June 2015

European Fund for Strategic Investments (EFSI):

"SMART, SUSTAINABLE AND INCLUSIVE"
Recommendations for the Delegated Act establishing a scoreboard of indicators

According to article 7.11 of the regulation on the European Fund for Strategic Investments[1] (EFSI) the European Commission is empowered to establish a scoreboard of indicators to be used by the Investment Committee to ensure an independent and transparent assessment of the potential and actual use of the EU guarantee.

In a first concept note the Commission elaborates its 3-pillar scheme containing indicators and a scoring system *"to assess the quality and contribution of an operation to sustainable growth and employment, the contribution to EU and EFSI policy objectives, as well as the financial and technical contribution resulting from EIB/EFSI involvement […] with a view to maximizing the macro-economic impact of the European Fund for Strategic Investment. […] Thus construed, the scoreboard will be a tool for the Investment Committee to prioritise the use of the EU Guarantee for operations that display higher scores and added value".*

The framework has three Pillars:

- Pillar 1 – Quality and Contribution to Sustainable Growth and Employment
- Pillar 2 – Contribution to EFSI policy objectives
- Pillar 3 – Technical and financial contribution

However, the Commission's[2] approach to build this scoreboard similar to that currently used by the EIB **falls short on evaluating the EFSI's EU added-value to the key objectives defined in the legislation (art. 9;2) and on demonstrating additionality to the EIB's ordinary operations**. The EU budget guarantee is supposed to be used for:

(a) Research, development and innovation;
(b) Development of the energy sector, in accordance with the Energy Union priorities, including security of energy supply, and the 2020, 2030 and 2050 Climate and Energy frameworks;
(c) Development of transport infrastructures, equipment and innovative technologies for transport;
(d) Financial support through the EIF and EIB to companies as well as other entities having up to 3000 employees, with a focus on SMEs;
(e) Development and deployment of information and communication technologies;
(f) Environment and resource efficiency;
(g) Human capital, culture and health.

It is important to note that the above listed objectives are already anchored in the existing EU legislation and agreed policy objectives respectively[3], thus any evaluation of proposed projects has to be conducted within the framework of those regulations and strategies, and any indicator would need to refer to existing

[1] REGULATION (EU) 2015/...OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Projects Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013, – the European Fund for Strategic Investments, according to COREPER agreement 9 June 2015

[2] Ref. Ares(2015)2381168 - 08/06/2015, vice president Jyrki Katainen to MEP Roberto Gualtieri, Chairman of ECON, European Parliament; "scoreboard non-paper submitted to legislators on 9 June."

[3] "The purpose of the EFSI should be to help resolve the difficulties in financing and implementing strategic, transformative and productive investments with high economic, environmental and societal added value contributing to achieving Union policy objectives such as those set out in Regulation (EU) No 1287/2013 of the European Parliament and of the Council3, Regulation (EU) No 1291/2013 of the European Parliament and of the Council3, Regulation (EU) No 1315/2013 of the European Parliament and of the Council3 and Regulation (EU) No 1316/2013 of the European Parliament and of the Council".

indicators and targets, in particular of the Europe 2020 Strategy and the longer-term climate and energy targets.

From this point of view the scoreboard's limitation to "sustainable growth and employment" (first pillar) is not consistent. It should build instead on a more complete and comprehensive framework already established within the EU, namely "quality and contribution of the project to smart, sustainable and inclusive growth".

The current EIB 3-pillar assessment is used to assess the project compliance with the EIB's specific objectives as a financial institution. "Sustainable growth and employment" objectives were established by the Board as a Bank's horizontal objectives. **However the EFSI horizontal objectives differ from the EIB's standard ones, thus there is a need to reformulate the pillar one**, so that it can be effectively and properly used by the Investment Committee in line with the Regulation. Pillar one shall be used to assess the project's compliance with the horizontal objectives as included in the regulation:

Point 1 of the Preamble: "That lack of investment, which has been particularly severe in those Member States most affected by the crisis, has slowed down economic recovery and negatively affects job creation, long-term growth prospects and competitiveness, potentially preventing the **attainment of the Europe 2020 targets and objectives for smart, sustainable and inclusive growth**."

