CEE Bankwatch Network

Counter Balance
Challenging Public Investment Banks

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NOT WORTH CELEBRATING – YET?

The Investment Plan for Europe - a critical analysis of the pilot phase of the “Juncker Plan”

Contents

Glossary

EFSI The European Fund for Strategic Investments is the financial pillar of the Investment Plan for Europe: a guarantee fund backing investments by the EIB Group in order to mobilise EUR 500 billion by 2020.

EFSI 2.0 The second version of EFSI, which prolonged the lifeline of the initiative (initially foreseen for the 2015-2018 period) to the end of 2020.

EIAH The European Investment Advisory Hub is the second pillar of the Investment Plan for Europe. It aims at providing a technical assistance tool to share good practices, lessons learnt and real-life case studies on project finance and project management to project promoters willing to receive funding from the EFSI.

EIB The European Investment Bank is the financial arm of the European Union, owned by its Member States. It is the main implementer of the EFSI via its Infrastructure and Innovation Window.

EIF The European Investment Fund – part of the EIB Group – is a provider of risk finance to benefit small and medium-sized enterprises (SME) across Europe. Its shareholders are the EIB, the European Union, represented by the European Commission, and a wide range of public and private banks and financial institutions. Under the EFSI, the EIF implements the SME window.

IIW The Infrastructure and Innovation Window is one of the two EFSI investment windows, managed by the EIB.

Investment Plan for Europe (IPE) The official name of the investment initiative aimed at leveraging EUR 500 billion across Europe from 2015 to 2020 to boost growth and jobs. Its creation dates back to the electoral campaign of then-candidate Jean-Claude Juncker before he became the President of the European Commission – hence the IPE has often been called the “Juncker Plan”.

InvestEU The InvestEU programme is to be an expanded version of the Investment Plan for Europe for the 2021-2027 period.

SME Window The Small and Medium Enterprises Window is one of the two EFSI investment windows, implemented by the EIF.

EXECUTIVE SUMMARY

The cornerstone of the so-called "Juncker Plan", *the European Fund for Strategic Investments (EFSI)* is an initiative launched jointly by the European Commission and the European Investment Bank (EIB) in Spring 2015 with the goal of mobilising private capital to catalyse strategic, transformative and productive invest¬ments with high economic, environmental and societal added value. The role of the EFSI is to incentivise the EIB to invest in risky projects with greater growth and jobs potential in order to unlock private capital in a moment of economic crisis and attract investors in projects that would help revive the European economy.

Considered and advertised as a success before a solid assessment of the plan's achievements was even completed, in 2017 the EFSI's lifetime was extended until the end of 2020, and its investment target increased from EUR 315 billion to at least EUR 500 billion. Currently, the successor to the EFSI for the post-2020 period – the *InvestEU programme* – has been proposed as part of the negotiations over the future EU budget and is likely to be central to the European "Green Deal" to be announced by the incoming Commission President Ursula Von der Leyen.

In contrast with the European Commission's portrait of the EFSI as an undisputed success, Counter Balance and CEE Bankwatch Network – networks of NGOs working as watchdogs on European public finance – have published various critical analyses of the EFSI, pointing out weaknesses in the Investment Plan for Europe's transparency, sustainability of investments, geographical concentration and additionality. *In this report, we consolidate our previous studies to present a comprehensive counter-perspective on the achievements of the Juncker Plan's pilot phase, in order to inform the public debate following the EU elections.*

Weighing some of the improvements against some confirmed weaknesses, the report draws a mixed picture of the EFSI's 3-year pilot phase:

> EFSI scores too low on sustainability

Under its Infrastructure and Innovation Window (IIW), the EFSI officially has a 40 per cent climate target. However in contrast to the EIB's overall climate target (set at 25%), the EFSI one does not take into account the support to SMEs and Mid-Caps which makes it impossible to easily compare the respective EIB's and EFSI's climate financing. And although the EFSI seems to be on track with the climate target established by the Regulation, if the EIB's standard methodology is applied, only 29 per cent of the projects signed under the IIW between 2015 and 2018 contributed to climate action. In EU cohesion countries, the EFSI's contribution to climate action is even smaller and reached merely 15 per cent.

In parallel, the EFSI continues to support fossil fuels, mostly gas infrastructure. The EFSI guarantees for fossil fuels reached over EUR 2.6 billion, more than for energy efficiency (EUR 2.3 billion) over the same time period. The program has supported several gas pipelines including the controversial Trans Adriatic Pipeline and the Transgaz Brua Gas Interconnection Project.

In the transport sector, high carbon projects - highways, airports, aircrafts and cars - have received the lion's share of EFSI support – 72 per cent - whereas urban mobility and rail have together received only 16 per cent of transport investments.

> Geographical distribution remains problematic

Our research shows that *the geographical concentration under the Infrastructure and Innovation Window (IIW) continued to exceed the maximum threshold established by the Steering Board. France, Italy and Spain* rank highest in terms of guarantees for signed projects, followed by Germany, Greece and Poland.

The ranking looks different if the volume of signed projects is compared to the size of national economies, though. In this case Greece tops the ranking, followed by Finland, Bulgaria and Slovakia.

> A questionable additionality

In keeping with its goal to mobilise additional capital sleeping in the deep pockets of the financial system, the EIB has financed more projects with a high-risk profile under the EFSI than it did in the past.

Still, the European Court of Auditors concluded in its latest report that *the amount of investment mobilised by the EFSI may have been overestimated.* The Court also highlighted that *EFSI's support has replaced pre-existing financing or alternative* *funding sources*, mainly in the fields of energy and transport. Overall, *the additionality of the EFSI is still subject to debate*. A comparison of EFSI investments with other regular EIB investments is necessary in order to better understand the extent to which there is added value in the guarantees stemming from the EU budget awarded to the Bank.

> Incremental steps taken on governance, integrity and transparency, but concerns remain

A central problem with the first years of the EFSI was the low level of transparency around its projects and its decision-making process. Since its extension as "EFSI 2.0", we have noticed some improvements: the EIB has disclosed most assessments of EFSI projects (so-called "scoreboards"), the minutes of the EFSI Steering Board meetings are now regularly published and the EFSI Investment Committee now complies with the obligation to disclose its rationale for supporting the use of the EU guarantee.

However, key information still remains undisclosed, even for public sector projects. A significant number of EFSI projects are not disclosed when approved, or only their name is disclosed without the amount of the guarantee provided, the scoreboard or the rationale for support. Although summaries of decisions taken during the Investment Committee meetings are published, these summaries do not contain all the approved projects.

In addition, the composition of the EFSI Investment Committee fails to fulfil the criteria of independence. In 2018, *individual IC members declared eight conflicts of interest* related to projects proposed for financing by the EIB. Our research shows that at least two of them are linked (and two had worked) with companies that have benefited in the past from EIB loans.

Furthermore, the *EFSI supports numerous controversial Public Private Partnership (PPP) projects*, while its governance structure makes it prone to corporate capture.

Key Recommendations:

Without serious intervention by decision-makers, past mistakes risk receiving a new lease on life in the post 2020 Budget via the InvestEU. That's why it will be key to make sure measures are taken to tackle EFSI's weaknesses in:

1. Sustainability

- The European Commission must issue stringent guidelines for sustainability proofing InvestEU projects. These must lead to the exclusion of fossil fuel projects from the scope of InvestEU, as such projects are not in line with the objectives of the Paris Agreement.

- The European Commission must use future policy checks and opinions on EIB projects to rule out high-carbon investments in the energy and transport sectors.

- InvestEU must focus its operations on energy efficiency, small-scale, decentralized renewable energy projects and on net-zero emission infrastructure and processes in its sectors of operation.

2. Cohesion

- Reinforce the focus of InvestEU on cohesion regions and countries where social and economic inequalities are exacerbated.

- Use the new advisory services to help local authorities develop viable and sustainable projects, including small-size projects in the energy efficiency and renewable energy fields.

3. Transparency and integrity

- The European Commission must make the scoreboards of indicators for each InvestEU project more meaningful, and establish minimum thresholds for project proposals to reach the Investment Committee which require the integration of sustainability, not only financial additionality.

- The European Commission must exert more stringent control at the project level to avoid supporting operations linked to corruption allegations, as well as halt the aggressive promotion and incentivisation of PPPs for social and economic infrastructure financing. It should publicly recognise risks that PPP entail at financial level and beyond, especially in sensitive public services sectors.

4. Governance

- The purpose of the Investment Committee needs a serious rethinking. Reinforcing the involvement of the European Commission in the adoption of projects benefiting from an EU guarantee is an option to be considered. At minimum, the Commission and Parliament must ensure that no conflicts of interest exist in the Investment Committee, strengthen its independence from the EIB and re-balance its composition to include not only members of the banking and financial industry, but also representatives from trade unions and civil society.

- Reinforce parliamentary scrutiny by setting up a stronger monitoring tool to analyse the impact of InvestEU and engage in a structured dialogue with the European Commission, the EIB and other implementing partners.

