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Promoting investment in Europe: Where do we stand with the Juncker Plan?

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The Juncker Plan set out to boost investment in Europe and can show some progress so far. After operating for about a year, a total of EUR 12.8 bn financing of the European Fund for Strategic Investments (EFSI) has been approved by the European Investment Bank and the European Investment Fund. This is expected to trigger EUR 100 bn of total investment according to estimates by the institutions.

By now, EFSI has achieved broad geographical coverage. With activities in 26 member states, only Malta and Cyprus have no EFSI-related operations (yet). Activity under the SME-window is broader than for infrastructure and innovation projects, the later having an emphasis on France, Spain, the UK and Italy. Energy and R&D projects account for more than half of EFSI-financing volumes.

So far, we know more about EFSI activity than economic impact. Estimates on expected benefits need to be interpreted somewhat cautiously as they often refer to multi-year time periods and assume implementation of projects. There are (natural) lags between approval and implementation and projects are fairly heterogeneous. This calls for evaluation on a case-by-case basis but at the same time complicates pinpointing aggregate effects at this point, including additionality and eventual crowding-out effects.

The debate about EFSI's future is on. The European Commission has already called for extension of EFSI beyond the initial three year period ideally increasing its scale and scope. There are arguments in favour of continuing it, including a more efficient organization of promotional activities, addressing gaps, and fostering cooperation across Europe's (promotional) banking landscape.

Yet decisions should not precede evaluation. Considerations about EFSI's future need to be based on thorough evaluation of effectiveness and demonstrated added value. To that effect, continuous monitoring and mid-term performance are key because EFSI's future is likely to be decided before 2018.

Last but not least, the Juncker plan is more than EFSI and it is worthwhile to recall that its success does not depend on EFSI alone. Rather, EFSI's impact and success with project implementation is also going to be affected by efforts to reduce regulatory and administrative barriers to investment at a national and European level, i.e. progress in the plan's third pillar. Here, the picture seems mixed at best.

Proceeding as planned? The Juncker plan turns one

By now, the investment plan for Europe – the so called "Juncker plan" has been operating for about a year. It is one of the political priorities of the Juncker Commission and set out with quite ambitious goals, i.e. to unlock EUR 315 bn in investment in the next three years, add between EUR 330 to 410 bn to GDP and create more than a million new jobs in Europe.[1] This is to be achieved by a mix of using (existing) financial resources better, allowing the EIB to support riskier but also more innovative operations, and removing barriers to investment in the EU.

Much attention has focused on the newly established European Fund for Strategic Investment (EFSI), which forms the plan's first pillar. EFSI is essentially a EUR 16 bn guarantee from the EU budget complemented with EUR 5 bn of the EIB's own capital. It can provide special cover for investments financed by the EIB group in case losses occur. While the EFSI regulation was officially passed in June last year, EFSI already started to support its first projects earlier in H1 2015. How have operations under EFSI been progressing since then?

Investment plan overview 1

The investment plan for Europe consists of three pillars, i.e.

1. Mobilize finance for investment

Main element:

— European Fund for Strategic Investments (EFSI)

2. Increase visibility and advice to facilitate project development

Main elements:

— European Investment Project Portal and European Investment Advisory Hub

3. Improve investment environment

Main elements:

— Reduction of non-financial regulatory barriers

— Structural reforms in member states

— Strengthen single market, regulatory quality and openness

Source: Deutsche Bank Research

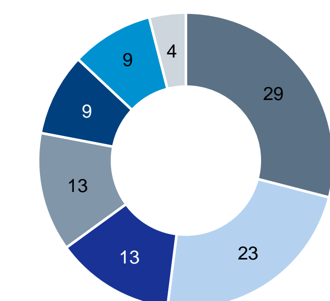
Taking stock of the first pillar: EFSI

Operating within the EIB Group, EFSI has two main channels to provide support, i.e. (i) for Infrastructure and innovation related projects via the European Investment Bank (EIB) and (ii) for SME and mid-cap related projects implemented through the European Investment Fund (EIF). As of mid May 2016 total financing approved under EFSI has reached EUR 12.8 bn.

