to EFSI varies considerably, resulting in geographical concentration in Member States with well-established NPBI. In fact, a number of Member States did not have their own national promotional banks, and started setting up one only recently. The role of the Advisory Hub was to support less developed NPBI's with Technical Assistance on various areas.

Contribution of Investment Platforms to geographical diversification

74 NPBI generally consider Investment Platforms to be suitable for helping to finance smaller or riskier projects, combining financing from several sources and optimising the allocation of risk between various investors.

75 However, the emergence of Investment Platforms has been slow, especially in EFSI's first year and a half of operation. This was due, firstly, to the time taken to establish the rules and operational procedures for these platforms (one year) and, secondly, to the complexity of negotiating co-financing agreements.

76 Under the SMEW, the EFSI Steering Board approved three Investment Platforms in 2016⁶¹. All platforms were set up with the Cassa Depositi e Prestiti, the Italian NPBI, though one of the Investment Platforms is also opened to other NPBIs. No new Investment Platforms were approved and/or signed in 2017 under the SMEW. At the end of 2017, the Investment Committee had approved 35 Investment Platforms under the IIW⁶², for an EFSI financing of €4.2 billion, representing 11 % of the overall EFSI IIW approved financing. Of these, 21 were signed⁶³, and €88.5 million or 3.3 % was disbursed to operations classified as Investment Platforms.

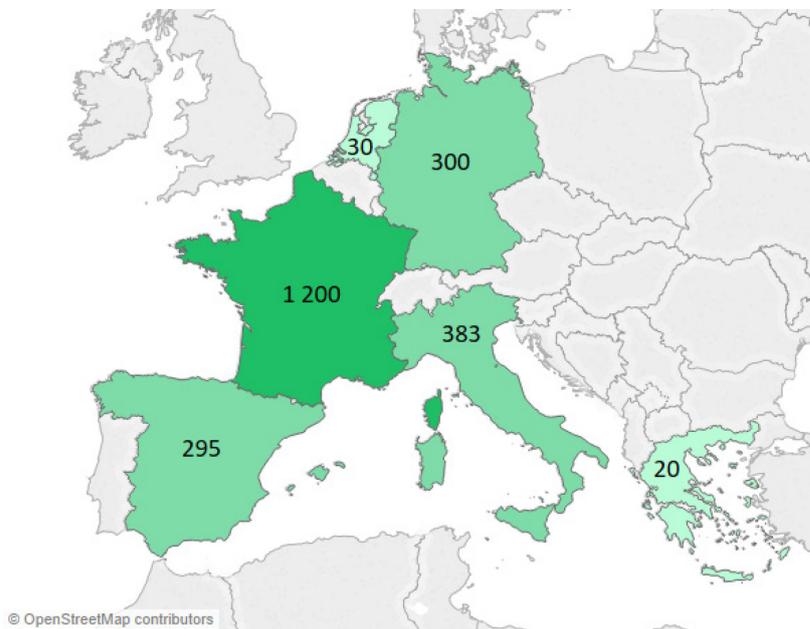
77 17 out of the 21 Investment Platforms signed under the IIW involved NPBIs, in some cases with the same NPBIs participating in several Investment Platforms. The establishment of Investment Platforms depends highly on the participation of public entities (NPBIs, International Financial Institutions or managing authorities). The Investment Platforms are predominantly in those Member States (e.g. France, Italy, Germany and Spain) with highly active and well-established NPBIs (**Figure 13**). Those are the countries which also account for the biggest volume of EFSI financing and the highest number of operations.

⁶¹ EFSI Thematic IP for Italian SMEs (benefitting from €112.5 million of EFSI SMEW support through COSME LGF); ITAtech EFSI Thematic IP for technology transfer in Italy (benefitting from 50 % or up to €100 million euro EIF equity co-investments, primarily from the SMEW Equity Product Sub-window 2 resources); and EIF –NPI Securitisation Initiative (ENSI) (a collaborative platform for cooperation and risk-sharing between the EIF and several NPBIs in the context of the new securitisation instrument planned under the EFSI SMEW).

⁶² 29 EFSI IIW operations, four Global Authorisations and two co-financing agreements with Cassa Depositi e Prestiti.

⁶³ For an EFSI financing €2.65 billion, representing 10 % of the overall EFSI IIW signed financing.

Figure 13 – EFSI financing for Investment Platforms as at 31 December 2017 (million euro)



Source: ECA, based on EIB data.

78 In the first three years of EFSI's operation, Investment Platforms have made a relatively limited contribution to geographically diversifying the EFSI portfolio, including in favour of smaller and less developed markets and/or Member States with less experienced NPBI or none at all.

79 The EFSI 2.0 Regulation reinforces the role of Investment Platforms by offering more possibilities to bundle projects and making it possible to use the full delegation model for these platforms and NPBI in the case of sub-projects with an EFSI contribution of below €3 million. The extent to which such new possibilities will improve the take-up of investment platforms in Member States without developed NPBI will depend, among other things, on providing those NPBI with support, including technical assistance.

Conclusions and recommendations

80 EFSI was initially set up to use a €16 billion EU budget guarantee and €5 billion of EIB own resources to enable the EIB Group to provide around €61 billion of EIB Group financing with the goal of mobilising by July 2018 an additional €315 billion of strategic investments in infrastructure and SMEs, covering most EU policy areas and all Member States.

81 We conclude that EFSI has been effective in raising finance to support substantial additional investment in the EU. However, the reported estimate of investment mobilised does not take account of the fact that some EFSI operations replaced other EIB operations and EU financial instruments or the fact that a part of the EFSI support went to projects that could have been financed from other sources, albeit on different terms. In addition, action needs to be taken to improve the geographic spread of EFSI supported investment.

82 We found that the EIB Group had approved €59.3 billion of EFSI financial operations as at 30 June 2018. Moreover, EIB approved financing reached €65.5 billion of EFSI financing by 17 July 2018. A number of factors contributed to this achievement, including the inherent flexibility of the instrument and streamlined governance arrangements.