INTRODUCTION

"The Investment Plan for Europe has been a success story. It was exactly the right thing to do. It has been a game changer" –

Jyrki Katainen, Vice-President of the European Commission, 22 November 2018

The initial phase of the "Juncker Plan" is now over. Announced with great fanfare when created, the Investment Plan for Europe ran for 3 years, from mid-2015 to mid-2018. Since then, it has been expanded until the end of the current EU budgetary cycle in 2020, and its successor for the post-2020 period – the InvestEU programme – is part of the negotiations over the future EU budget.

Since the set-up of the plan, Counter Balance and CEE Bankwatch Network – networks of NGOs working as watchdogs on European public finance - have published various analyses. First, we expressed concerns that the EFSI would simply be business as usual for the EIB.[1] Then, we pointed out weaknesses in the Investment Plan for Europe's transparency, sustainability of investments, geographical concentration and additionality, after its first[2] and second year[3] of operations. Some of our critical views have been echoed by other organisations, such as the European Court of Auditors[4] and various think-tanks like Bruegel.[5]

During the first few years of EFSI operations, some of these concerns have been partly addressed, notably when the Regulation setting up the second phase of the EFSI – the so-called EFSI 2.0[6] – entered into force on 30 December 2017. The new regulation extends the EFSI's lifetime from mid-2018 to the end of 2020, and increases the investment target from EUR 315 billion to at least EUR 500 billion.

Still, our analysis of the EFSI's functioning and impact largely differs from the very positive assessment presented by the European Commission, for instance in its evaluation from June 2018.[7]

In this report, we present a counter-perspective about the achievements of the Juncker Plan's pilot phase in order to inform the public debate following the EU elections. For the new European Parliament and Commission entering office, it is important to learn lessons from previous investment initiatives in order to better prepare the future InvestEU programme which is to be the cornerstone of EU investments after 2020. This is especially timely since the new President of the Commission Ursula Von Der Leyen committed to launch a Green New Deal linked to EUR 1 trillion of new investments across the EU over the next decade – and InvestEU will surely play a pivotal role in such an initiative.

The key question this report seeks to answer is: What has really happened under the Investment Plan for Europe? Coming back to the early promises of the IPE, has it delivered?

A subsidiary question relates to the current discussions on the investment initiative's future:

- In view of the Commission's proposal to set up the InvestEU programme, what lessons can we draw from 3 years of the Juncker Plan?

In this report, we will focus on the key areas we have monitored so far – from climate action to transparency and accountability - and issue key recommendations for the future InvestEU programme.

1 Business as usual or genuine innovation? What's new in the Investment Plan for Europe, Counter Balance, July 2016 https://www.counter-balance.org/wp-content/uploads/2016/07/What%e2%80%99s-new-in-the-Investment-Plan-for-Europe.pdf

2 Best Laid Plans: Why the Investment Plan for Europe does not drive the sustainable energy transition, CEE Bankwatch Network – Counter Balance – Climate Action Network Europe – WWF European Policy Office and Friends of the Earth Europe, September 2016 https://bankwatch.org/publication/the-best-laid-plans-why-the-investment-plan-for-europe-does-not-drive-the-sustainable-energy-transition

3 Doing the same thing and expecting different results? Analysis of the sustainability and transparency of the European Fund for Strategic Investments, CEE Bankwatch Network – Counter Balance – Climate Action Network Europe and WWF European Policy Office, November 2017 https://bankwatch.org/wp-content/uploads/2017/11/same-thing-EFSI.pdf

4 Special report no 03/2019: European Fund for Strategic Investments: Action needed to make EFSI a full success, European Court of Auditors, January 2019 https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=49051

5 Assessing the Juncker Plan after one year, Bruegel, May 2016 http://bruegel.org/2016/05/assessing-the-juncker-plan-after-one-year/

6 http://eur-lex.europa.eu/legal-content/ EN/TXT/?uri=uriserv:OJ.L_.2017.345.01.0034.01.ENG&toc=OJ:L:2017: 345:TOC

7 https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-investeu-evaluation_en.pdf

What is the Investment Plan for Europe?

In November 2014 the European Commission (EC) announced a new investment plan that was to unlock investment in the real economy of over EUR 300 billion from 2015 to 2017. This idea dates back to the 2014 campaign for the European elections. The then candidate for the EC presidency, Jean-Claude Juncker, made the "Juncker Plan" his key political promise. Once installed as the EC head, President Juncker pushed for the Investment Plan for Europe to rapidly deliver on this pledge.

The Investment Plan for Europe[8] is composed of three pillars:

- The European Fund for Strategic Investments (EFSI)[9], the aim of which is to *"overcome current market failures by addressing market gaps and mobilising private investment. It will support strategic investments in key areas such as infrastructure, education, research and innovation, as well as risk finance for small businesses[10]."*
- Supporting investment in the real economy via the European Investment Advisory Hub[11] (a technical assistance tool to share good practices, lessons learnt and real-life case studies on project finance and project management) and the European Investment Project Portal[12] – *"a portal of projects to ensure that investors have reliable information on which to base their decisions".*
- Creating an investment friendly environment via regulatory changes and progress towards a Digital Single Market, Energy Union and Capital Markets Union.

Investment Plan for Europe, 20 April 2015, European Investment Bank, http://www.eib.org/infocentre/publications/all/investment-plan-for-europe.htm

8 See the European Commission's dedicated webpage https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan_en

9 See the EC's dedicated webpage https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/european-fund-strategic-investments-efsi_en

10 http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en

11 See the EIAH webpage https://eiah.eib.org/

12 See the dedicated EC's webpage https://ec.europa.eu/eipp/desktop/en/index.html?2nd-language=en

Methodological note

Our statistical analysis of EFSI operations is based on the information available in the public domain on the European Commission and EIB websites. Our calculations include the EFSI projects under the Infrastructure and Innovation Window (IIW) signed between the start of the Fund and the end of April 2019. Operations signed with financial intermediaries by the European Investment Fund under the Small and Medium Sized Enterprises Window (SMEW) were not included in this analysis. Projects listed on the official webpage but only with an "approved" (not signed) status were not taken into account. Each project was categorized by the authors of the analysis on the basis of its description and assigned to only one sectoral category. The EFSI regulation initially indicated seven eligible sectors that the EFSI should support[7]. They were expanded to accommodate agriculture, forestry, fishery and aquaculture, called "bio-economy". So far no such projects have been listed on the EIB's EFSI list. An additional category, 'mixed infrastructure', was also created by the authors for operations that could not be assigned entirely to any single eligible sectors due to their complex structure involving investments in various infrastructural sectors, such as energy or transport.

Our EFSI Climate Action analysis covers the period 2016 to 2018. The analysis was carried out on the basis of a list of Climate Action projects disclosed by the EIB on request. In this case the categorization of projects under various components of Climate Action, such as renewable energy, energy efficiency, RDI, transport, afforestation and forest management, waste and wastewater treatment as well as adaptation had already been included in the EIB's databases.

1 Has the Investment Plan for Europe really been a game changer?

In July 2016, Counter Balance published its first report on the Juncker Plan, called "Business as usual or genuine innovation?", which cast doubt on the innovative nature of the plan. Three years later, it is time to come back to some of these questions.

1.1. The rationale behind the Investment Plan for Europe

The rationale underlying the EFSI was multi-faceted. A prominent element is that the EU was still struggling with low growth rates and high unemployment, and was thus prioritising the need to rid itself of recessionary pressures in the context of generalised and deepened austerity and a still palpable investment gap.

Against this backdrop, since the outbreak of the crisis the EIB has been identified as an instrumental actor in promoting growth and jobs without committing too much fresh money. In 2009 and 2012, the capital of the EIB had already been increased by EU governments in order to enhance its lending capacity and to have the bank play a counter-cyclical role.

But what the EC had in mind in 2014 was to incentivise the EIB *to invest in risky projects with greater growth and jobs potential in order to unlock private capital and attract investors in projects that would help to kick-start the European economy*. Such a 'heavy risk' approach was an attempt to tackle the repeated criticism by some national governments and economists that the EIB was too risk-averse and obsessed with keeping its AAA status[13]. Therefore, the idea was to push the EIB to support riskier projects by providing it with guarantees from the EU budget.

The EC insisted that innovative financial instruments, including risk-sharing mechanisms, would be at the core of the EFSI. The media has consistently reported that the EFSI is a new way of spending the EU budget, which could be taken as a blueprint for future EU budget models[14].

13 http://www.robert-schuman.eu/en/european-issues/0337-jump-starting-

14 https://euobserver.com/economic/131842

What has really been disbursed so far?

At the end of 2018 the EIB group reported a total of EUR 53.7 billion of signed operations, of which EUR 39.2 billion under the Infrastructure and Innovation Window and EUR 14.5 billion under the Small and Medium Enterprises Window[15].

So, quantitatively, it seems that the EIB and the Commission are delivering on their EFSI promises. But an examination of the disbursement of signed operations shows a less rosy picture – which may indicate that the private sector does not fully need the EIB's financial support under the EFSI.

Only EUR 24.8 billion (46 percent) was disbursed by the bank under the two windows - EUR 18.5 billion under IIW and EUR 6.3 billion under the SMEW. This level of disbursement is well below the EIB's standard rate, which reached 85 percent in the two years preceding the start of the EFSI (2014 and 2015). The actual level of signatures under EFSI was also below the minimal forecast made for 2017 and 2018[16].

