ZEI INSIGHTS

# The Investment Plan for Europe – high political stakes

No. 33 December 2015

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In January 2015, the European Commission proposed its "Investment Plan for Europe", as promised by Jean-Claude Juncker in his campaign for the Presidency. The centrepiece of this initiative, nicknamed the "Juncker Plan" was the setting up of the European Fund for Strategic Investment (EFSI), targeting the injection of €315 billion in the European economy. The EFSI in particular aims to stimulate private investment in infrastructure, innovative projects and Small and Medium Enterprises (SMEs) through a guarantee on the EU budget worth €16 billion given to the European Investment Bank (EIB) in order to generate about €60 billion of loans and guarantees to support riskier projects[1], for an estimated total of €315 billion in investment leveraged. The EFSI reinforces the role of the EIB as the public bank of the EU.

Two flanking measures were proposed to maximise the success of this new tool, with the creation of the European Investment Advisory Hub and of the European Investment Project Portal. The former was conceived as a tool to help project promoters access advisory services in order to better prepare their projects and structure them with a view to attract EU support or private finance. The latter was meant to provide a continuous and transparent pipeline of investable projects, facilitating the interactions between projects promoters and possible private investors, which are essential for the Investment Plan to be successful. Where does the Commission stand one year after taking office?

In EU legislative terms, the adoption of the Regulation[2] setting up the three elements - the Fund, the Hub and the Portal - was a major success for the Commission as the Regulation was passed in less than six months. On top of that, the content of the final text agreed by the co-legislators was rather close to the original Commission proposal. With limited changes made to the initial document, the Council of Ministers quickly approved the Regulation as the Heads of State and Government clearly expressed their support in the European Council.

The process was more complicated on the side of the European Parliament, with a large number of committees and co-rapporteurs involved. In particular, the Transport and Tourism Committee (TRAN) as well as the Industry, Research and Energy Committee (ITRE) were strongly reluctant. The main reason behind this was that these two committees had fought very hard in 2013 in the context of the negotiations with the Council on the EU budget 2014 – 2020 to defend two programmes already meant to increase investment in Europe, which were affected by the EFSI Regulation. These two pieces of legislation are, on the one side, the Connecting Europe Facility (CEF), an integrated funding instrument of €33 billion supporting transport, energy and telecommunication infrastructures, and on the other side, Horizon 2020, the funding instrument to support projects for research and innovation, which was originally allocated about €80 billion. These two regulations were seen as central elements of the EU budget by the Parliament, financing projects of high EU added value (cross-border projects, fundamental research, and innovative companies) on the basis of priorities defined by the co-legislators whilst contributing to boost investment in Europe, essentially through direct subsidies and financial instruments aiming at attracting private investors.

The problem was that the EU guarantee supporting the EFSI had to be financed at constant EU budget as member states would refuse to reopen difficult negotiations to finance an increased EU budget which is not a popular topic in most of the net contributing member states. Therefore, the only way to finance this guarantee was to look for margins and to tap into the existing budget. As it was deemed impossible to re-allocate funds from the European Structural and Investment Funds[3], the only possibility left was to draw on the resources of the CEF and the Horizon 2020, as existing investment programmes managed directly by the Commission.

The advocates of the CEF and Horizon 2020 thus pictured the EFSI proposal as a simple budgetary trick, reducing investment possibility on existing well-designed instruments with clear priorities to finance a new tool whose functioning was not clear. For example, in transport, grants coming from the CEF were in particular meant to finance railway cross-border projects which are mostly publicly driven with no financial viability without public support. By transferring the money to the EIB through EFSI in the form of loans and guarantees, it is unlikely that such projects would ever see this money flowing back to them, as EFSI is meant to support commercially viable projects. Amongst these, in the transport sector, for instance, tolled motorways, ports or airports projects are more likely to be found than rail projects. A similar logic applies to Horizon 2020 by which fundamental research can be supported through grants. Again here, EFSI is meant to support commercially viable projects, especially private research and innovation activities. While under CEF and Horizon 2020 each sector and priority had a clear budgetary allocation, EFSI has a very wide eligibility, with no sectoral allocation representing potential losses for the beneficiaries of CEF and Horizon 2020.

Finally, many members of the European Parliament were questioning the added-value of EFSI for their sector as CEF and Horizon 2020 already included financial instruments that give EU budget guarantees to the EIB so as to expand its risk-bearing capacity in the form of the Project Bond instrument for infrastructure or InnovFin for research and innovation. The Commission indeed built upon the logic that the creation of the EFSI would multiply the firepower of existing EU financial instruments and would lift the barriers linked to sectoral allocation or tight eligibility criteria linked to precise political objectives. With the EFSI, the EIB can support a very wide range of activities as long as there is coherence with EU policy priorities.