83 EFSI support has enabled the EIB to more than quadruple its volume of higher-risk lending activities compared to 2014. However, the EIB has signed fewer EFSI-related Special Activities operations than planned ([paragraphs 15 to 23](#)).

84 In order to deploy the EFSI IIW, the EIB relied mainly on its classic long-term senior investment loans, but made little use of the subordinated debt product for corporate or project finance. The EIB also developed new intermediated equity and debt products targeting SMEs and mid-caps. However, the EIB signed fewer risk-sharing agreements with financial intermediaries than expected, due to lengthy and complex ex-ante due diligence and delegation arrangements ([paragraphs 24 to 29](#)).

Recommendation 1 – Promoting the justified use of higher-risk EIB products under EFSI

For EFSI operations with NPBI, the EIB should look for opportunities to increase the use of wider variety of subordinated debt finance, where duly justified. This would

help ensure that EFSI financing is complementary to the financing provided by the NPBIs. The EIB should also promote the use of appropriate risk-sharing products for all NPBIs, especially those that are currently under-represented in EFSI operations.

Timeframe: during the remaining implementation period of EFSI (by end 2020).

85 To a certain extent, some of the EFSI supported projects could have been financed through other centrally managed EU financial instruments. In addition, we noted a need to consider potential overlaps between EFSI operations under the IIW and financial instruments under shared management (*paragraphs 30 to 37*).

Recommendation 2 – Encouraging complementarity between EU financial instruments and EU budgetary guarantees

In the context of the new Multiannual Financial Framework programmes, the Commission should propose that the EU financial instruments are coherent and complementary in terms of the respective policy objectives to be achieved, the market failures to be addressed and the eligibility criteria for the projects to be funded, so as to avoid competition between instruments.

Timeframe: at the adoption of the proposals for the spending programmes under the Multiannual financial framework 2021-2027.

86 The EIB assessment carried out to apply the EFSI regulation’s definition of additionality and to classify operations as Special Activities does not necessarily mean that the project financed could not have taken place without EFSI support. Our survey results highlight that a portion of the IIW-financed projects would have been undertaken even without EFSI support, and that the EIB financing was preferred mainly because it was cheaper and/or the EIB offered longer maturity. We found specific cases where the EFSI projects could have been financed by private and other public sources, or by the EIB as a normal operation albeit under different terms (*paragraphs 38 to 47*).

Recommendation 3 – Improving the assessment of whether potential EFSI projects could have been financed from other sources

The EIB should assess at the appraisal stage of the project the likely replacement of other sources of finance. The EIB should use this information in assessing the eligibility of EFSI operations.

Timeframe: during the remaining implementation period of EFSI (by mid 2019).

87 We found that the methodology used to estimate the investment mobilised and the multiplier effect overstate, in some cases, the extent to which EFSI support actually induces additional investment in the real economy. Although the methodology in place provided guidance on making adjustments for double counting, at the time of the audit, it did not detail all types of cases. The lack of comparable performance and monitoring indicators for all EU financial instruments diminishes transparency and the ability to assess results (paragraphs 48 to 64).

Recommendation 4 – Estimating better the investment mobilised

- (a) For all the investment support instruments for the next MFF, the Commission should define a set of indicators measuring the expected outputs and results of budgetary guarantees (such as EFSI) in a realistic manner that enables comparison with other EU financial instruments. In particular, if “investment mobilised” and the “multiplier effect” are used as indicators, the calculation methodology and reporting arrangements should appropriately reflect the extent to which EU budget guarantee support actually induces or mobilises the investment of others;

Timeframe: when making proposals for the establishment of new financial instruments.

- (b) The EFSI multiplier calculation methodology developed jointly by the Commission and the EIB should take proportionate measures to the effect that cases where the EIB supports an investment both directly and indirectly through different EFSI operations are identified and corrected in a timely manner, so as to avoid double counting;

Timeframe: by mid 2019

88 At the end of 2017, the EFSI IIW’s distribution among sectors was within the indicative limits set in the EFSI Strategic Orientation. However, EFSI signed financing operations were not sufficiently geographically balanced. The countries with the highest EFSI uptake were those with the most developed and active National Promotional Banks and Institutions. Investment platforms show potential for financing smaller projects and combining different sources of financing, but their emergence has been slow and they have so far contributed little to the geographical diversification of EFSI. Improving geographical balance and the take-up of Investment Platforms will

depend, among other things, on providing less developed NPBs with support, including technical assistance. (paragraphs 65 to 79).

Recommendation 5 – Improving the geographical spread of EFSI supported investment

The Commission and EIB should, through the EFSI Steering Board assess the root causes of the observed geographical spread and provide recommendations for actions to be taken in the remaining EFSI implementation period. The EFSI Steering Board should assess the effect of the measures taken.

Timeframe: during the remaining implementation period of EFSI (by end 2019).

This Report was adopted by Chamber V, headed by Mr Lazaros S. Lazarou, Member of the Court of Auditors, in Luxembourg at its meeting of 8 January 2019.

For the Court of Auditors

Klaus-Heiner Lehne
President

Annexes

Annex I — Reported data for EFSI operations as at 30 June 2018

EFSI financing signed and estimated investment mobilised as at 30 June 2018

(amounts in million euro)

Windows	No of operations signed	EFSI signed financing	of which, disbursed amounts	Estimated eligible investments mobilised (signed operations)	Private finance mobilised amount	% in estimated eligible investment mobilised	Estimated investments mobilised (approvals) ¹	Multiplier
IIW	Debt operations	235	12 912	90 743	54 743	60 %	130 157	11.5
	Equity-type operations ²	77	707	58 451	48 058	82 %	62 720	15.6
	Total	312	13 619	149 193	102 801	69 %	192 877	13.3
SMEW	Debt operations	254		58 343	38 498	66 %	67 366	38.4
	Equity operations	130		28 508	18 977	67 %	38 645	9.9
	Total	384	12 428	86 851	57 475	66 %	106 011	19.8
EFSI aggregated	Debt operations	489		149 086	93 242	63 %	197 523	16.5
	Equity operations	207		86 958	67 035	77 %	101 365	13.1
	Total	696	42 890	236 045	160 277	68 %	298 888	15.0
% to target				75 %			95 %	
EFSI financing for IIW approved operations not yet signed			12 657					
Indicative volume of EFSI IIW approvals expected for the next 12 months			12 858					