Although the deadline established by the EFSI Regulation for the project approvals and signatures in its initial period has passed, it is premature to claim victory in this situation. It is still to be seen if EFSI delivers the planned level of additional investments and what its macroeconomic impact will be. The difficulty met by the EIB in disbursing its loans – even when signed with project promoters – and the reasons behind this require more attention by the EU institutions, as it may simply demonstrate a lack of appetite from the private sector in biting into the favourable loans offered by the EIB.

1.2. Questionable additionality

The concept of mobilising additional capital sleeping in the deep pockets of the financial system through projects with a higher risk profile was at the heart of the Investment Plan for Europe, according to its promoters. The promise of additionality was therefore a prominent element of this flagship initiative.

But numerous controversies have arisen around the *additionality of EFSI operations* since they started.

According to the initial EFSI regulation, additionality was defined as support for operations that address market failures or sub-optimal investment situations and that could not have been carried out in the period during which an EU guarantee can be used, or not to the same extent, as from the EIB, EIF[17] or other Union financial instruments. However, these "market failures or sub-optimal investment situations" had not been identified in advance, leaving the EFSI without clear and measurable objectives. Interpretation was entirely at the EIB's discretion.

How it works

> Promoter contacts the EIB for support to its project

> The EIB conducts an initial assessment – if positive, the projects enters officially the EIB's appraisal process

> The EIB Management Committee gives its greenlight for the financing of the project to be proposed for approval

> EIB Management Committee decides to request an EU guarantee for a project and submit a selected project proposal to EFSI IC

> The EIB transmits the proposal and its assessment to the EFSI Investment Committee

> EFSI Investment Committee approves or not the use of EFSI guarantee for the project

> The EIB Board of Directors adopts or not the EIB loan (backed by the EFSI guarantee)

15 EIB Financial Report 2018; https://www.eib.org/attachments/general/reports/eib_financial_report_2018_en.pdf

16 EIB Operational Plan 2017-2019

17 The European Investment Fund (EIF) is a subsidiary of the EIB in charge of implementing the SME window of the EFSI, see https://www.eif.org/

So far, this has resulted in *one major difference compared to the EIB's usual operations: under EFSI, the EIB has financed more projects with a high risk profile than it did in the past.* To a certain extent, this shows that the EIB is starting to address the often-heard criticism that it is too reluctant to finance high-risk projects out of fear of losing its triple-A rating.

But high-risk profile operations have been part of the EIB's portfolio for years, under what it calls its 'special activities'. The EFSI then simply expands the volume of those special activities – so nothing new for the bank. And, as recalled in a recent detailed article by the Financial Times[18], *"even after a period of backing more risky projects, [the EIB] remains a uniquely safe lender. Over the past decade the EIB set aside reserves for 0.1 per cent of its loan book to go wrong: German development bank KfW expected 0.8 per cent; the China Development Bank 3.1 per cent; and the EBRD 4.4 per cent*".

The EIB Corporate Operation Plan for 2015-2017 made it clear in this regard that the bank planned to expand its level of 'special activities' from 6 percent in 2014 to around 30 percent by the end of 2017, thanks to the different risk profile of EFSI operations[19]. Ultimately, according to the European Court of Auditors, the volume of EIB Special Activities signatures increased from EUR 4.5 billion in 2014 to EUR 18 billion in 2017 - a fourfold increase[20].

In our 2016 report on the first year of EFSI operations, we found out that, in the sector of renewable energy, EFSI operations led by the EIB actually crowded out the EIB's standard portfolio in this field, and did not prove complementary to the traditional EIB's climate action operations. In practice, this meant that renewable energy projects decreased as part of the „traditional" EIB lending and were reported under EFSI instead – being labelled as „riskier projects". This is problematic as the EFSI was supposed to generate a pipeline of projects distinct from the EIB's standard pipeline in order not to crowd out or replace standard bank finance. Our analysis was then backed by several more evaluations.

In December 2016, the *European Court of Auditors* published a critical opinion about a proposal by the European Commission to expand EFSI at a time when signed operations amounted to just EUR 10.5 billion, or 21 percent of the established target for mobilized investments by June 2016[21].

It was rightly summarized by the Court of Auditors that the way additionality was defined *"may create an incentive to use unnecessarily complex financing structures or to allocate a risk profile that does not correspond to the real risk of the operation[22]".* The Court also indicated a risk that the multiplying effect is "overstated"[23].

Another risk is that operations financed under EFSI would have seen the light of day anyway thanks to the private sector itself. This issue is a classic one for all public banks: the risk of crowding out private investment while aiming at crowding it in.

Ernst&Young, a consultancy firm, also published an independent evaluation of EFSI in November 2016, pointing out that the *"market (in particular national promotional banks and beneficiaries) is still in doubt whether additionality is always met"[24].*

These concerns were also reflected in a report adopted by the European Parliament in June 2017[25] which highlights the unclear additionality of EFSI investments. The Parliament noted that *"a contradiction between the qualitative and quantitative goals of EFSI might occur in the sense that, to achieve the target for attracted private investment, the EIB might fund less risky projects where investors' interest already exists; urges the EIB and the EFSI governance structures to implement real additionality as defined in Article 5 of the EFSI Regulation and to ensure that market failures and sub-optimal situations are fully addressed".*

The Commission-led evaluation of EFSI in 2016 also noted that some project promoters actually had access to alternative sources, although on less favourable terms, and that there is some evidence under the IIW of potentially crowding out market investors[26]. The evaluation states that: *"The evidence suggests that additionality criteria under EFSI 1.0 could have been better defined. Additionality criteria have already been reinforced under EFSI 2.0 and should have a positive effect as of its entry into force in 2018. The Commission will closely monitor the implementation of such new requirements in particular to limit the potential crowding out effect of EFSI operations".*

As explained above, the EFSI's additionality issues were to be addressed through the EFSI 2.0 regulation thanks to a more detailed definition of what makes a project eligible for EFSI support and additional. The regulation now adds that any so-called "market failure or sub-optimal investment situation" is to be clearly identified in the scoreboard for each EFSI project with regards to investments risks linked to a country, region, sector, innovation or sustainability of a project.

Nevertheless, a subsequent report from the European Court of Auditors in January 2019[27] was a cold shower for the EIB and the European Commission. The Court concluded its report by stating that the amount of investment mobilised by EFSI may have been overestimated. Despite emphasizing that EFSI has been a very effective investment financing tool since its launch in 2015, the report also highlighted that EFSI support has replaced pre-existing financing or

18 European Investment Bank: the EU's hidden giant, Financial Times, Rochelle Toplensky and Alex Barker, 15 July 2019, https://on.ft.com/2YRbCJ3

98 Operational Plan 2015-2017, Luxembourg, April 2015 www.eib.org/attachments/strategies/cop2015_en.pdf

20 http://publications.europa.eu/webpub/eca/special-reports/efsi-3-2019/en/#A20

21 Court of Auditors Opinion No 2/2016, EFSI: an early proposal to extend and expand, https://eur-lex.europa.eu/legal-content/ EN/TXT/?uri=uriserv:OJ.C_.2016.465.01.0001.01.ENG&toc= OJ:C:2016:465:TOC

22 Court of Auditors Opinion No 2/2016

23 https://www.euractiv.com/section/ euro-finance/news/beneficiaries- question-juncker-plans-added -value-report-shows/

24 https://www.euractiv.com /wp-content/uploads/sites/2/ 2016/11/EY-EFSI-Evaluation.pdf

25 Implementation of the European Fund for Strategic Investments, June 2017 http://www.europarl.europa.eu/ sides/getDoc.do?type=TA&reference=P8-TA-2017-0270&language=EN&ring=A8-2017-0200

26 https://eur-lex.europa.eu/ legal-content/EN/ TXT/?uri=SWD%3A2018%3A316%3AFIN

27 https://www.eca.europa.eu/ en/Pages/DocItem.aspx?did=49051

alternative funding sources, mainly in the fields of energy and transport. In some cases, the Auditors claimed that the methodology used to calculate the estimated amount of additionally induced investment in the real economy may have resulted in differentiations from its actual volume. The Auditors also stated that EFSI operations sometimes simply replaced previous EIB projects or other EU financial instruments[28].

The EIB and Commission reacted strongly to the ECA's report. For example, the Commission spokesperson for Economic and Financial affairs Annika Breidthardt stated that "We are not convinced that the Court shows the full picture"[29]. The EIB President Werner Hoyer admitted that some of the projects would have been eligible for EIB financing under different terms, but insisted that the investments made would have been "no way" near the "scale in volume and maturity" the EFSI provides[30].

Overall, the additionality of EFSI is still subject to debate, and no clear answer can be given at this stage. What is certainly still lacking is a comparison of EFSI investments with other EIB investments, in order to understand better the extent to which there is added value in the guarantees awarded to the Bank. This report will seek to address this question regarding the transport and energy sectors (see Chapter 2).

1.3. Geographical concentration remains problematic

From the outset the geographical distribution of EFSI guarantees was also brought into question. A recurring criticism of the EFSI has been that its investments mainly favour the more advanced economies in Western Europe, to the detriment of Central and Eastern Europe. Hence, this concentration would run counter to the objective of cohesion between European regions which, according to many MEPs for instance, should be a key goal of the EFSI, and is a horizontal priority for the EIB.