The larger part of EFSI's financing volumes has been approved for infrastructure and innovation operations (currently EUR 9.3 bn). Almost 30% (EUR 3.5 bn) have been allocated to SME-related projects. In total, 64 innovation and infrastructure projects and 185 SME financing agreements have been approved so far. According to the EIB and the European Commission, the expected investment to be triggered by these activities would amount to EUR 100 bn.[2] Thus, considering headline figures for *expected* investment, EFSI seems to be progressing by and large "according to plan" given the EUR 315 bn investment goal for three years.

EFSI financing by sector 2

in %, EIB group figures as of May 19, 2016



Sources: EIB Group, European Commission, Deutsche Bank Research

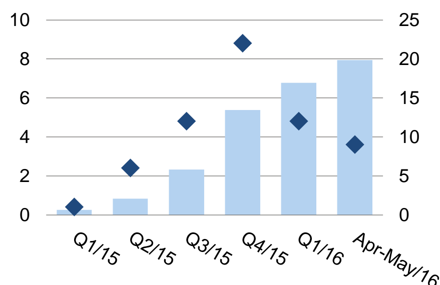
A look at the Infrastructure and innovation projects …

The EIB's project database provides further information on projects supported via the infrastructure and innovation window.[3] By sector, most of them concern energy (19 projects, more than EUR 2.923 m proposed EFSI financing), industry (12 projects, EUR 708 m) and transport (9 projects, more than EUR 1.930 m).[4] Proposed EFSI financing for individual projects ranges from EUR 11.7 m (co-investment in an offshore wind-park) to maximum amounts of EUR 500 m for supporting motorways in Slovakia, investment in next generation networks in Italy and energy efficient housing in France.[5]

[1] See European Commission http://europa.eu/rapid/press-release_MEMO-15-5419_en.htm Some earlier estimates have even suggested about potential job creating effects of more than 2 m.
[2] All figures refer to latest EIB/European Commission information as of May 2016.
[3] Based on project information for 62 projects. See http://www.eib.org/efsi/efsi-projects/index.htm
[4] Volumes for energy category based on figures for 18 projects, volumes for industry category based on 11 projects; all as available in EIB database.
[5] Figures refer to the contribution of EFSI to projects and should not be confused with total size of projects/costs. While projects typically also receive other EIB financing, estimates for expected investment refer to EFSI specifically.

Infrastructure and Innovation projects 3

Left: Proposed EFSI financing (cumulated, in EUR bn), Right: Number of projects in respective period

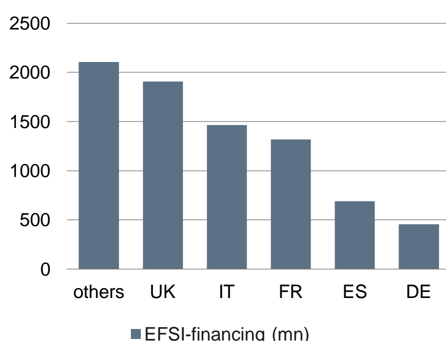


Based on 62 projects, listed as of May 23rd.

Sources: EIB, Deutsche Bank Research

EFSI-financing for infrastructure and innovation by country 4

Based on values for 55 projects, approved financing



Sources: EIB, Deutsche Bank Research

Activity under the SME window – a snapshot 5

	Number of agree-ments approved	EIF financing (EUR m)	Invest-ment to be triggered (EUR m)	Number of SMEs to benefit
BE	6	58	685	2021
DK	4	41	508	641
GR	1	4	56	121
FR	20	518	6,300	38,400
DE	15	342	5,800	29,266
IT	28	335	7,800	44,840
NL	4	42	332	719
ES	9	252	4,500	17,905
UK	15	462	5,600	9,472

Total number of agreements approved (EU): 185
Total EFSI-contribution: EUR 3.5 bn
Expected to trigger more than EUR 48 bn in investment.

All information on EIF operations and estimated benefits as of June. For further information see EIF.

Source: European Commission

In terms of geographical distribution, at least 16 countries have infrastructure and innovation projects under EFSI but activity remains somewhat more heavily focused on larger member states with an emphasis on Western Europe. Most single country projects are located in France (15), Italy, the UK and Spain (all three with 8). This is also where proposed financing amounts to the largest volumes accordingly.