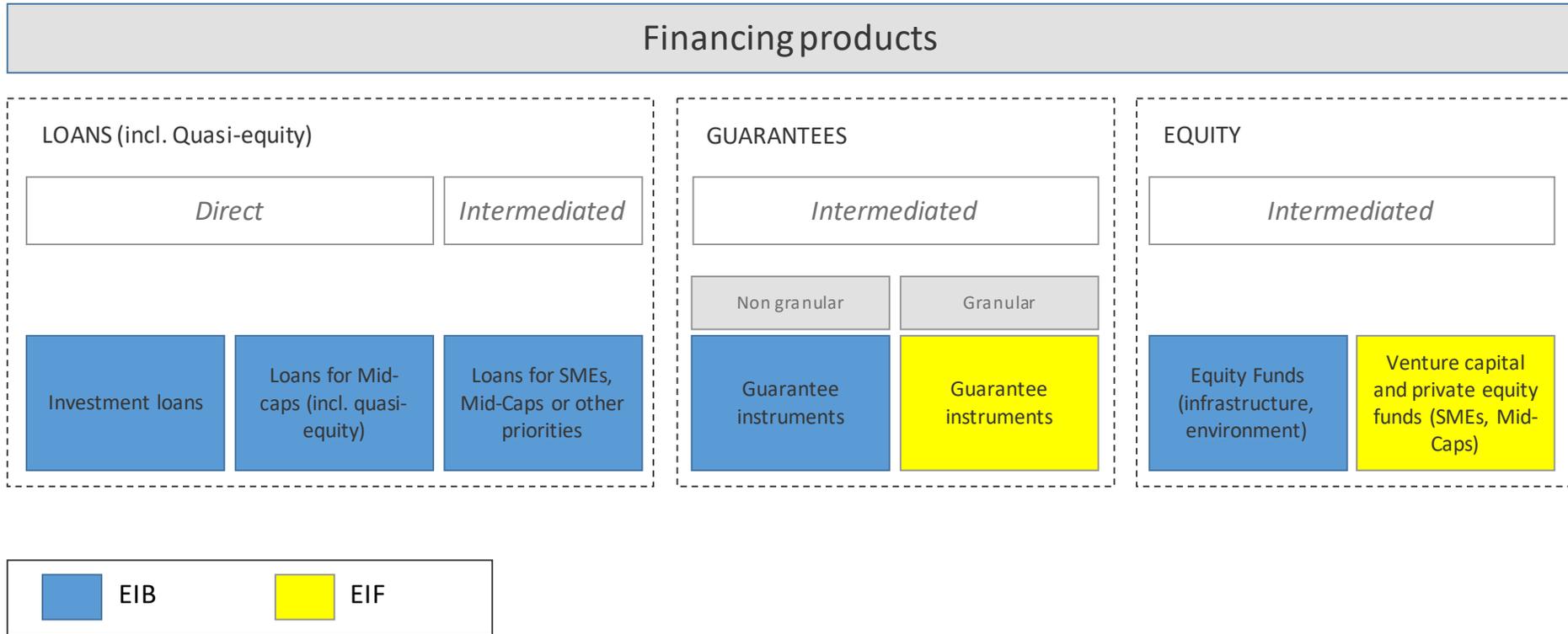
¹ EFSI approved operations include all operations approved by the EFSI Investment Committee up to 30 June 2018 (less operations cancelled or closed).

² IIW equity type operations are disbursed gradually, according to the funds' calls for contributions.

The amounts disbursed correspond both to EU guaranteed and EIB's own risks contracts.

Source: EFSI Year End Operational Report as at 30 June 2018.

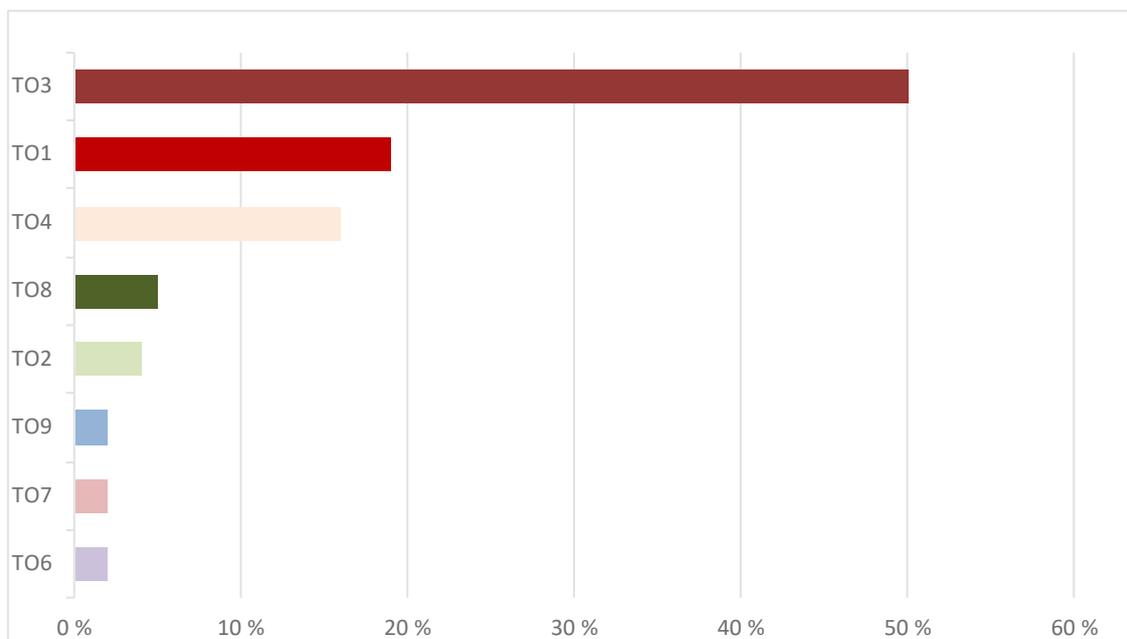
Annex II — EIB group product categories



Source: EIB's presentation "Delivering on the European Fund for Strategic Investments (EFSI)", January 2018, Slide 10.