Point 14 of the Preamble clearly put forward the challenge and the role for the EFSI:

"The EFSI should support projects in the field of research, development and innovation. The investments supported under the EFSI should contribute to **achieving existing Union programmes and policies and the targets and objectives of the Europe 2020 Strategy for smart, sustainable and inclusive growth**".

Further on, in the point 28 of the Preamble, the Regulation sets out: "The EFSI should target investments with a degree of **appropriate risk typically higher than that of EIB normal operations**, **whilst being consistent with Union policies, including the objective of smart, sustainable and inclusive growth, quality job creation, economic, social and territorial cohesion, as well as whilst meeting the particular requirements for EFSI financing**."

Last but not least Article 6 (b) of the Regulation includes the following horizontal eligibility criteria for projects supported by the EFSI: "[…] consistent with **Union policies, including the objective of smart, sustainable and inclusive growth, quality job creation, and economic, social and territorial cohesion**;"

RECOMMENDATION: change the scope of pillar 1 from "The quality and contribution of the project to sustainable growth and employment" to "The quality and contribution of the project to smart, sustainable and inclusive growth".

The below table displays the Commission's proposal and critically reflects several of its elements:

COMMIOSSION concept note on elements of the scoreboard according to article 7.11 EFSI regulation, 9.6.2015:	Critical assessment:
EFSI Value Added methodology and scoreboard **I. General principles** The EIB projects supported under EFSI will be assessed in accordance with EIB appraisal and due diligence procedures. To assess the value added of an operation to be potentially supported by the EIB, a score board as defined below will be used. The EIB will calculate the scores ex-ante and monitor the results until project completion. The Investment Committee will receive the scores obtained under each pillar and the	The current EIB 3-pillar assessment is used to assess the project compliance with the EIB's specific objectives as a financial institution. "Sustainable growth and employment" objectives were established by the Board as a Bank's horizontal objectives. However the EFSI horizontal objectives differ from the EIB's standard ones, thus there is a need to reformulate the pillar one, so that it can be effectively and properly used by the Investment Committee in line with the Regulation. Pillar one shall be used to assess the project's compliance with the horizontal objectives as included in the regulation, i.e. the energy and climate

<table>
<tr><td>value of each indicator.</td><td>framework in a 2030 and 2050 perspective.</td></tr>
<tr><td>The framework has three Pillars:</td><td>For each pillar relevant indicators shall be used and valued in order to provide the overall assessment of the project contribution to achieving the EU policy objectives. Indicators included in the Pillar one for the assessment of the horizontal objectives shall be valued more than others to emphasize their importance and to ensure that only projects with strong value-added are supported.</td></tr>
<tr><td>Pillar 1 – Quality and Contribution to Sustainable Growth and Employment
Pillar 2 – Contribution to EFSI policy objectives
Pillar 3 – Technical and financial contribution
Due to their distinct scope, each pillar will be assessed individually without aggregation into one single rating. To ensure the monitoring of results of projects, this assessment will be complemented by core results indicators for all projects and sector specific monitoring indicators showing the expected outputs and outcomes for each project.</td><td>Pillar 1 – The quality and contribution of the project to smart, sustainable and inclusive growth, according to Europe 2020;
It envisions the transition to smart growth through the development of an economy based on knowledge, research and innovation.
The sustainable growth objective relates to the promotion of more resource-efficient, greener and thus competitive markets.
The inclusive growth priority encompasses policies aimed at fostering job creation and poverty reduction.
Pillar 2 – Contribution to EFSI policy objectives
This pillar should assess the project’s compliance with the policy objectives as included in the Art 9,
and evaluate the project’s contribution in achieving of EFSI objectives and strategic targets</td></tr>
<tr><td>The steering board may provide additional guidance regarding the application of the scoreboard by the investment committee.
The steering board may decide to adopt modify the score board from time to time to incorporate lessons learned. In this case the chairman of the steering board will notify the European Parliament and the Council in writing.</td><td>The steering board should consult stakeholders including civil society regularly.</td></tr>
<tr><td>2. The Scoreboard