EFSI financing is not allocated by geographical quotas. Partly, the distribution simply reflects differences in size across European economies. Also, conditions for project financing in member states, including financial market structures and experience with (EIB) project finance affect the extent to which EFSI is being (successfully) sought. Another factor are countries' promotional banking landscapes as national promotional institutions are often involved in identifying or preparing suitable projects that are then put forward for EFSI support.[6]

… and support for SMEs

Support via the SME window works via financing agreements the EIF concludes with intermediaries – i.e. banks or funds – which then provide credit or invest in small and mid-size firms. As of May 185 SME financing agreements have been concluded. EFSI operations via EIF have reached a fairly broad country coverage.[7] Most recently, the first EFSI deal for Greece was announced, involving German ProCredit stepping up its lending operations to Greek SME's and mid-caps.[8] Italy, France and Germany so far have the highest number of agreements again reflecting market size but also a number of public and private intermediaries being quick to cooperate with the EIF on EFSI.

EFSI operations via EIF up until now are supposed to benefit more than 140,000 SME's and mid-cap firms with a particular emphasis on Italy and France. While the amount of financing that has been approved via EIF under the SME window has been lower than for infrastructure and innovation, the EUR 3.5 bn are expected to contribute EUR 48 bn in investment. The relatively large share of SME-related operations in terms of expected investment – 48% compared to its share of 27% in terms of approved financing – is due to a mix of the EIF being quick to sign cooperation agreements with intermediaries and the instruments used for support as operations. Working via its guarantees and counter-guarantees for instance typically allows for a high multiplier (as high as 1:30 in some cases according to the EIF).

So far, so good …

Perception and evaluation of progress naturally depend on metrics. On the one hand, amounts of estimated investment – i.e. EUR 100 bn – suggest that after one year EFSI operations have already achieved about a third of investment volumes that the initiatives aims to unlock. At the same time, in terms of project approval (EUR 12.8 bn), EFSI has just passed the 20% mark (taking EIB disbursement of additional EUR 60 bn as benchmark).[9]

What can be said after one year is that both EIB and EIF in particular have been quick to get projects off the ground. By now, only very few "blind spots" remain with almost all member states except Cyprus and Malta having some EFSI-related activities planned. Arguably, speed and spread are non-negligible first year achievements because they help to send positive signals to investors and

6 See Wruuck (2015) for an overview of European member states' promotional banking landscape.
7 Operations under the SME guarantee window in at least 21 countries as of May and 37 transactions which multi-country focus.
8 See EIF press releases for further information. http://www.eif.org/news_centre/
9 See Claeys/Leandro (2016, 2016a).

EFSI's 2nd Pillar 6

The **European Investment Advisory Hub** (EIAH) was established last year and already started operating. The idea is to have a 'single point of entry' to offer support for project preparation and development. EIAH provides a range of advisory services covering all stages of project development. The Hub is a partnership between the European Commission and the EIB but also involves cooperation with national promotional banks and possibly further partners.

The **European Project Investment Portal** went live in spring (after some delay) and has been officially launched June 1st. The idea behind the portal is to provide information on investible projects in the EU, raise visibility and thus helping to attract funding (not necessarily via EFSI).

Source: European Commission, Deutsche Bank Research

increase the chance that EFSI manages to attract further (private) investment and projects in the next two years to come. In addition, progress on the second pillar – i.e. the creation of the project portal and the advisory hub (see box 6) – may help to maintain momentum with projects.

Also, nine member states (DE, ES, FR, IT, LU, PL, SK, BG and UK) have announced contributions to EFSI, mostly through their national promotional banks. While these do not increase the EUR 315 bn target, they should nevertheless be conducive to reaching its goals and shows political support. In addition, a cooperation arrangement with China has recently been agreed.

From a macro-perspective, additional financing via EFSI has come on top of easier funding conditions in many member states, adding to the (moderate) recovery in Europe. Against this background, investment has started to pick up – albeit heterogeneously across member states and strongly driven by construction. While EFSI may already have been conducive to increases in investment, for 2015 a large part of its contribution may at this point still be indirect and via signalling.

… but what do we really know?

Different intermediaries can work with EFSI 7

Source: Deutsche Bank Research

While there is a decent amount of information available on EIB operations and EFSI projects, information on EFSI's effectiveness and actual impact remains rather limited after one year. To some extent, this is due to the nature of projects but also the specific construction of EFSI.