In its June 2017 report[31], the European Parliament *"notes with concern, however, that as of 30 June 2016, the EU15 had received 91% whereas the EU13 had only received 9% of EFSI support; regrets that EFSI support has mainly benefited a limited number of countries where the investment gaps are already below the EU average; notes that within beneficiary countries, there is often an unequal geographical distribution of EFSI-funded projects; considers there is a risk of territorial concentration and underlines the need for greater attention to be paid to less developed regions across all 28 Member States;"*

"Acknowledges that GDP and the number of projects approved are linked; recognises that larger Member States are able to take advantage of more developed capital markets and are therefore more likely to benefit from a market-driven instrument such as EFSI; underlines that lower EFSI support in the EU13 may be attributable to other factors, such as the small size of projects, the peripheral geographical position of a given region and competition from the European Structural and Investment Funds (ESI Funds); observes with concern, however, the disproportionate benefit to certain countries and underlines the need to diversify geographical distribution further, especially in crucial sectors such as modernising and improving the productivity and sustainability of economies, with a key focus on technological development; asks the Commission to further investigate and map out the reasons for the current geographical distribution".

The Parliament listed some of the reasons for this uneven distribution. An important one relates to the demand-driven nature of EFSI: indeed, for a project to get EFSI support, a promoter needs to contact the EIB. So if there are no viable projects supported by active promoters in a given country, the EIB simply does not receive project proposals.

Still, this critical view on the geographic concentration of EFSI operations was echoed by the Court of Auditors in its 2019 report who found that most investments were concentrated in a few larger EU member states with stronger economies and better-established national promotional banks. The Court remarked that *"As at 30 June 2018, financing under the IIW was concentrated (47 %) in three Member States, 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".* These three countries are France (18 % or €6.2 billion), Italy (17 % or €6 billion) and Spain (12 % or €4.3 billion).

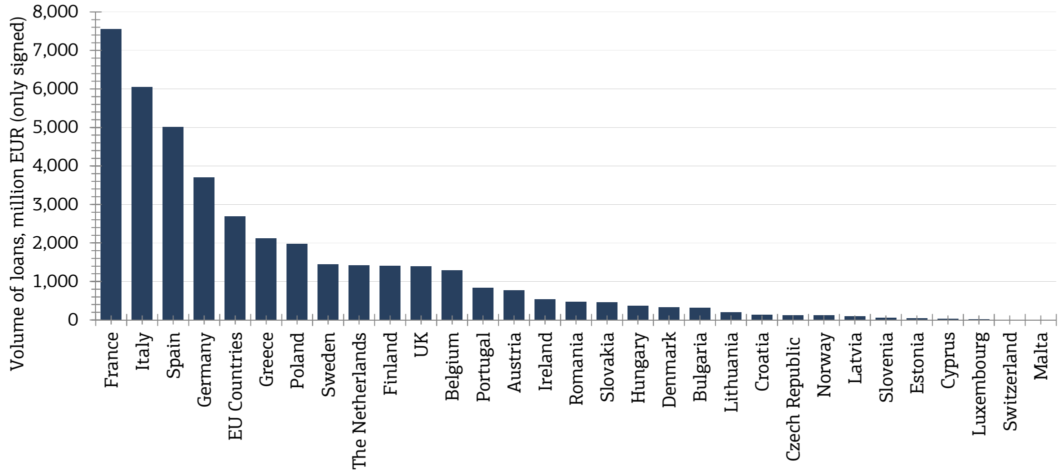
Our latest research shows that the geographical concentration of EFSI IIW in any three states continued to reach the maximum threshold established by the Steering Board and by the end of April 2019 it slightly exceeded 45 percent percent of financed operations. France, Italy and Spain rank highest in terms of guarantees for signed projects, followed by Germany, Greece and Poland.

28 https://www.euractiv.com/section/economy-jobs/news/juncker-plans-results-may-be-overstated-auditors-say/

29 https://www.euractiv.com/section/economy-jobs/news/eib-and-commission- defend-juncker-plan-following-auditors-criticism/

30 Ibid

31 http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0270&language=EN&ring=A8-2017-0200

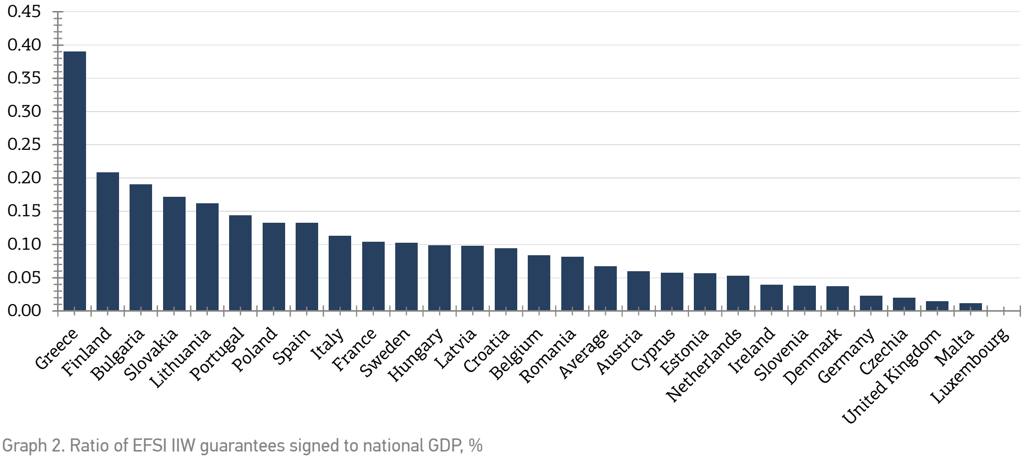


Graph 1. Geographical distribution of EFSI IIW guarantees signed, April 2019, million EUR

The EIB and European Commission prefer to compare the amount of EFSI investment mobilized to gross domestic product (GDP)[32], as a way to respond to this criticism, which shows different countries benefitting. Such presentation is, however, based on ex-ante estimates of mobilized investment rather than on the actual investment realized by the EIB or EIF. In addition, the methodology used to estimate the investment mobilised, according to the European Court of Auditors, overstated the extent to which EFSI support actually induced additional investment in the real economy[33].

EIB President Werner Hoyer has been reported as saying *"I believe we've made considerable progress with the geographical distribution of our lending"* and dismissing the "myth" about the geographical spread by pointing out that the main countries benefiting from the Juncker plan in terms of GDP were Greece, Estonia, Portugal, Spain and Lithuania[34]. Indicating that the imbalances in geographic distribution started only one year after the implementation of the EFSI, when *"some bigger countries with strong commercial banks were faster in taking advantage of the possibilities of EFSI"*, he stated *"I simply don't buy it anymore."*

The ranking indeed looks different if signed EFSI IIW guarantees are compared to the size of the economy. In this case Greece tops the ranking, followed by Finland, Bulgaria and Slovakia. It shows that in Greece the share of EFSI IIW guarantees in the national GDP was almost twice as high as in the second country, Finland. Between 2016 and 2018 the average share of EFSI IIW guarantees in EU-28 GDP reached 0.075 percent. The share of investments mobilized by EFSI will be relatively bigger, as this calculation is based on the sum of the guarantee, not the total investment cost. As a reference, the total investment in the EU was equivalent to 20.5 percent of GDP in 2018 and 19.9 and 20.2 percent in 2016 and 2017 respectively[35]. The EFSI IIW guarantees' impact on the level of investments would have to take due account of their actual disbursement level, which has so far not exceeded half of the projects signed.



Graph 2. Ratio of EFSI IIW guarantees signed to national GDP, %

32 See here for example https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results_en

33 European Fund for Strategic Investments: Action needed to make EFSI a full success; European Court of Auditors, Special Report 03/2019 https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=49051

34 https://www.euractiv.com/section/economy-jobs/news/eib-and-commission-defend-juncker-plan-following-auditors-criticism/

35 Eurostat, Gross fixed capital formation

In our view the approach of taking the EFSI mobilized investments per GDP does not provide much clarity whether the guarantee fund indeed addressed market failures or sub-optimal investment situations in the countries. For example it would be acceptable for the SME window to concentrate on states where smaller enterprises encounter more difficulties in access to financing compared to other states. Therefore without having a better idea of market deficiencies across the EU and sectors that the EFSI is supposed to address, it is impossible to measure its additionality compared to other existing financial instruments, commercial financiers and private investors and to assess whether the geographical distribution is appropriate.

EFSI investments should also be compared to the EIB's other projects, since the EU guarantee is supposed to steer EIB operations towards riskier projects. Here, our comparison shows that the EIB's financing to France, Italy and Spain together remained at a similar level of almost 44 percent of the bank's entire financing in the EU between 2016 and 2018. *It shows that EFSI is mirroring the EIB's general lending, and does not do more than EIB lending for less developed EU economies.*

As a conclusion, only future EFSI operations until 2020 will be able to demonstrate whether the geographical spread of EFSI investments is being rectified. Still, the current argumentation by the EIB and the Commission around the investment mobilized per GDP ratio is not comprehensive or satisfactory.