Each EFSI project will be rated on each of the 3 pillars. The rating is calculated on the basis of the points obtained on a number of indicators within each pillar, using the following scale:<table><tr><td>Points</td><td>Pillar 1 rating</td><td>Pillar 2 and 3 rating</td></tr><tr><td>0-49</td><td>Marginal</td><td>Low</td></tr><tr><td>50-99</td><td>Acceptable</td><td>Moderate</td></tr><tr><td>100-149</td><td>Good</td><td>Significant</td></tr><tr><td>>= 150</td><td>Excellent</td><td>High</td></tr></table></td><td>Even though each pillar will be assessed individually without aggregation into one single rating, the final assessment of the project should not lead to a decision made on the basis of an average value, where underperformance in Pillar is compensated with higher ratings in the other Pillars.
Minimum obtainable values for each Pillar have to be established.
The weight in between the pillars is not established, those pillars referring to EU added-value should have a higher weight.</td></tr>
<tr><td>Pillar 1 - Quality and contribution to Sustainable Growth and Employment
Pillar 1 assesses the contribution to sustainable growth and employment.
Pillar 1 is built up from a number of indicators to evaluate the quality and soundness of the operation. A different approach is outlined for investments in individual projects or for those made through multi-beneficiary intermediated loans.
The following dimensions and resulting indicators are foreseen to assess <u>individual projects</u>:
Growth (indicator 1 - ranging between 0 and 100</td><td>Pillar 1 – The quality and contribution of the project to smart, sustainable and inclusive growth, according to Europe 2020;
It envisions the transition to smart growth through the development of an economy based on knowledge, research and innovation.
The sustainable growth objective relates to the promotion of more resource-efficient, greener and thus competitive markets.
The inclusive growth priority encompasses policies aimed at fostering job creation and poverty reduction.</td></tr>
</table>

points): The contribution of a project to growth comes from its economic interest. Where possible the economic rate of return (ERR) is quantified using best practice in the economics profession. However, there are also projects whose ERR is difficult to estimate. For example, a number of sectors are driven by compliance with EU standards and the primary issue is to ensure that a least cost solution is adopted rather than to assess the overall economic return (an example is water and waste treatment). For these sectors the assessment of quality is based upon sector benchmarks. For operations grouping framework loans the assessment is based predominantly on the investment strategy and criteria used by the promoter.	Pillar 1 – The quality and contribution of the project to smart, sustainable and inclusive growth The smart growth objective is covered by the indicators on innovation (gross domestic expenditure on R&D) and education (early leavers from education and training and tertiary educational attainment) The sustainable growth pillar is monitored by three indicators on climate change and energy (greenhouse gas emissions, share of renewable energy in gross final energy consumption and primary energy consumption). Inclusive growth is measured against the poverty or social exclusion headline indicator (combining three sub-indicators on monetary poverty, material deprivation and living in a household with very low work intensity) and employment rate. http://ec.europa.eu/eurostat/en/web/products-statistical-books/-/KS-EZ-14-001
In general, the required hurdle rate of return for EIB financing is 5%. For a standard project an economic rate of return (ERR) of 5-7% is considered "Acceptable", 7-10% "Good", while a project with an ERR above 10% is considered "Excellent". However, the classification of results is also based upon some sectorial considerations. Those sectors currently considered being less environmentally sustainable (such as certain transport modes) would only be financed if they are considered "Good" from an economic interest point of view, meaning a minimum ERR of 7%. Conversely, for selected projects with long-term climate benefits, projects will be considered possible for financing if they produce an ERR in the 3.5-5% range – with the introduction of a "marginal" category. The rating attributed to private sector projects is set at "Marginal" for a rate of return of 5-7%, "Acceptable" from 7-10%, "Good" for 10-15%, and "Excellent" for ERRs above 15%. Promoter capabilities (indicator 2 - between 0 and 30 points). These capabilities are assessed through a qualitative judgement on the promoter's ability to deliver the project in a timely, efficient manner also considering the relevant institutional context and any technical assistance to be provided. This is particularly important for framework loans, where prioritisation criteria, project implementation and control capacity/capability and monitoring and control systems will be assessed, as well as management of environmental, competition and public procurement requirements.	In addition to ERR considerations, the long term cost-benefit analysis has to include shadow carbon pricing which is in line with 2050 GHG reduction targets, above the current level applied by the EIB
Sustainability (indicator 3 - ranging between 0 and 30 points): The EIB standards require that projects not only are economically viable and thus contribute to growth, but also that they are sustainable in environmental and social terms. It is critical that high environmental and social standards are maintained. These are assessed through the detailed guidelines set out in the Environmental and Social Practices Handbook[4]..	The sustainability score should not be lower than the Growth indicator; "Sustainability" should go beyond "compliance with EU environmental legislation", as is it the case in the current EIB assessment, and include long-term cost-benefits analysis regarding 2030 and 2050 objectives,