First, there is a distinction between i. projects approved by the EIB, ii. operations that have already been signed, i.e. contractual terms have been agreed with partners, and iii. disbursement. According to the EIB, out of the EUR 12.8 bn of approved financing, EUR 6.5 bn have been signed. To what extent financing has then being disbursed and channelled to further use is more difficult to evaluate at this point because of the heterogeneity of projects as well as different intermediaries and instruments used for support. EFSI-operations with the EIF and EIB range for example from extension of motorways and support for start-ups in Germany to supporting energy-efficient buildings in France and smart meter installation in the UK. Given their different nature in terms of size, intermediaries, beneficiaries, sector and country conditions their success may well be heterogeneous and can only be evaluated on a case-by-case basis – and after moving further on implementation. What can be said though is that operations under the SME window have generally been quicker.

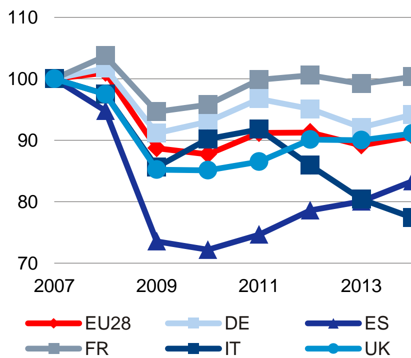
Second, implementation of projects has just started and is going to take some time. Estimates on expected investments and other EFSI benefits assume successful implementation though and refer to a time period up until 2018 or even beyond.[10] Thus, the extent to which operations will meet expectations will only be fully known in a couple of years.

In terms of actual impact, it seems reasonable to consider the first year of EFSI as "transitional", with most EFSI-related investment and spending still to pick up through the course of 2016 and thereafter. Partly, these "time lags" can result from actual project implementation, i.e. roads being build, equipment being purchased etc. Partly, they can arise from the length of investment chains. With EFSI operations working via intermediaries this can easily involve several steps, for example the EIF concluding an agreement with a national promotional bank, which then provides funds or guarantees to commercial banks providing incentives to grant loans to a small firm. Most information at the moment still

[10] Guarantees can be used to support operations for which a contract between the EIB and beneficiaries or intermediaries has been signed until end of June 2020 in some cases. See EFSI regulation Art.9(3).

Business investment: Picking up slightly but still lower than before the crisis 8

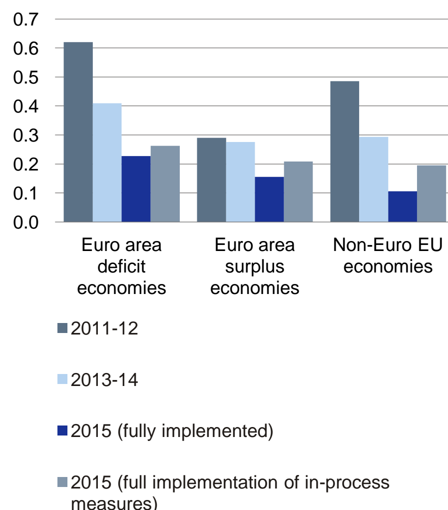
in % of GDP (indexed, base year: 2007)



Source: Eurostat

Decelerating pace of reform 9

Share of implemented 'Going for Growth' recommendations



Sources: OECD (2016), Deutsche Bank Research

refers to the initial steps, i.e. activity by EIF or EIB and projects starting to be implemented rather than actual impact.

Are EFSI operations additional to other investment activities?

Much of EFSI's added value is contingent on projects being truly additional. To this end, additionality is part of the eligibility criteria for the use of EFSI guarantees. Notably, the regulation defines "additionality" as "*operations (…) which could not have been carried out (…), or not to the same extent, by the EIB (…) without EFSI support"* and stipulates that EFSI projects "*shall typically have a higher risk profile"*.[11] While this aims to ensure that EFSI financing comes on top of regular activities, legislation leaves some scope for interpretation and it also implies that the additionality requirement can only be evaluated on a case-by-case basis. Hence in practice, the thorough evaluation of projects ex ante and the role of the EFSI investment committee approving investment support for infrastructure and innovation projects are crucial to ensure additionality.

Without further information, it is difficult to compare projects from the outside though. Two points are relevant here. First, we do not know about rejections or withdrawals for projects and reasons thereof.[12] Second, information on risk profiles to compare them to other EIB operations is limited.