When economists provide a critical reading of financial instruments used by EFSI

In a working paper soon to be published, the economists and public finance specialists Stephany Griffith-Jones (Columbia University) and Natalya Naqvi (London School of Economics) present a mixed picture of the achievements and limitations of EFSI[36].

The two economists acknowledge that the *"EFSI has made significant achievements, including enabling the EIB and EIF to provide long-term finance in the post-crisis period, and to take more "economic" risk, leading to valuable real economy investments that would otherwise have not taken place."*

But they develop a critique articulated around two main issues:

1. A focus on leveraging private resources which has come at the expense of playing a stronger role in furthering transformative policy orientations.

The authors point out that *"member states' budgetary constraints have created incentives for EFSI to focus excessively on increasing leverage at the expense of policy steer"*. Because of the complexity of financial structures and intermediations created under the EFSI, EFSI operations are often so indirect that the European institutions are only able to exert limited strategic direction over projects being financed.

And the EFSI ends up leveraging for the sake of it: *"Now that the private financial sector has become more willing to lend, and even does so at very low margins, there is not much benefit in most countries and sectors, to de-risking them further. [...] The financial sector must serve the real economy, and financial objectives, for example, the development of capital markets, must never be an end in themselves"*.

2. In order to maximize leverage, the EIB and EIF have developed and used *"complex financial products and opaque pricing methods with terms too generous for private investors"*.

This confirms our previous analysis that, under the EFSI, what matters more is the risky nature of the financial engineering around projects (the "financial risk") rather than the risky nature of the project itself (what authors call the "economic risk" of a project) which can be the price to pay for achieving higher social or environmental positive impacts. And it is also mentioned that *"the main general aim of creating instruments with "financial engineering" risk is to increase profitability for private financial actors, whilst minimizing their risk of losses"*.

The paper further recommends that *"in order to increase investment in the real economy and play a role in structural transformation, InvestEU must have a greater focus on the final beneficiaries of projects rather than on the private financial intermediaries themselves"*. And *"in those cases where it is necessary to use intermediaries, performance related conditionalities could be enforced to have greater control over projects"*.

36 The Juncker Plan (EFSI), InvestEU, and the European Investment Bank (EIB): Assessing achievements and limitations. Stephany Griffith-Jones, Natalya Naqvi. Forthcoming. FEPS working paper.

1.4. Incremental improvements and a culture change at the EIB

There is a widespread recognition that implementing the EFSI has been a challenge for the EIB, especially as it had to try re-focus its operations on risky projects – an approach which clashed with its traditionally more risk-averse approach to risk management in order to safely preserve its triple A rating.

Nevertheless, civil servants and decision-makers at both the European Commission and the EIB acknowledge that the EFSI has led to a culture change at the EIB, and concrete modifications in its practices. Below are spelled out the most prominent of these incremental improvements.

- The EFSI pushed the EIB to work with new clients.

Indeed, the 'innovative nature' of the Investment Plan for Europe implies that the EFSI should not only support clients who have already benefited from the EIB's or EIF's support in the past but also attract new clients and investors.

In its 2016 report, Counter Balance showed that long-standing business relationships with clients were still a core criteria for selection under the EFSI. Our analysis of the first 57 projects financed by the EIB under the EFSI up to 28 April 2016 and their track record in terms of EIB or EIF financing showed that previous EIB Group clients were still getting the lion's share of EFSI investments. Out of 57 operations, 20 project beneficiaries had already been financed by the EIB in the past. Twenty-four had not been financed and could be considered as new clients. Four projects were directly related to other EIB-financed projects. Finally, nine operations were supporting public entities, for which this comparison is not applicable. And a similar analysis of the 30 financial operations supported by the EIF under the EFSI up to 28 April 2016 for which public information was available showed that out of 30 operations, there were 18 beneficiaries – mostly investment funds and commercial banks – which had already been financed by the EIF and/or the EIB in the past.

Since then, it seems that the state of play has largely improved. We were not able – given the high number of projects approved in the meantime – to do a comparative analysis as of December 2018, but this trend seems to have reversed.

The June 2018 evaluation of EFSI carried out by the European Commission shows that more than 80 per cent of the clients benefitting from financing under the Infrastructure and Innovation Window of EFSI are new EIB counterparts. In its report on EFSI operations in 2018, the EIB states that *"the higher risk-taking capacity also continues to allow EIB to engage with new counterparts and underserved markets and clients, with EIB maintaining a stable ratio of new counterparts: around 4 in 5 operations signed as at end-2018 were with new clients"*. Regarding the SME Window, 70 to 80 percent of the deals have been signed with new counterparts[37].

A note of caution though is that what the EIB and EC may consider as new clients can sometimes be just different branches of same companies – as indicated in the evaluation.

- The EIB going for smaller projects?

As a solution for the problem of geographical concentration, the amended EFSI 2.0 Regulation aimed at strengthening the European Investment Advisory Hub and called for smaller projects to be given due consideration.

The average size of the EFSI guarantee is slightly below EUR 100 million (while the size varies from EUR 8 million to 700 million). In the EU 13 there were 75 operations signed under the IIW by the end of 2018, with guarantees worth a total of EUR 4.3 billion, thus the average size of a guarantee was also slightly below EUR 100 million.

Guarantee size, EUR million	*Number of projects*
up to 25	85
26-50	119
51-100	111
101-700	115

Table 1. Number of EFSI IIW guarantees, April 2019

In its traditional operations (outside of the EFSI), the EIB sets a threshold for its participation in a project at a high bar: its loans are worth at minimum EUR 25 million. Hence, it is no surprise that most of the EFSI projects are very large.

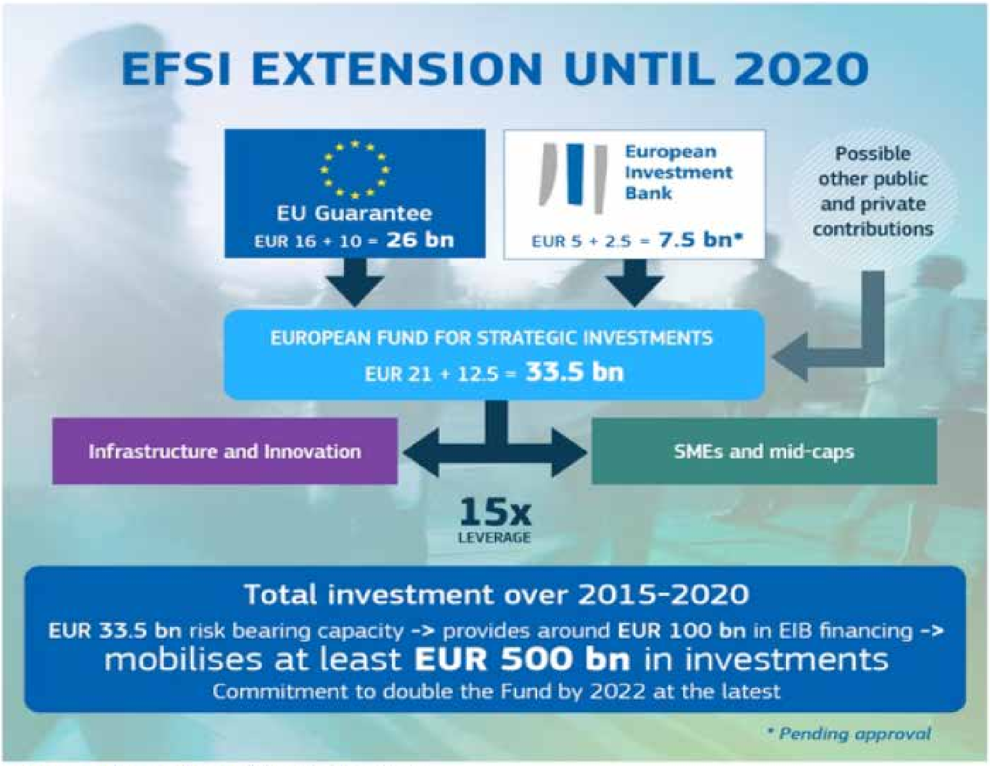
Guarantees worth more than EUR 25 million, the standard minimum size for traditional EIB loans, have prevailed under the EFSI. But the share of smaller guarantees under the EFSI was around 20 percent – investments that the EIB would for sure not have carried out without the support of the EFSI.

37 https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-investeu-evaluation_en.pdf

1.5. An extension until 2020 without a proper impact assessment

In its December 2016 report, the European Court of Auditors claimed that it was way too early to assess the impacts of EFSI, and that a proper impact assessment had to be carried out before turning EFSI into a permanent instrument. But ultimately this opinion was ignored by the European Commission when it pushed through its proposal for the so-called "EFSI 2.0".

In December 2017 the European Parliament amended the initial EFSI Regulation following a proposal from the European Commission and the EFSI was extended until 2020 and its resources increased from EUR 21 billion to EUR 33.5 billion from the EU budget guarantee and the EIB's own resources.



Source: European Commission, 22 September 2016.