[4] http://www.eib.org/attachments/thematic/environmental_and_social_practices_handbook.pdf

<table>
<tr><td></td><td>based on reviewed CO2 assessment

The handbook assesses project compliance with EU environmental legislation, not including Europe 2020, 2030, 2050 climate objectives;</td></tr>
<tr><td>Employment, technology and other benefits (indicator 4 - ranging between 0 and 40 points): The employment needed during construction is estimated using industry specific coefficients. The assessment of employment during operation is to be achieved through judgement by the project analysts comparing the project with sector experience. The following table summarises the rating split between employment during construction as well employment during operation. For example, projects with high labour content during construction include some civil works (notably dispersed rehabilitation works), energy efficiency, and forestry. Higher employment during operation is associated with some industrial projects.</td><td>This dimension does not include the indicator for “technology, thus an “innovation indicator” should be added, i.e. only allowing technology not older than 5 years; see as well Commission Communication "Measuring innovation output in Europe: towards a new indicator":
Technological innovation as measured by patents.
Employment in knowledge-intensive activities as a percentage of total employment.
Competitiveness of knowledge-intensive goods and services. This is based on both the contribution of the trade balance of high-tech and medium-tech products to the total trade balance, and knowledge-intensive services as a share of the total services exports.
Employment in fast-growing firms of innovative sectors.</td></tr>
<tr><td><table>
<tr><th>EMPLOYMENT</th><th>1 point</th><th>20 points</th><th>40 points</th></tr>
<tr><td>Full time equivalent during construction (per EUR million investment cost)</td><td><3.5</td><td>3.5 – 7.0</td><td>>7.0</td></tr>
<tr><td>Full time equivalent during operation (per EUR million investment cost)</td><td><0.50</td><td>0.51 – 1.00</td><td>>1.00</td></tr>
</table>
The overall pillar 1 rating for individual projects will be calculated by adding up the points of the four sub categories outlined above to give an overall pilar 1 rating for the project ranging from 'marginal' (less than 50 points), 'acceptable' (50 to 99 points), 'good' (100 to 149 points) to 'excellent' (150 points and above).</td><td>Energy efficiency and eco-innovation should get a higher score, as they are delivering on a number of cross-cutting objectives of the EFSI

But job creation effect of Energy Efficiency measures is significant in construction”, but EE job intensity not reflected in this distinction made.</td></tr>
<tr><td>As regards Multi Beneficiary Intermediated Loans (MBIL), Pillar 1 will provide an assessment of the capacity and effectiveness of financial and other entities (including promotional institutions) to act as intermediaries. The evaluation is based on the following 4 independent indicators:
Experience of the intermediary in the sector or objective (for example SMEs or mid-caps, or sectoral objectives targeted such as energy or RDI).
Track record of the intermediary with EIB regarding allocations to the final beneficiaries.
Track record on quality of reporting.
Information provided to the final beneficiary.
The points given to the indicators in each category are</td><td>The Investment Committee does not approve every project of the intermediary; does the intermediary undergo the assessment of project according to the 3 pillars, and will they make the results public? There will be different kind of intermediaries, i.e. National Promotional Banks, investment platforms, commercial banks, and equity and investment funds. . Projects from NPB and all other vehicles have to undergo the assessment as well, which is currently not the case, i.e. NPB or other banks and funds are not applying EIB standards inline with the 3 pillar assessment, transparency, carbon shadow price and carbon footprint assessment. Thus the NPBs shall be required to present projects to the Investment Committee for guarantee approval while for other intermediaries, the EIB shall require relevant reporting according to EIB</td></tr>
</table>