Claeys and Leandro (2016) have raised doubts that EFSI infrastructure and innovation projects are actually more risky and innovative, basing their argument on similarities of project descriptions.[13] At the same time, the way EFSI has been set up, one would perhaps not expect a "radically different" type of projects. After all, they fit with headline policy goals supported by EIB (e.g. energy efficiency), go through the EIB's appraisal process, and get combined funds from EIB and EFSI, making it even more difficult to say at what point the EFSI element would be decisive for the project. In addition, large infrastructure projects tend to involve substantial preparation (and EFSI also requires them to be sufficiently mature). In turn, this likely suggests that some of the projects have been in preparation even before EFSI but whether they would have been realized even without it its support is hard to judge because there is no real comparison.

As for the SME window, EFSI support mainly takes the form of COSME and InnovFin agreements. They offer guarantees to financial institutions and risk capital to equity funds investing in SME's (COSME) and support for research and innovation investments in small firms via guarantees and loans backed by Horizon 2020 (InnovFin). Funds for both programmes were limited under the multiannual financial framework and the Juncker plan allows increasing the size and operation of the programmes.[14] In this respect, activity would be additional. At the same time, to assess its impact (yet) is somewhat difficult also because both programmes are still relatively new and were introduced 2014. However, given the high number of new agreements signed with intermediaries, EFSI has likely added to potential availability and visibility of these types of instruments for firms.

From a macro-perspective there are several reasons why EFSI could lead to additional investment. First, the European Commission had signalled a favourable stance on countries' contributions to EFSI when assessing countries under SGP both for the preventive and the corrective arm. As for the preventive

[11] See EFSI regulation EU 2015/1017, Art.6.1.c. for criteria and Art.5 on Additionality.
[12] For instance, projects might not get EFSI financing for reasons other than (non)additionality, e.g. not falling within EFSI's sectoral scope or other programmes being better suited.
[13] See Claeys and Leandro (2016, 2016a).
[14] See Claeys and Leandro (2016).

arm, goals are set in structural terms but contributions are treated as one-off expenditure. For the corrective arm, the Commission has signalled that contributions to EFSI should not lead to a member state being found non-compliant with recommendations. Also, co-financing of projects shall be considered in the application of the investment clause. From a political-economy rationale, it seems reasonable to expect that the flexibility provided for EFSI is used and would likely suggest some additional investment.

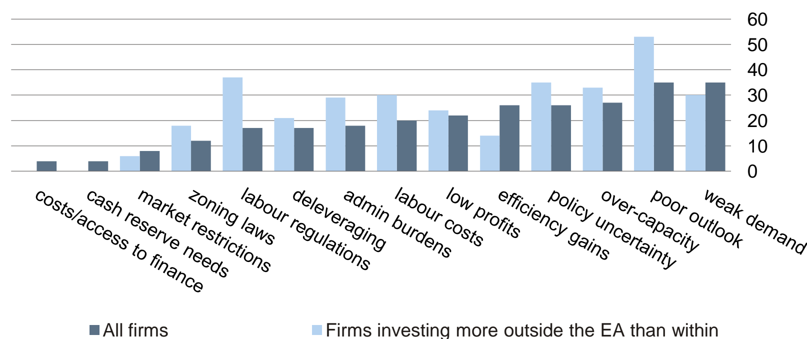
On the one hand, both the definition of investment as well as oversight over the investment via EFSI is likely to be more consistent and effective than if member states were allowed to simply overrun budget targets referring to the investment flexibility clause. On the other, channelling funding via EFSI – rather than spending public funds directly – could lead to longer public investment chains and potentially delay impact. At the same time, if EFSI as an instrument is better at attracting private investors – compared to "traditional" projects supported by public funds at national level, this would also suggest additive effects.

The Juncker plan's third pillar: More limited progress but crucial for success

While it remains too early to judge the success of projects and EFSI overall impact, it is worthwhile to recall that the Juncker plan is more than the EFSI. Yet the success of the latter's operations is also going to be affected by developments in the third pillar. This is for several reasons: First, it is not necessarily access to finance that poses (the biggest) impediments to investment. The ECB's last investment survey strongly suggests that for larger corporations in the euro area it is other factors that pose larger impediments. Mostly, it is a mix of political and economic uncertainty and structural rigidities that are seen as major factors.