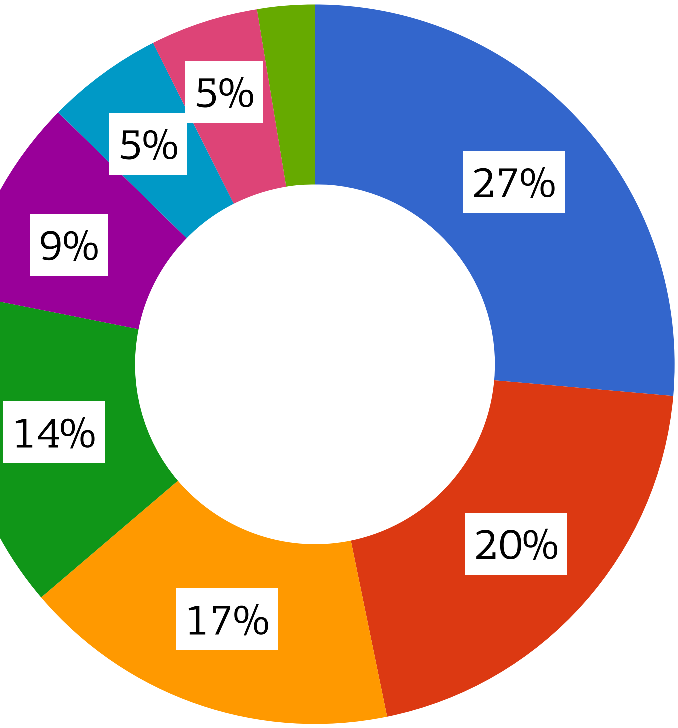
Conclusion

Coming back to the initial question of "Has EFSI really been a game changer?", our analysis is that the justified criticisms around the geographical distribution of its investments and their additionality mean that the EFSI is far from the success described by its political promoters. In addition, the actual low level of disbursements under the current set-up raises concerns about its reach to the "real economy" and the real need for such an instrument – as perceived by the markets.

For all these reasons, scaling up the EFSI's business model (using the EU budget to guarantee and de-risk the investments of public banks targeting mainly the private sector) under the future InvestEU programme is a questionable decision.

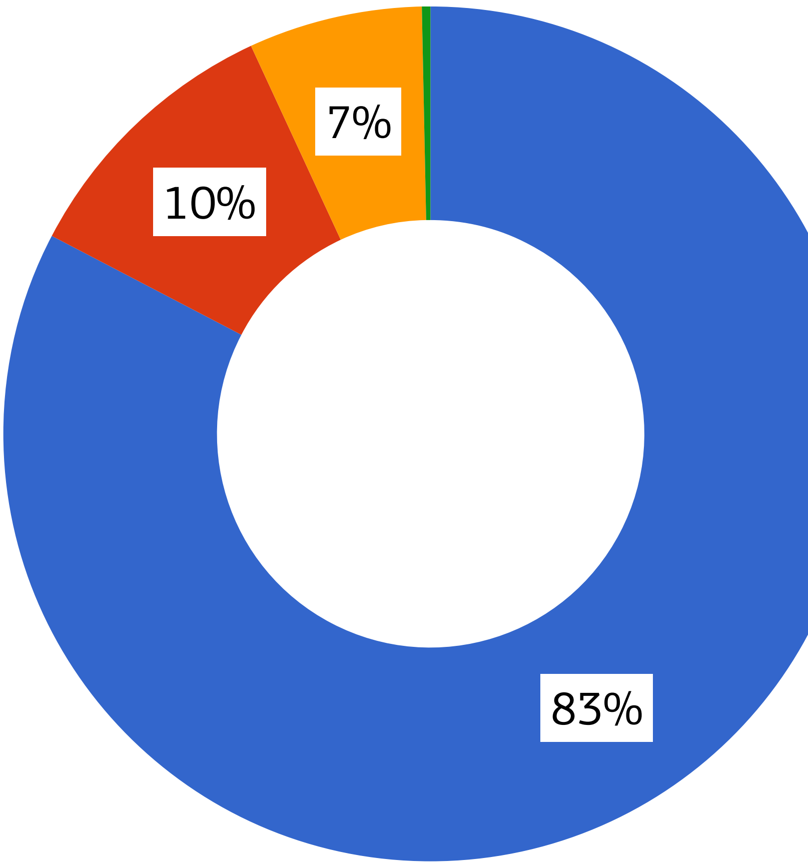
Still, over the years it seems that some concerns have been tentatively addressed and at least brought changes to the practices of the EIB, which tries to go for smaller projects and to work with new clients.

EFSI key figures



Energy (ref. Energy Union priorities)
SMEs and mid-caps' projects financed by EIB (direct or through intermediaries)
Transport infrastructures and innovative technologies for transport
Research, development and innovation
Information and Communication Technologies
Environment and resource efficiency
Human capital, culture and health
Mixed infrastructure*

Graph 3. EFSI IIW by sector, April 2019, percent



EU15
EU13 Cohesion Countries
Multiple EU Countries
EFTA

Graph 4. EFSI IIW geographical coverage, April 2019

2 EFSI is scoring too low on sustainability

The EFSI is often described by the European Commission and the EIB as a climate-friendly investment tool that greatly contributes to the ecological transition in Europe. While, indeed, a significant share of EFSI investments are labelled as “climate action”, the reality is less rosy. This chapter will show the key weaknesses of the EFSI on sustainability to date.

Growth and Jobs vs Climate?

In our reports analyzing the first 2 years of EFSI operations, our conclusion was clear: EFSI operations fall short on sustainability, for two main reasons:

1. In the energy sector, the EFSI provided significant support for fossil fuels, in particular gas infrastructure (EUR 1.5 billion in its first year of operations).

Over time, the EFSI has continued its support for fossil fuels in the energy sector. Our analysis of signed operations shows that in the energy sector, by end of 2017, the EFSI had supported almost equal volumes of fossil fuel projects and renewable energy (EUR 1.85 billion versus EUR 2.0 billion).

Fossil fuel investments have mainly been located in Italy and contributed to the development of gas distribution networks, smart metering and gas storage.

2. In the transport sector, 75 percent of EFSI support in volume benefited high-carbon projects (motorways and airports) by November 2017, with a strong focus on motorways via Public Private Partnerships in particular in large Western member states (Germany, the Netherlands, France and the United Kingdom). Meanwhile, sustainable public transport like rail and urban mobility was largely neglected, receiving a minor share (13 per cent) of the EFSI transport sector financing.

Innovations in the automotive industry have also been a key area for EFSI investments. In reality, these projects concerned the development of more efficient car engines, powertrains or various components for vehicles. Thus, the EFSI chose to support the compliance of traditional combustion engines with emissions standards. No projects for the development of electric cars have been identified under the EFSI guarantees.

These findings are all the more worrying because only 20 per cent of EFSI financing has supported projects that according to the EIB contribute to climate change mitigation and adaptation, whereas the EIB’s standard portfolio reached more than 25 per cent over the same period. Simply, the EFSI has not done more for climate change mitigation and adaptation than the EIB’s standard operations.

An argument used to justify these trends was that the EFSI started slowly, and needed time before delivering on climate considerations. What underpins this line of defence is that – when kicked off – the EFSI was mainly targeting growth and jobs with climate being a lesser priority.

Are things changing?

The EFSI 2.0 regulation was an attempt to enhance climate investments under the Investment Plan for Europe since it established a 40 percent climate target for EFSI under the infrastructure and innovation window. But under the new set-up, fossil fuel investments remain eligible under the EFSI’s scope, as well as support to carbon-intensive transport infrastructure since the Commission’s proposal to restrict support to motorways was weakened through negotiations with the Parliament and Council.

The energy sector is the most supported sector under EFSI - benefitting from almost EUR 11 billion (26 percent of EFSI) worth of guarantees since EFSI was kicked off. Although energy efficiency and renewable energy projects constitute together more than 60 percent of the volumes committed, fossil fuels project were still supported by a quarter of the EFSI IIW energy sector guarantees.

Our latest research shows that the EFSI continues to support fossil fuels, mostly gas infrastructure. *Until April 2019, EFSI guarantees for fossil fuels reached over EUR 2.6 billion, more than for energy efficiency (EUR 2.3 billion) over the same time period.* Simultaneously in the EFSI IIW’s energy sector renewable energy was supported with over EUR 4.2 billion worth of guarantees.

Roughly 50 percent of the EFSI fossil fuel investments were located in just one country, Italy. *According to the EFSI 2018 report, 8000 km of* *gas or oil pipelines are expected to be constructed or upgraded with the support of guarantees approved and signed by the end of 2018.*[38]

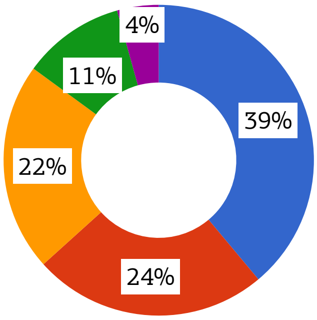
EFSI has supported several gas transmission projects including the Trans Adriatic Pipeline (a section of the Southern Gas Corridor), Black Sea Gas Connection, Italy-France Interconnector and Transgaz Brua Gas Interconnection Project (see text boxes below).