added together to give an overall rating for the project from "Marginal" (less than 50 points) "Acceptable" (50 to 99 points), "Good" (100 to 149 points) to "Excellent" (150 points and above). However, should a project fail to score sufficiently under any of the individual criteria at appraisal, the project will not be proposed for EFSI support.	rules. Thus has minimum threshold has to be established.
Pillar 2: Consistency and contribution with EFSI objectives Pillar 2 will assess the consistency with and the contribution of the project to the realisation of the EFSI objectives as defined in the EFSI regulation. The methodology to assess the overall Pillar 2 rating will be based on the contribution of the operation ranging from 'low', 'moderate', 'significant' to 'high'. The assessment builds on several interrelated dimensions: EFSI eligibility and objectives**:** All projects must be eligible under EFSI. Eligible projects with a low policy priority will receive a "Low" rating. A typical project would be a "non-priority" road TEN or standard Knowledge Economy project in a wealthier part of the EU. • Key sectors: The EFSI Regulation (article 2.5) identifies a number of key sectors, which are considered to be of particular importance. Projects in these key sectors would move up one notch in the rating scale.	Pillar 2 – Contribution to EFSI policy objectives • This pillar should assess the project's compliance with the policy objectives as included in the Art 9,2 • and evaluate the project's contribution in achieving of EFSI objectives and strategic targets, including long-term climate and energy frameworks This is unacceptable, fitting to the key sector" is a necessary condition" for EFSI guarantee, projects not falling into this scope should be automatically excluded. Instead up a scoring system should be set-up according to the added-value to different objectives, i.e. projects supporting research for eco-innovation or GHG reduction in transport infrastructure would score higher, as they contribute to multiple objectives within various sectors.
• Cooperation with NPB's: Given the focus of EFSI on cooperation between EIB and National Promotional Banks (NPBs), joint operations or SME/Mid-Cap lending through would also move up one notch in the rating scale.	A higher score for cooperation with National Promotional Bank is not justified; why should the same project done by e.g. KfW gets higher rating, it doesn't change the scope of the project; "focus" of the EFSI is the achievement of its objectives, not the cooperation with intermediaries
• Exceptional contribution: Projects with very specific features making an exceptional contribution towards the achievement of EU's policy objectives would automatically be rated "High". Examples would include key cross-border projects or unique demonstration projects. A four scale rating scale will be used. To calculate the overall rating, 50 points are allocated for each rating notch. When added together, the project is then categorised as "Low" (less than 50 points), "Moderate" (50 to 99 points), "Significant" (100 to 149 points) to "High" (150 points and above).	It is not clear how "exceptional" is defined … in particular regarding the examples given, "demonstration projects" fall within the scope of article 9.2; financing "cross border" operation was one of the reason for establishing the EIB. In this context projects which result in energy savings and resource efficiency gains should receive a higher weight due to their multiple benefits for the EU economy, society and environment. This "four scale rating" is not appropriate, because either the projects falls within "key sector" according to article 9, or not, so who would a scaling/differentiation be established?
Pillar 3: technical and financial contribution to the project Pillar 3 focuses on the value originated by the involvement of EIB and the support from EFSI itself, offering financial and non-financial benefits in support of the project. This specific contribution is assessed through three indicators, each measuring complementary dimensions of value added: • Financial Contribution, i.e. improving the	Pillar 3 – technical and financial contribution to the project • This pillar should assess additionality", why "normal EIB lending" or any other EU financing instrument alone is not sufficient for supporting the project; • The "higher risk" assessment should be

counterpart's funding terms compared to alternative sources of finance (interest rate reduction and/or longer lending tenor). • Financial Facilitation, i.e. increasing the efficiency of other stakeholder support ; leveraging third party resources in particular from private sector; signaling effects for other lenders; financial structuring and advice). • Technical Contribution and Advice i.e. providing non-financial services in the form of expert input / knowledge transfer to facilitate project implementation and institutional capacity. This could be provided under the European Investment Advisory Hub and any other existing advisory facility such as JASPERS or ELENA. Each sub-indicator will be independently rated using the consistent and well-documented existing methodology of the EIB, as may be amended from time to time. As with Pillar 2, the rating will range from "Low" to "High". The points attributed to each rating are summed to give the overall rating for this pillar for the project from "High" (150 points & above), "Significant" (100-149 points), "Moderate" (50-99 points) to "Low" (below 50).	elaborated and valued here.

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