Constraints on euro area investment: Not all about the money 10

percentage of firms reporting



Based on survey of 74 large EA companies, see ECB Economic Bulletin 8(2015)

Source: Investment survey and ECB calculations (2015)

Second, for SME's constrained access to finance is typically a greater issue but at the same time the quality of the regulatory environment is crucial for them as well because the costs of regulation often affect them disproportionally. Third, there is likely to be a link between the performance of (public) investment projects and both political and economic framework conditions, including structural characteristics of the economy, quality of governance as well as institutional and legal arrangements for public investment management. A favourable environment makes it easier to implement (public and private) investment projects successfully. It also makes it easier for firms to capitalize on

the value of public investment. To that effect, recent work by the IMF suggests a higher growth dividend of public investment in high efficiency economies.[15]

Developments in the third pillar have been somewhat less encouraging though. There has been some progress on EU flagship initiatives like the Capital Markets Union (CMU) or the (Digital) Single Market. On CMU for example insurance regulation (Solvency II) has been reviewed and revised with the aim to reduce regulatory barriers to infrastructure investment. As for banks, the European Commission plans to evaluate whether lowering bank capital charges for infrastructure exposures in a similar way would be a sensible step. On the (Digital) Single Market, the European Commission recently published a new package on ecommerce and a Communication on implementing the Single Market – both adding to last year's work. On promoting economic openness however, progress has been limited and trade policy issues have rather become further politicized throughout last year (e.g. TTIP; China's market economy treatment and reform of trade defense rules).

A substantial part of barriers to investment concern issues at member state level though. Economic policy coordination is increasingly highlighting them. For example, this year for the first time there are investment sheets as part of European Semester monitoring exercises flagging key barriers country by country. However, the impact of economic policy coordination in this area remains limited at best.

By and large, observations rather suggest that member states have been slowing down lately when it comes to implementing reforms. One example is compliance with OECD "Going for Growth" recommendations[16] which has been decreasing. Compliance monitoring with European semester recommendations suggests a similar trend. Against this background, the May's ECOFIN conclusions strongly reemphasized the need to improve investment conditions and urged the need for further reforms.[17]

Given the link between the investment environment and project operations, lack of progress in the third pillar remains a risk for EFSI operations and overall prospects of success for the Juncker plan.

Outlook: What future for EFSI?

The debate about EFSI's future is on. EFSI was initially set up as a temporary instrument and response help mitigating the repercussions of the financial and euro debt crisis. Yet, the European Commission has already indicated that it would like to see EFSI continue beyond 2018 and possibly reinforce it. A legislative proposal on EFSI's future has been announced for autumn this year.[18]

Given the scarcity of budgetary resources, this is unlikely to come without controversy. First, demonstrating additionality and impact remain crucial points. Timing is tricky here. On the one hand, comprehensive results and evaluation of EFSI will only be possible towards the end of the three year period (or even

[15] See IMF (2015).
[16] The OECD regularly reviews the main growth challenges and and takes stock of the progress made in the adoption and implementation of structural policy reforms to address these challenges on a yearly basis. Figure 9 illustrates the pace of reform in previous periods captured by the indicator of reform responsiveness (RRI) and the hypothetical level of responsiveness in 2015 based on two different scenarios. See OCED Going for Growth 2010 and 2016 for further explanation. Euro area surplus economies are defined as the euro area members for which the current account surplus was on average larger than 1% of GDP over the period 2000-05 (AT, BE, DE, FI, LU and NL). The euro area deficit economies include the remaining members of the OECD euro area (FR, EE, GR, IE, IT, PT, SK, SI and ES).
[17] See Council conclusions (May 25 2016).
[18] See European Commission Press Release on the Investment plan for Europe (June 1st 2016).

thereafter). At the same time, if operations are working successfully, there is a point for providing some planning perspectives for operations beyond 2018. However, decisions should not be taken without (further) assessment. Because final results are unlikely to be available to inform the political debate, the initial evaluation of the early projects, regular stock-taking, and also the mid-term report on EFSI's operations are all the more important. In addition to taking stock of EFSI, considering the interplay of its operations with investment conditions in member states would also contribute to inform the debate.

Last but not least, the discussion about making EFSI permanent is connected to what it should do in the future. Suggestions include adding activity on venture capital, promoting human capital investment and also extension of EFSI's geographical scope beyond Europe to facilitate development related projects. It would be wrong to see this as a narrow "scramble for funds". Looking at the big picture, it is about economic policy priorities which provide the direction for promotional activity and about the way activities for economic promotion are organized in Europe.

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