EFSI Fossil Fuel operations	*EUR million*
Gas transmission and distribution	1881
Smart gas metering	548
Gas power plants	148
Oil refinery	30
Oil reserves	35

Table 2. EFSI IIW guarantees for fossil fuels projects, April 2019, million EUR

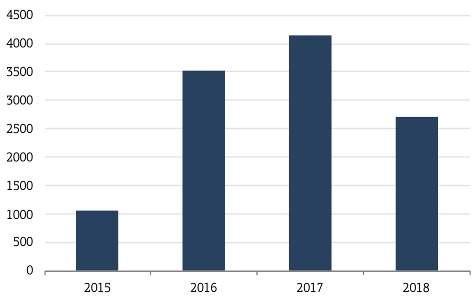
Also energy efficiency investments have been highly concentrated, with almost 67 percent located in just three states: France, Germany and Finland. These investments have concentrated on improving efficiency of buildings, including social dwellings. Construction of near zero energy buildings has also been supported.

In the energy sector, the biggest portion of EFSI guarantees (in volume) is dedicated to renewable energy. This is a positive trend, however over 53 percent of these investments were located in just three countries, France, Belgium and Spain. Although the 2018 EFSI report mentions that under EFSI the EIB committed to support over 45 000 GWh per year of additional renewable electricity and 3400 GWh per year of additional renewable heat, our research suggests that EFSI finance largely replaced EIB's standard loans for renewables. Between 2016 and 2018 over 45 percent of the sum of all EIB loans for renewables was covered by the EFSI guarantee which means that the share of renewables in the EIB's standard lending is relatively smaller than in the past. As a comparison, roughly 20 percent of the EIB's entire lending is covered by the EFSI IIW guarantee.



Graph 5. EFSI IIW energy sector, April 2019, percent

The EFSI 2.0 Regulation established that the EIB had to target at least 40 percent of EFSI financing under the infrastructure and innovation window towards project components that contribute to climate action. However, support to small and medium size enterprises and Mid-Caps was excluded from the scope of this calculation. In comparison, for the rest of its financing in the EU, the bank adopted a climate action target of 25 percent which also applies to SMES and Mid-Caps lending. This prevents a simple comparison of climate action in both EFSI and EIB standard portfolio. The EFSI IIW's climate action excluding support to SMES and Mid-Caps (in line with the EFSI Regulation) reached 36 percent by the end of 2018. Thus the Bank is on track in reaching the established target. However if counted in line with the EIB's standard methodology for climate action, the EFSI's support to climate action reached only 29 percent by the end of 2018. This is just slightly higher than the target of 25 percent established in 2008 for the EIB's standard lending.

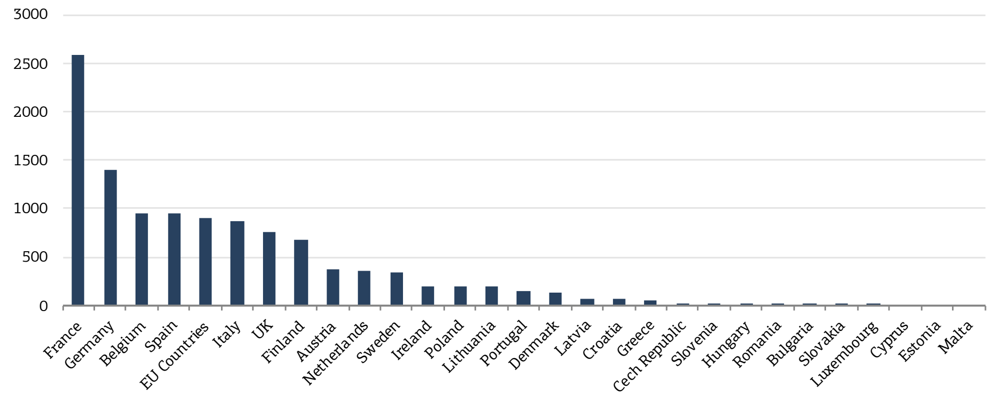


Graph 6. Climate Action loans supported by EFSI guarantees, 2015-2018, million EUR

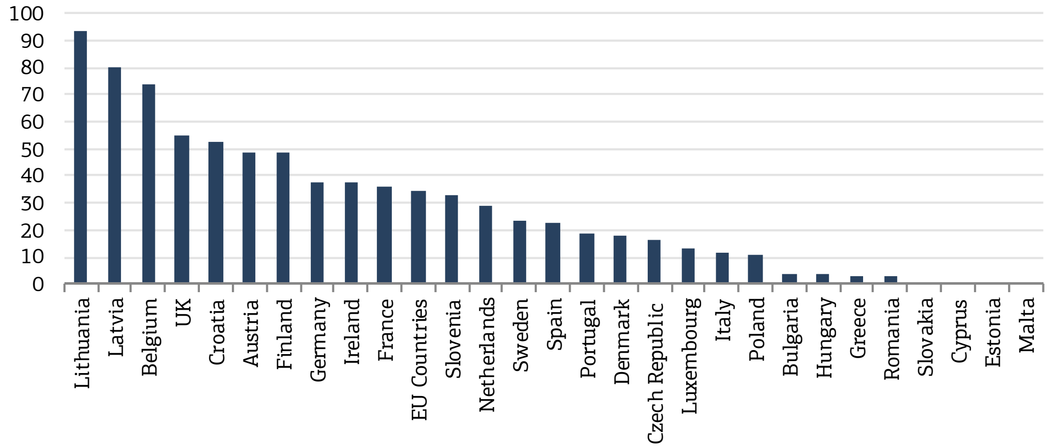
38 2018 EFSI Report. From the EIB to the European Parliament and the Council on 2018 EIB Group Financing and Investment Operations under EFSI, page 41; https://www.eib.org/attachments/strategies/efsi_2018_report_ep_council_en.pdf

In EU cohesion countries, the EFSI's contribution to climate action, calculated according to the EIB's standard methodology, is smaller and reached merely 15 percent of all EFSI guarantees in the region. This situation is similar when analyzing the EIB's standard portfolio where significant discrepancies exist across Member States in relation to climate action investments. In Cyprus, Estonia and Malta, the EFSI has not supported climate action at all. Our research shows that 51 percent of EFSI IIW climate action, calculated in the EIB's standard way, is concentrated in just four states, France, Germany, Belgium and Spain. Unfortunately the highest EFSI's support in relation to GDP, in countries such as Greece, Bulgaria and Slovakia (according to this study) or Greece, Estonia, Portugal and Bulgaria (according to EIB's own calculations) is not mirrored in the climate action field: in those countries, the share of climate action under EFSI stands well below the EU average.

The share of climate action in the overall EFSI IIW guarantees was the highest in Lithuania. It was caused by just one project, investment in a biomass cogeneration power plant, that was the biggest single EFSI investment in this country. In seventeen EU states EFSI IIW climate action was lower than the EU average (29 percent).

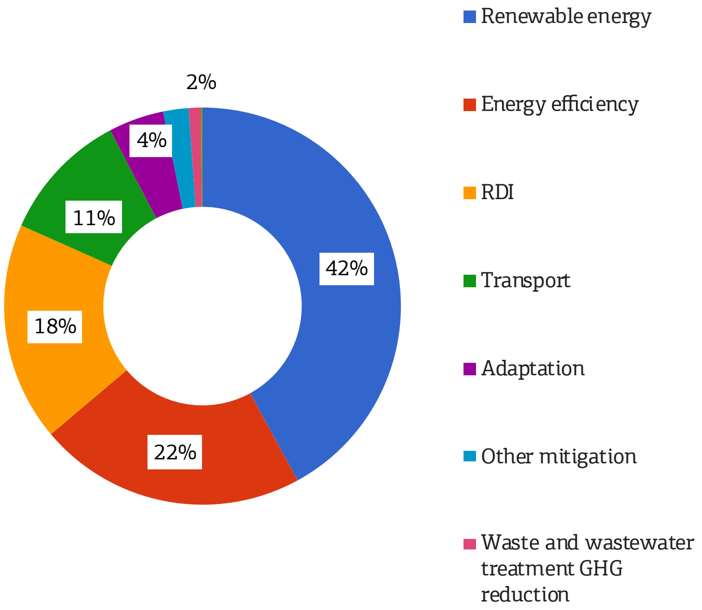


Graph 7. Climate Action loans supported by EFSI guarantees, including financing to SMEs and Mid-Caps, 2015-2018, million EUR



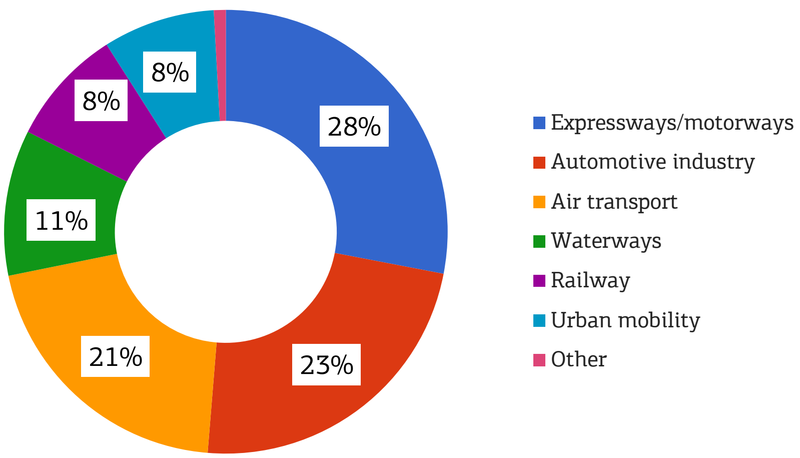
Graph 8. Share of climate action in EFSI IIW guarantees in EU states, including financing to SMEs and Mid-Caps, 2015-2018, %

The category of "climate action" under EFSI includes obvious types of "climate-friendly" investments like renewable energy or energy efficiency in buildings. But in parallel the category also includes the modernization of heavy industry such as steel processing or refineries, a more efficient automotive sector and motorway tolling systems. Some fossil fuel projects like natural gas heat and power cogeneration plants are even included. This casts doubts about the genuine sustainability and eligibility criteria of what is labelled "climate action".