Annex III — ESIF financial instruments for the 2014-2020 period

Commitments to FIs in the funding agreements as percentage of total commitment by thematic objective (TO) based on the reporting at the end of 2016 for a total committed amount of €13.3 billion (ESIF).



TO 1 – Research and innovation (19 %)

TO 2 – Information, communication and technology (4 %)

TO 3 – SME competitiveness (50 %)

TO 4 – Low carbon economy, i.e. mainly in energy efficiency and renewable energy (16 %)

TO 6 – Sustainable resources (2 %)

TO 7 – Sustainable transport (2 %)

TO 8 – Employment and labour mobility (5 %)

TO 9 – Skills, education, learning (2 %)

Source: DG REGIO's report "Financial instruments under the European Structural and Investment Funds (the programming period 2014-2020)", December 2017.

Annex IV — List of EFSI performance and monitoring indicators

	Key Performance Indicator (KPI)/ Key Monitoring Indicator (KMI)	Description	Target/Limit
Use of the EU Guarantee and fulfilment of objectives and criteria	KPI 1	Value added scores of operations, broken down by rating distribution for: - IIW: (i) contribution to EFSI policy objectives; (ii) quality and soundness of project; and (iii) Technical and financial contribution. - SMEW: (i) impact assessment; (ii) quality assessment; and (iii) contribution to the operation.	No qualitative target for this KPI is determined in the EFSI Regulation.
	KPI 2 ⁽¹⁾	The share of operations signed as special activities (by number of operations and amount). NB: SMEW operations are considered to be fully compliant with the Special Activities classification (100%).	No target for this KPI is determined in the EFSI Regulation.
	KMI 1 ⁽¹⁾	The geographical concentration: - broken down by volume of operations supported by country, and - number of countries reached.	Concentration limit of 45 % for three Member States.
	KMI 2 ⁽¹⁾	The sector concentration , broken down by volume of signed operations supported by the EU guarantee.	Concentration limit of 30 % for three sectors.
Contribution to direct macroeconomic impact and mobilisation of finance	KPI 3	The total investment (mobilised) ⁽²⁾ . - IIW: the volume of additional EFSI eligible investment (public or private, including financing mobilised through the EIF under EFSI) in the real economy. - SMEW: the maximum amount of financing available to final recipients ('Maximum Portfolio Volume') multiplied by 1.4 for guarantees or eligible target fund size/final fund size multiplied 2.5 for equity products.	Target to generate a total of €315 billion investment by 4 July 2018 (3 years of the date of entry into force of the EFSI Regulation 1017/2015).
	KPI 4	The private finance mobilised: IIW: total amount of private finance mobilised by the EFSI Guaranteed Operations, determined only on the basis of financing and risk-bearing capacity provided provided by non-public entities.	No target for this KPI is determined in the EFSI Regulation. Instead, Article 6 of the EFSI Regulation calls to "maximise, where possible, the mobilisation of private sector capital.
	KMI 3	The multiplier effect: the notional internal guarantee multiplier and the external investment multiplier.	Implied target of 15x
	KMI 4	Employment impact: Forecast number of direct jobs created/ sustained.	No target for this KMI is determined in the EFSI Regulation.
	KMI 5 ⁽¹⁾	The share of operations co-financed with NPBs , by number of operations and amount.	No target for this KMI is determined in the EFSI Regulation.
	KMI 6 ⁽¹⁾	The share of operations co-financed with ESI Funds and other EU instruments other than EFSI, by number of operations and amount.	No target for this KMI is determined in the EFSI Regulation.

⁽¹⁾ Data based on signed amounts; the remaining KPIs/KMIs data is based on ex-ante estimates until project completion.

⁽²⁾ In Schedule II of the EFSI Agreement, KPI 3 for both IIW and SMEW is referred to as "the total investment supported and financing of working capital". In the EFSI IIW SMEW Operational Reports is also referred as the "Total EFSI Eligible Investment Mobilised".

Source: EFSI Agreement, Schedule II and EFSI Methodology for Key Performance and Monitoring Indicators (KPI-KMI), Document 12 of SB/07/2015 of 15 December 2015.

Annex V — EFSI operations with NPBI participation as of 31 December 2017

Country	Infrastructure Window						SME Window					
	Debt operations with NPBI involvement			Equity operations with NPBI involvement			Debt operations with NPBI involvement			Equity operations with NPBI involvement		
	Number of operations	EFSI participation (mio €)	NPBI participation (mio €)	Number of operations	EFSI participation (mio €)	NPBI participation (mio €)	Number of operations	EFSI participation (mio €)	NPBI participation (mio €)	Number of operations	EFSI participation (mio €)	NPBI participation (mio €)
Belgium							2	5.7	76.3	1	30.0	10.0
Bulgaria	1	150.0	75.0				2	2.4	37.6			
Czech Republic							1	19.5	391.7			
Denmark							6	47.6	303.7			
Germany	4	1 004.4	2 192.0				12	111.4	1 511.9	3	110.0	30.0
Estonia							1	4.5	115.5			
Ireland							3	37.3	370.8	1	30.0	15.0
Spain	2	531.9	10.0	4	210.0	1 720.0	3	87.5	1 480.5	4	155.0	99.4
France	6	845.0	2 090.5	4	215.0	635.0	6	140.0	740.0	4	145.0	88.0
Croatia	1	50.0	50.0				1	2.0	10.0			
Italy	6	781.0	582.5	1	21.8	50.0	5	226.2	4 801.8	2	60.0	55.0
Latvia							2	3.6	29.4			
Hungary							2	13.4	325.0			
Netherlands	1	100.0	54.0							1	30.0	3.0
Austria	1	70.0	13.8				1	3.5	81.5	1	12.5	5.0
Poland	3	158.3	156.8				1	17.2	365.8			
Slovenia	1	51.0	37.0				1	8.1	171.9			
Finland										1	22.5	32.5
Sweden							3	24.0	120.1			
United Kingdom	1	148.0	75.4				2	5.1	25.4	1	54.0	25.9
Multi Country	1	75.0	332.6	2	300.0	550.0				21	916.0	419.2
Total	28	3 964.7	5 669.7	11	746.8	2 955.0	54	759.0	10 958.8	40	1 565.0	783.0

