ZEI Insights

A fairy tale: How robust are the EFSI success numbers?

A short analysis of the audits on the European Fund for Strategic Investments (EFSI)

No. 62 April 2019

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On 15 July 2014, then President-elect Jean-Claude Juncker announced his 'Investment Plan for Europe' in his opening statement before the European Parliament. In his initiative, whose common name became the "Juncker Plan", priority number one was to boost jobs, growth and investment all of which had been hit hard during the financial crisis in the previous years. In order to close this 'investment gap' he proposed to 'mobilise up to € 300 billion in additional public and private investment in the real economy over the next three years' (Juncker 2014).

Experts did warn that the concept of an 'investment gap' is purely political and cannot be substantiated by economic research. A low investment rate is usually the result of poor expectations of return on investment. Simply 'mobilising' private capital does not help to address the underlying issue of low returns (SVR 2014, p. 14).

One of the three pillars to achieve this aim is the European Fund for Strategic Investments (EFSI), which was set up in July 2015. It is managed by the European Investment Bank (EIB) and supervised by a steering board. It aims to 'overcome current market failures' and 'helps to finance strategic investment in key areas' (European Commission 2019). Using a 21 billion euro guarantee programme, the EFSI promised to trigger 'fairy-tale like' (EIB 2019) additional investments of 315 billion euro in the EU by mid-2018.

In October 2017, the Commission announced that the EFSI had already triggered 240.9 billion euro in investments. According to their estimates, around 461.000 small and medium-sized enterprises in all 28 member states had benefitted from improved access to finance thanks to the plan. 300.000 additional jobs had been created with that figures rising to 700.000 by 2020 (Commission 2017).

Nine months later the Commission released numbers according to which the plan's original target of 315 billion euro had been exceeded. It claims to have mobilised 335 billion euro in additional investments and 'revolutionized the way innovation is financed in Europe'. 750.000 jobs had been created by 2018 already and job growth was expected to reach 1.4 million by 2020 (Commission 2018a).

These are indeed impressive figures. How does the Commission arrive at these truly fairy-tale numbers?

The EFSI and the other two pillars of the investment plan have been subjected to extensive audit and evaluations. At least two evaluations of the EFSI had taken place by the end of 2016. After the EIB had published its evaluation of the functioning of the EFSI in September 2016 (EIB 2016), EY, an auditor, conducted an ad-hoc audit in November 2016 (EY 2016). The 2016 evaluations by the EIB and the ad-hoc audit by EY, one of the biggest accounting firms, see issues with the fund's claims of 'mobilisation', i.e. its promise to trigger investment of private sector capital (measured by a multiplier) and 'additionality', i.e. the realisation of projects that would not have happened without the fund.

The Commission had set the target of a multiplier of 15; for its 21 billion euro in guarantees, it aims to trigger 315 billion euro in investments. Nevertheless, how can the Commission foresee what amount of investments will be made by the private sector for each euro the EFSI invests? Even the EIB's own evaluation concedes'[...] it must be acknowledged that the multiplier and its corresponding documentation are illustrative and cannot demonstrate causality between EFSI financing and other sources of financing' (EIB 2019, p.33).

The EFSI Regulation 2.0 required the Commission to publish an independent evaluation which it did in June 2018 (Commission 2018b). The latest - and most comprehensive - evaluation was released by the European Court of Auditors (ECA) in January 2019 (ECA 2019).

The ECA evaluation report criticises that the figure of mobilised capital has been incorrectly calculated: '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.' (ECA 2019, p. 29). The ECA even accuses the EIB of double counting (ECA 2019, p. 33).

On the issue of additionality, the report by EY cautions that 'these investments could be interpreted as not being fully additional' (EY 2016, p. 4). And in practice, the EIB report even found that the project teams 'document and assess additionality for all projects independently of whether they are Special Activities or not'. (EIB 2019, p. III)

The Court of Auditors' report estimates that nearly a third of the strategic projects financed through the Infrastructure and Innovation Window (IIW) would have taken place without EFSI support. The companies had chosen EFSI financing because it was cheaper or had longer payback periods, thereby crowding out traditional investment offers by their banks (ECA 2019, p. 23).

The reports raise many more issues: the fact that investments by the EFSI had merely replaced investment by other EIB operations (ECA 2019, p. 20) or that the recipient countries were mainly the original EU 15 countries with Eastern European countries receiving only 18 per cent of EFSI investments. France, Italy and Spain have received 47 per cent of IIW financing, thereby violating the 45 per cent concentration limit (ECA 2019, p. 36-37).

The ECA report nevertheless concludes that EFSI 'has been effective in raising finance to support substantial additional investment in the EU' (ECA 2019, p. 4-5).

The Commission's reply to the Special Report of the European Court of Auditors has helpfully been included at the end of the report. The seven page statement refers in detail to different aspects in the report.

On the issue of additionality, 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." But they also concede that there has been an overlap between established financing measures and the EFSI, most notably the Connecting Europe Facility (CEF) Debt Instrument (DI). Consequently, the EFSI Regulation was amended. The definition of additionality has been clarified and additionality criteria have been further strengthened. According to the Commission, double counting

- another accusation made by the ECA - has been eliminated as soon as the issue became known.

On mobilisation, the Commission retains that 334.8 billion euro of investment has been triggered in the EU. However, mobilisation figures represent only a "best estimate" of the expected investment, and not a definite number. They can therefore not be over- or understated.

To sum up, neither does the Court of Auditors call for the EFSI to be abolished nor does the Commission claim that it is a flawless instrument. The ECA reports serious issues on many EFSI aspects which the Commission acknowledges and tries to mitigate. However, both still see the EFSI's overall usefulness.

Why then is this honesty lacking in the Commission's communications with the general public?

The Commission is usually perceived as a reliable and fact-based institution. In order to maintain valuable public trust it should measure the EFSI's success with documented and traceable data and not invent fairy tales.

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Endnotes:

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