The political pressure was so high on the Parliament that the advocates of CEF and Horizon 2020 had to accept the final deal, having obtained limited compensation (increase of the use of budgetary margins and slight reduction of the budgetary impact on the two programmes, possibility that the EU 2014 – 2020 budgetary mid-term review will compensate those programmes for the losses incurred). It was politically unthinkable that the Parliament would reject the first major initiative of the new President, which was the first one to be chosen directly by the Parliament after the "Spitzenkandidaten" campaign. The three major parties had to show their support. Moreover, as the Council was mostly aligned with the Commission's position, the position of the Parliament was rather difficult during the trialogues.

On the 25th of June 2015, ca. five months after the Commission tabled its proposal, the EFSI Regulation was adopted, certainly representing one of the fastest legislative processes in EU terms. However, the battle fought by the European Parliament will have an impact on the monitoring of the implementation of EFSI by the Parliament in the next years.

The dichotomy between the Commission as the main initiator and promoter of the Investment Plan for Europe and the EIB as the institution responsible for its implementation is the key challenge of this initiative. As for the delivery of the Plan, the Commission has offered maximum flexibility to the EIB, thereby limiting its participation in the implementation of the Plan. In concrete terms, the Commission is not involved in the selection of projects[4]. In the end, however, only the Commission will be held politically responsible for a potential failure of the Plan.

In this context, the capacity of the EIB to implement the Plan is crucial. However, it is clear that implementing EFSI will necessitate major adaptations in the way the EIB has been working since its creation in 1958. To put it simple, the traditional business model of the EIB is to support public project promoters to finance mostly publicly driven projects, with cheap long-term loans backed by a national guarantee acting as the common public bank of the EU Member States whilst cooperating with National Public Banks.

EFSI, however, is being promoted by the Commission as a way to stimulate private investments in order to limit the negative impact of the boost to investments on public budgets that are heavily constrained. Future projects, ideally happening without a guarantee from national budgets will be smaller in size, riskier, as well as more complicated to structure and are likely to require more human resources from the Bank in comparison to the volume of investments.

With the RSFF and then InnovFin (the EU/EIB financial instruments for research) and other infrastructure instruments such as the Project Bond Initiative, the Loan Guarantee for the Trans-European Network for Transport (LGTT) as well as the instruments for SMEs such as COSME, the EIB has proven to be successful in targeting more difficult projects involving private partners. Nonetheless, the level of these "Special Activities" was still relatively marginal in the EIB's portfolio of activities. With the EFSI put into operation, they must become part of the DNA of the EIB, reinforcing its role as the public bank of the Union and implementing the policies decided at EU level. Will the Bank be able to make such a change in the short time frame set by the Investment Plan for Europe in which the €315bn of additional investments has to be realised by July 2018?

Only future will tell. In January 2016, all of the structures for implementing the EFSI will be in place, with the Managing Director (former EIB Vice-president W. Molterer), his Deputy and the Investment Committee assuming office. This process took somewhat longer than expected, in particular because of the involvement of the Parliament in the nominations. In parallel, the Commission and the EIB, in the absence of the Investment Committee, selected projects for the EFSI, thereby "warehousing" them before the official approval by the Committee. So far, the European Investment Advisory Hub has been put in place, acting as a one-stop shop for project promoters to access the existing advisory services without much additional capacity at this stage. The Investment Project Portal is still to be set up by the Commission without the involvement of the EIB in this time consuming process.

But in June 2016, a year after the adoption of the Regulation, nearly a year and a half after the Commission issued its proposal, stakeholders and MEPs will start asking questions, closely monitoring the implementation of the plan. The regulation itself foresees reporting by the EIB every six months on the basis of a rather detailed list of indicators. The EIB will have to ensure the functioning so that the Commission will be able to sell the "Investment Plan for Europe" as a success.

In the end, success will also depend on the general economic and political climate. If growth returns to Europe in the next years, scrutiny upon the EFSI may be rather limited. In the adverse scenario, a failure of the EFSI may constitute a major political failure for the Commission and its President. With the EIB being an independent institution, the only possible scapegoat for the Parliament to sanction a potential failure of the Plan will be the Commission. For the Commission to remain on solid grounds, the EIB must be successful in the implementation of the EFSI.

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*References:*

*1. See ZEI Insights no 05/2014 and no 25/2015.*
*2. 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.*
*3. The "Regional Funds" aim at supporting projects and companies in less advanced regions of the EU and are managed by the member states and their regions, with dedicated national allocations.*
*4. The selection of projects is to be done by the EIB Board and the Investment Committee, in which the Commission is not represented, in the definition of sectoral targets in order to avoid limiting potentialities for investment in better performing sectors) OR in the definition of financial products to be used (standard EIB senior loans, sub-debt guarantees, equity participation)*