Note: In the SMEW Equity window are excluded nine operations with NPBI participation are excluded, which had a signed amount of €0 as at 31.12.2017.

Source: ECA based on EIB and EIF data.

Glossary

Connecting Europe Facility (CEF): EU funding instrument that targets infrastructure investments and trans-European networks in the field of transport, energy and digital services. The instrument was set up through Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010 (OJ L 348, 20.12.2013, p. 129).

EFSI Regulation (or EFSI 1.0 Regulation): 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).

EFSI 2.0 Regulation: Regulation (EU) 2017/2396 of the European Parliament and of the Council of 13 December 2017 amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments (EFSI) as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub (OJ L 345, 27.12.2017, p. 34).

EFSI revised Agreement: Amendment and Restatement Agreement dated 21 July 2016 between the European Union and the European Investment Bank relating to the Agreement on the Management of the European Fund for Strategic Investments and on the granting of the EU guarantee dated 22 July 2015.

Financial Regulation (applicable during the period 1 January 2013 -30 July 2018): Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, repealed by Regulation (EU, Euratom) 2018/1046 (OJ L 298, 26.10.2012, p. 1).

Horizon2020 Regulation: Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon2020 – the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC (OJ L 347, 20.12.2013, p. 104).

Infrastructure and Innovation Window (IIW): EFSI guaranteed operations which support investments in infrastructure and innovation and are carried out by the EIB. The IIW is composed of a debt portfolio and an equity-type portfolio of operations.

Investment Platforms (IPs): According to EFSI Regulation, these are operations that:

- (i) include a special-purpose vehicle (private equity fund or infrastructure fund, or other type of SPV), risk-sharing agreement or a systematic co-financing agreement with a NPBI;
- (ii) support several projects, including infrastructure projects;
- (iii) include participations from public entities (NPBIs, International Financial Institutions or Managing Authorities) or contributions from public sources of funding.

InnovFin: Financial instrument under the Horizon2020 programme that aims to facilitate and enhance access to finance for innovative business and other innovative entities in Europe. It is implemented by EIB Group and consists of the SME guarantee facility (InnovFin SMEG), equity facility (InnovFin Equity or IFE) and direct operations implemented by the EIB (InnovFin EIB).

Loan Grading: The EIB uses a loan grading system for the internal credit risk assessment of its lending operations. The loan grading system is an important part of the loan appraisal and monitoring process. It is also used as a reference point for credit risk pricing.

Multiannual Financial Framework (MFF): A seven-year spending plan that translates the EU's priorities into financial terms. The current MFF period started in 2014 and will end in 2020.

National Promotional Banks and Institutions (NPBIs): Legal entities carrying out financial activities on a professional basis which are given a mandate by a Member State or a Member State's entity at central, regional or local level, to carry out development or promotional activities.

Small and medium-sized enterprises (SMEs): Micro, small and medium-sized enterprises as defined in Article 2 of the Annex to Commission Recommendation 2003/361/EC.

Small and medium sized enterprises Window (SMEW): EFSI guaranteed operations that aim to increase the access to finance for SMEs and Mid-cap companies and are carried out by the EIF. The SMEW is composed of a debt portfolio and an equity-type portfolio of operations.

Small mid-cap companies: Small mid-cap companies are entities with up to 499 employees that are not SMEs (EFSI Regulation, Article 2). Mid-cap companies have up to 3 000 employees.

Signature: Event representing the signature of a finance contract by the EIB.

Special Activities: The EIB refers to its higher-risk financing operations as Special Activities. This includes debt operations with an expected loss above 2 % and all equity-type operations.

Subordinated debt: This is a loan or security that ranks below other loans or securities with regard to claims on assets or earnings. It is also referred as subordinated loan or junior debt. In case of a default of the borrower, creditors who own subordinated debt will be repaid only after senior debt owners receive their payments in full.

REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE EUROPEAN COURT OF AUDITORS

“EUROPEAN FUND FOR STRATEGIC INVESTMENT: ACTION NEEDED TO MAKE EFSI A FULL SUCCESS”

EXECUTIVE SUMMARY

I. The Commission and the European Investment Bank (EIB) wish to provide the following additional information.

Stimulating investment and creating jobs has been the top priority of the Commission. Since the global economic and financial crisis, the EU has been suffering from consistent low levels of investment. In particular, by 2014 investment had fallen significantly below its long-term historical average. As a response to the subdued investment levels, the Commission launched in November 2014 the Investment Plan for Europe with investment target of EUR 315 billion to be mobilised within three years. Building on its success, the European Fund for Strategic Investment (EFSI) was extended in 2017 with an increased target of at least EUR 500 billion of investments to be mobilised by end-2020 (EFSI 2.0). EFSI 2.0 also addresses the three main issues in relation to EFSI's first year of implementation: it improves additionality, geographical balance and transparency. By 17 July 2018, EFSI has successfully helped to address the gap in investments by mobilising EUR 334.8 billion of investment in the EU. Despite the recent acceleration of investment in the EU, investment rates have not yet reached historical averages. Efforts therefore need to continue to bring investment back to its long-term sustainable trend with particular focus on EU policy priorities. Therefore, the Commission has proposed to continue with an ambitious investment support programme in the next Multiannual Financial Framework, i.e. the InvestEU Programme.

IV. The Commission and the EIB consider that, as a result of the introduction of the EFSI, the majority of the other financial instruments were in fact significantly reinforced, instead of being replaced. Furthermore, the scope of some of the existing financial instruments was refocused in order to reduce some of the observed overlaps with EFSI.

VI. EFSI-operations are demand driven. Therefore, if extended maturities or lower collateral requirements are sufficient to ensure financing to final recipients, according to the sound financial management principles, the Commission and EIB are not insisting on providing subordinated financing where it is not needed to trigger the investment.

VII. Mitigation measures were put in place to address the overlap between the Connecting Europe Facility (CEF) Debt Instrument (DI) and the EFSI. In this context, the Commission and the EIB have put forward an amendment of the CEF DI Delegation Agreement, and repositioning of the CEF DI to increase its complementarity with other financial instruments and with EFSI, expected to be finalised by the year end. CEF DI was re-focussed on more innovative and pioneering projects. In transport, the focus was put in particular on projects contributing to the greening of transport.

VIII. EIB Group considers that the financing provided under EFSI is not fully comparable with other sources of financing as it typically offers different terms and conditions and therefore cannot be seen as replacing them.

Furthermore, under EFSI 2.0, additionality criteria have been further strengthened.

IX. The investment mobilised, as per the methodology, reflects the best estimate of the expected investment in the real economy with actual amounts revised at project completion. Hence, by definition, the ex-ante investment mobilised is an estimate at approval, not an over or under-statement.

The Commission proposal for the InvestEU Regulation contains a wider set of performance and monitoring indicators. Moreover, the new Financial Regulation (EU 2018/1046) defines and clarifies both the concepts of leverage and multiplier effect.

X. Geographic concentration cannot be calculated solely based on the volume of signed financing operations in each Member State. When looking at geographic concentration, the size of economies and population of individual Member States has to be taken into account.

The Commission recognises the importance of the geographical diversification of EFSI. In this respect, the Commission and the EIB have been implementing several measures to increase the geographical balance. This includes enhanced cooperation with National promotional banks (NPB) including through setting up of investment platforms and enhanced cooperation models (e.g. European Investment Fund-National Promotional Institutions Equity platform), facilitation of combination of European Structural Investment Funds and EFSI, and more targeted local outreach, in particular through the Advisory Hub.

XI. The Commission and the EIB accept their respective recommendations and refer to their replies in the recommendations section.

INTRODUCTION

6. EFSI is primarily a demand driven instrument.

The EFSI Investment Guidelines provide that best efforts shall be made to ensure that a wide range of sectors and regions will be covered.

Under the Small Medium Enterprise Window (SMEW) individual products use incentives to reach broad coverage and to avoid concentration.

OBSERVATIONS

Box 1 – Special Activities and EFSI

Second indent, first alinea:

The risk profile of operations under the SMEW is comparable or riskier to the risk profile of the EIB Special Activities. They constitute either equity or guarantee exposures of sub-investment grade quality and would not be possible to be financed by European Investment Fund (EIF) own resources.

24. The rules on operations with investment platforms and National promotional banks and institutions (NPBI) mention that subordination is to be considered a preferred option if viable and if the structure brings added value in view of the promoters financing needs and overall financing costs.

30. The EIB's main goal under EFSI has always been to catalyse and attract new investors. This was achieved by the EIB positioning itself in a more junior credit structural position in favour of other crowded-in investors.

33. The EFSI Regulation provides that the EU guarantee under the EFSI is complementary to existing instruments.

As regards the CEF Debt Instrument (DI):

The launch of EFSI in 2015 had a substitution effect on CEF DI. This is evidenced in the EIB's Internal Evaluation of EFSI, the Commission's Independent Evaluation of EFSI and the Commission's Mid-Term Evaluation of CEF.

Consequently the following mitigation measures were put in place:

- the CEF DI Steering Committee provided in September 2015 and July 2017 revised policy guidance to ensure the complementarity between the instruments. It was decided to focus the CEF DI on the more innovative and pioneering projects in terms of financial structure, sector segment or country. In transport, the focus was put in particular on projects contributing to the greening of transport.
- the Commission and the EIB have put forward an amendment of the CEF DI Delegation Agreement, and repositioning of the CEF DI to increase its complementarity with other financial instruments and with EFSI, expected to be finalised by the year end.

A similar assessment and repositioning was undertaken for InnovFin in June 2017.

In addition, the Commission would like to point out that the EFSI frontloading allowed to reach more quickly the objectives of each specific EU programme and helped to exceed initial targets when frontloading has been transformed into actual top ups.

36. The size of the investment gap in the EU means that there is room and need for intervention from ESIF, centrally managed and national financial instruments. Assessment of the added value of the financial instruments and consistency with other forms of public intervention, which includes EFSI where relevant, are essential requirements before ESI Funds are committed to financial instruments, minimising the risk of overlaps.

37. EFSI could be complementary to ESI Funds and increase leverage and effectiveness of the interventions, as presented in the brochure “European Structural and Investment Fund and European Fund for Strategic Investments complementarities -Ensuring coordination, synergies and complementarity” prepared by the Commission in February 2016. A new, dedicated option to use EFSI and ESI Funds in a complementary manner has been introduced by Regulation 2018/1046.

40. Additionality under EFSI “means the support by the EFSI of operations which address market failures or sub-optimal investment situations and which could not have been carried out in the period during which the EU guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments without EFSI support”.

The additionality assessment always takes into account market failures and sub-optimal investment situations, irrespective of whether the operation is a Special Activity or not.

EFSI 2.0 Regulation further improved the definition of additionality by more clearly defining the Special Activity status and other elements that constitute strong indications of additionality. In this context, the EIB assesses the crowding-in potential of every operation.

41. The sample of Infrastructure and Innovation Window (IIW) operations consisted of 15 projects signed during the first year of the EFSI implementation. The EIB’s appraisal process for projects was reinforced over time for the projects supported from 2017, which is not fully reflected in the ECA’s findings.

44. EFSI 1.0 Regulation established a link between additionality and Special Activity status. EIB notes that they have provided a qualitative assessment of additionality in the documentation submitted to the Investment Committee since the launch of EFSI. The amended EFSI Regulation further clarifies the definition of additionality and the documentation submitted to the Investment Committee therefore includes a broader assessment of additionality aspects (including on market failures and suboptimal investment situations).

45. EFSI 2.0 Regulation improved the definition of additionality by more clearly defining the Special Activity status and other elements that constitute strong indications of additionality.

Box 2 – Example of an EFSI project that would have been financed by the market, although not on such favourable terms

The EIB considers that the project represented a sub-optimal investment situation (low gas penetration in that Member State and replacement of more polluting energy sources), which would not have been financed without EFSI support. The financing terms offered by the EIB were more suitable for the type of investment than those offered by the market.

Box 3 – Example of an EFSI operation replacing traditional EIB financing

In EIB's view, the hybrid bond has not displaced the traditional EIB financing as it has features, such as equity content and exclusion from leverage ratios, which allow the creation of a much more "additional" product than the classic EIB loan. Indeed, the hybrid bond, as a subordinated instrument, brings not only liquidity (as a normal EIB senior loan would do), but has additional impact by increasing the financial headroom of the borrower for additional investments.

55. Once EFSI support is deemed additional and approved by the EFSI Investment Committee, EFSI eligible investment costs related to the approved operation count towards the investment target under EFSI.

Box 4 – Financing of an infrastructure project

The amount of investment mobilized was calculated following the approved methodology. The reduction of the loan amount was a consequence of the crowding-in of private investors yet the EIB loan was instrumental to closing the financing gap within the time foreseen for closing. Without EIB the other funders would not have been able to bridge the gap increasing their loan amounts.

The relationship between EIB EFSI Financing Volume and EFSI Eligible Investment Mobilised provides a project specific estimate of the extent to which EFSI support can be linked to new investment. The exact cause and effect relationship in inducing financing is generally difficult to demonstrate and cannot be conclusively proven, especially ex-ante or during the design or implementation phase. Depending on the data availability, statistical analysis may be conducted ex-post to provide an estimate of causality.

59. The EIB EFSI multiplier calculation methodology adopted in 2015 already explained in general terms how to estimate investment mobilised when more than one EIB EFSI financing is provided for one project. In October 2018, the EFSI Steering Board approved an updated EIB EFSI multiplier calculation methodology. In addition, the EIF EFSI Multiplier Methodology was updated in March 2018. Those methodologies are applied at approval stage.

60. See Commission reply to paragraph 59.

61. The EIF and EIB can confirm that, for the referred case, amounts have been updated for the identified overlap with SMEW and have been revised in the EFSI official reports and website as soon as the overlap has been identified.

63. The new Financial Regulation (EU 2018/1046) defines and clarifies both concepts; the leverage and a multiplier effect.

64. The two indicators - *leverage effect* and *multiplier effect* - measure different but related effect of the EU intervention. The use of the two concepts is a direct result of the different basic acts.

See, in addition, the reply to paragraph 63.

68. Geographic concentration cannot be calculated solely based on investment mobilised in each Member State. When looking at geographic concentration, the size of economies and population of individual Member States has to be taken into account.

The Commission recognises the importance of the geographical diversification of EFSI. In this respect, the Commission and the EIB have been implementing several measures to increase the geographical balance. This includes enhanced cooperation with NPBs including through setting up

of investment platforms and enhanced cooperation models (e.g. EIF-NPI Equity platform) and more targeted local outreach, in particular through the Advisory Hub.

70. To understand the relative benefit and impact of EFSI for individual Member States, it is important to assess and present it relative to macroeconomic indicators.

The national Gross Domestic Product (GDP) also provides a relevant dimension. EU-13 countries as a group already in 2016 benefitted from EFSI with a share equal to their share in the EU economy. By end 2017 their share in EFSI financing amounted to 12%, over-proportional to their cumulative 8.6% share in EU GDP.

71. There is an inherent time lag between the approval and signature of an operation (adding also a higher complexity of negotiating contract terms with NPBI), the amount of NPBI's participation will significantly increase, as there were many such approved operations in the negotiation phase as at 31 December 2017.

72. The referred Member States have the NPBI with the level of experience and sophistication that is required to perform higher-risk financial products.

77. See comments to paragraph 72 explaining that investment platforms are products that require more advanced technical capacities than the traditional products offered to NPBI. It is therefore not surprising that most experienced and well-developed NPBI were interested to implement these structures together with the EIB covering a considerable number of Member States (see comment on paragraph 78 below).

78. As of October 2018, the investment platforms approved span 14 Member States and cover a range of sectors, including digital, environment, transport and energy, with a strong focus on small and medium sized companies and mid-cap companies.

CONCLUSIONS AND RECOMMENDATIONS

80. During its first three years of implementation EFSI has successfully contributed to supporting investments and job creation in the EU. By 17 July 2018, EFSI has helped mobilise EUR 334.8 billion of investment, covering all Member States. Two thirds of the EUR334.8 billion raised comes from private resources, meaning that the EFSI has also met its objective of mobilising private investment. In addition, about 697000 SMEs are expected to benefit from financing supported by EFSI. The EIB's Economics Department and the Commission's Joint Research Centre (JRC) estimate that EFSI operations have already supported more than 750 000 jobs with the figure set to rise to 1.4 million jobs by 2020 compared to the baseline scenario. Due to its success, EFSI has been extended until the end of 2020, with a view to reaching EUR 500 billion of additional investment by then.

81. The Commission and the EIB consider that, as a result of the introduction of the EFSI, the majority of the other financial instruments were in fact significantly reinforced, instead of being replaced. Furthermore, the scope of some of the existing financial instruments was refocused in order to reduce some of the observed overlaps with EFSI.

See also Commission replies to paragraph 33.

Recommendations 1 – Promoting the justified use of higher-risk EIB products under EFSI

In its role as the implementing agent of EFSI, the EIB accepts the recommendation.

Recommendation 2 – Encouraging complementarity between EU financial instruments and EU budgetary guarantees

The Commission accepts the recommendation and considers that this recommendation has already been addressed through the legislative proposals for the post-2020 MFF. In particular, the

Commission proposed to streamline and improve the centrally managed EU investment support instruments. All investment support instruments, in the field of EU internal policies, are proposed to be implemented under a single, InvestEU Programme under four distinct Policy Windows to ensure complementarity. This would improve complementarity between different EU investment instruments by avoiding duplications and overlaps.

Recommendation 3 – Improving the assessment of whether potential EFSI projects could have been financed from other sources

In its role as the implementing agent of EFSI, the EIB accepts the recommendation and considers it already implemented for EFSI 2.0.

In line with the Investment Guidelines, when developing new products under EFSI, the EIB considers that it took this issue into account with the view to propose a wide range of products addressing market needs while encouraging private investment in projects, without crowding out private market finance. At operation level, following the entry into force of EFSI 2.0 Regulation, EIB has already included qualitative assessment of additionality, including of market failure or suboptimal investment situations (including the availability of complementary and alternative sources of finance and their terms and conditions). EIB does articulate this assessment in line with the enhanced requirements of the EFSI Regulation in the proposals submitted to the Investment Committee. The EIB recalls that the analysis of crowding out of other sources of finance would need to evidence the true counterfactual. Due to the fragmentation of the financial market, the evidence of the counterfactual is practically impossible.

87. The EFSI multiplier calculation methodologies foresee that any double counting is eliminated as soon as identified and that, at approval, only incremental investment mobilised is accounted for. In the cases that were reviewed by the ECA, the EIB confirms that it adjusted the double counting as soon as the information became available in line with the methodology. The Investment Mobilised reflects the best estimate of the expected investment in the real economy with actual amounts revised at project completion. Hence, by definition, the ex-ante Investment Mobilised is an estimate at approval, not an over or under-statement.

The new Financial Regulation (EU 2018/1046) defines and clarifies both concepts; the leverage and a multiplier effect.

Recommendation 4 – Estimating better the investment mobilised

The Commission accepts the recommendation 4.a.

(a) For all the investment support instruments for the next MFF, the Commission has proposed a coherent set of indicators for the measurement of expected results in line with the Financial Regulation. The methodology needs to remain implementable, taking also into account the costs and administrative burden to the final beneficiaries, financial intermediaries, implementing partners and the Commission.

(b) The Commission and the EIB accept recommendation 4.b and consider it subsequently implemented after the ECA's audit.

In this respect, the EFSI Steering Board already approved, in October 2018, an updated EIB EFSI multiplier calculation methodology. In addition, the EIF EFSI Multiplier Methodology was updated in March 2018. Those methodologies are applied at approval stage ensuring that only incremental investment mobilised, is accounted for towards the EFSI target. Both of the already approved updates clarify the concept of estimated incremental EFSI Eligible Investment Mobilised in particular in reference to subsequent financing under EFSI and co-investments.

88. Geographic concentration cannot be calculated solely based on the volume of signed financing operations in each Member State. When looking at geographic concentration the size of economies and population of individual Member States has to be taken into account.

The Commission recognises the importance of the geographical diversification of EFSI. In this respect, the Commission and the EIB have been implementing several measures to increase the geographical balance. This includes enhanced cooperation with NPBs including through setting up of investment platforms and enhanced cooperation models (e.g. EIF-NPI Equity platform) and more targeted local outreach, in particular through the Advisory Hub.

Recommendation 5 – Improving the geographical spread of EFSI supported investment

The Commission and EIB accept this recommendation.

Audit team

This ECA's special reports set out the results of its audits of EU policies and programmes, or of management-related topics from specific budgetary areas. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was carried out by Audit Chamber V Financing and administration of the EU, headed by ECA Member Lazaros S. Lazarou. The audit was led by ECA Member Leo Brincat, supported by Romuald Kayibanda, Head of Private Office and Annette Farrugia, Private Office Attaché; Ralph Otte, Principal Manager; Gabriela-Elena Deica, Head of Task; Martin Puc, Head of Task; James McQuade, Mariya Zhekova, Mircea-Cristian Martinescu and Felipe Andres Miguelez, Auditors. Michael Pyper provided linguistic support.



From left to right: Romuald Kayibanda, James McQuade, Gabriela-Elena Deica, Annette Farrugia, Leo Brincat, Martin Puc, Valérie Tempez-Erasmi.

Event	Date
Adoption of Audit Planning Memorandum (APM) / Start of audit	4.7.2017
Official sending of draft report to Commission (or other auditee)	18.10.2018
Adoption of the final report after the adversarial procedure	8.1.2019
Commission's (or other auditee's) official replies received in all languages	24.1.2019

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The European Fund for Strategic Investment (EFSI) helps finance strategic investments in key areas such as infrastructure, research and innovation, education, renewable energy and energy efficiency. It acts as an EU budgetary guarantee given to the EIB Group. The aim of the EFSI is to enable the EIB and the EIF to provide additional funding to eligible projects in the EU and mobilise additional private and public investment for these projects. We concluded that the EFSI helped the EIB to provide more higher-risk finance for investments, financed many investment projects that could not otherwise have taken place, attracted additional public and private investment to those projects and supported investments in many policy sectors across the EU.

However, we found that some EFSI support just replaced other EIB and EU financing, part of the finance went to projects that could have used other sources of public or private finance, estimates of additional investment attracted by EFSI were sometimes overstated and most investments went to a few larger EU 15 Member States with well-established national promotional banks.



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