Graph 9. Climate Action operations supported by EFSI guarantees, including financing to SMEs and Mid-Caps, categories 2015-2018, percent

Transport has been the third most supported sector under the Infrastructure and Innovation Window. By the end of 2018, almost EUR 7 billion had been invested in transport infrastructure and innovative technologies for transport. *In the transport sector, the trend of supporting high carbon projects has not changed: highways, airports, aircrafts and cars have received the lion's share of EFSI support – 72 percent - whereas urban mobility and rail have together received merely 16 percent of transport investments.* Our new research confirms our previous findings showing that the Infrastructure and Innovation Window has supported mainly high carbon transport projects. The EFSI 2.0 regulation restricted EFSI support for motorways to projects which are part of TEN-T (priority projects at European level) or located in cohesion countries and cross-border regions and recommended that the European Investment Advisory Hub provide technical assistance in the areas of energy efficiency, urban mobility and TEN-T. But the impact of these amendments is not clear yet.



Graph 10. EFSI IIW Transport, 2015-April 2019 by categories

Examples of carbon-heavy projects supported by the EFSI

Investing in a black hole: the Southern Gas Corridor

The most recent figures on EFSI support to fossil fuels, and in particular to gas infrastructure, got a considerable boost in early 2018, when the EIB decided to channel a EUR 1.5 billion loan to the Trans Adriatic Pipeline (TAP)[39] – the western leg of the Southern Gas Corridor, passing through Greece and Albania and landing on southern Italian shores. The EFSI supported this investment with a EUR 700 million[40] guarantee.

The EIB decided to turn a deaf ear to the corruption, human rights, and above all climate impact concerns brought up by civil society on the project, and hid behind political decisions by the Member States, European Commission and External Action Service.

The Southern Gas Corridor is projected to remain operational for 50-60 years.[41] This would mean supplying fossil fuels more than 50 years after the Paris Agreement on climate change was signed.

Heavy subsidies to gas companies in Italy

Our latest research shows that EFSI continues to support fossil fuels, mostly gas infrastructure. Until April 2019, EFSI guarantees for fossil fuels reached over EUR 2.6 billion. Roughly 50 percent (over EUR 1.3 billion) of these investments were located in just one country – Italy – and were primarily related to natural gas projects. Gas distribution networks as well as gas transmission networks have been supported across Italy via the following companies: 2I Rete, Italgas, Piemonte Savoia, Societa Gasdotti Italia and Trans Adriatic Pipeline. The EIB has been overly generous to the Italian gas industry in recent years, supporting also gas extraction in addition to transmission and distribution networks.

The BRUA Pipeline, a major gas pipeline in south eastern Europe

The BRUA pipeline is a 529-km natural gas pipeline in Romania which is to be a central part of the future Bulgaria, Romania, Hungary and Austria gas interconnector. The pipeline attempts to reduce the country's dependence on Russian energy and provide a new export route for the future fossil gas exploitation in the Black Sea.

Preparations for the project started in 2016, the financing agreements were signed in 2017 and the actual construction phase started in 2018[42]. The project is developed by Transgaz, the technical operator of the national natural gas transmission system in Romania. The first phase of the pipeline is expected to be operational by 2019 and the second phase by 2022.

The EIB provided a EUR 50 million to Transgaz, the national gas transmission company of Romania, to finance the construction of the pipeline[43], thanks to a guarantee under the EFSI.

In addition, the EFSI also supported the Black Sea Gas Connection[44] through an EIB loan worth EUR 150 million signed in December 2018, to help Transgaz build a new onshore fossil gas

39 http://www.counter-balance.org/controversial-gas-pipeline-gets-eur-1-5-billion-in-public-money-amid-massive-climate-risk/

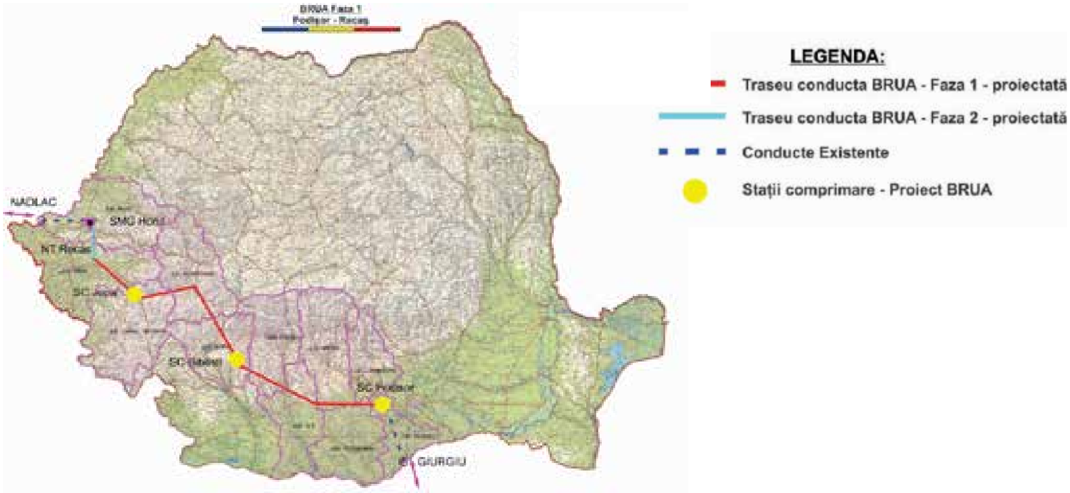
40 https://www.eib.org/en/press/all/2019-004-trans-adriatic-pipeline-tap-completes-successful-eur-3-9-billion-project-financing.htm

41 http://cbw.ge/gas/southern-gas-corridor-to-remain-active-for-50-60-years/

42 https://energy-center.ro/actualitate-news/primele-conducte-la-gazoductul-brua-made-in-turcia-au-inceput-sa-fie-montate-de-transgaz-in-zona-recas/

43 https://www.eib.org/en/press/all/2017-290-eib-supports-gas-supply-improvements-and-diversification-in-europe-with-the-efsi-guarantee.htm

44 https://www.eib.org/en/projects/pipelines/pipeline/20180237



The BRUA pipeline

transmission pipeline, which will connect the gas production in the Black Sea with the BRUA.

Support to Polish coal developers

Under the infrastructure window, in addition to relying on traditional long-term senior loans (about 60 percent of the total), the EIB expanded the use of existing higher-risk products and developed new ones, such as corporate hybrid bonds which focus on low risk utilities[45]. This has especially been used to support coal developers in Poland.

In Poland the EFSI has guaranteed loans to Energa[46] and Tauron[47], two of the four big state-owned energy companies generating electricity from coal. These guarantees worth over EUR 0.5 billion were not conditioned on the companies committing to decarbonisation plans aligned with the Paris Agreement.

This additional financial capital may have freed up Energa's resources to pursue its plans to build a completely new hard coal power plant of 1000 MWe: Ostrołęka C. In 2016, Energa invested approximately EUR 115 million into the Mining Group (PGG) - the biggest hard coal miner in the EU.

Tauron is the second largest electricity generator in Poland. Its fuel mix is based over 90 percent on coal (hard and lignite). These high-carbon assets are becoming more problematic for Polish energy companies and consumers. Due to a significant price rise of the EU's emissions allowances the companies have been compensated from the state budget for the purchase of allowances to avoid an electricity price hike for consumers. It is estimated that this governmental intervention will cost roughly EUR 1 billion in 2019, although the measure's compatibility with EU State aid rules is still being assessed.

In this field, the EIB is a laggard compared to even some commercial banks that are now taking steps to stop providing blank cheques to coal developers. A stronger Corporate Social Responsibility framework for the EIB should enable it to ask more from companies benefiting from European public support.

Untransparent investments into equity funds

The EIB is also using EFSI guarantees to finance oil and gas pipelines via intermediated operations (either through investment funds or commercial banks). The EIB reported that by the end of 2017 it had contributed to the construction or upgrade of over 6600 km of gas or oil pipelines[48], without providing any details in the public domain about the location or impacts of such pipelines.

EFSI provides financing to investments funds such as the Quaero European Infrastructure Fund[49], Arcus European Infrastructure Fund 2[50] or Foresight Energy Infrastructure Partners[51] who among others mention gas – so fossil fuel projects - as part of their focus areas.

For others funds, the sectors of activities are so large – and transparency about their activities so little – that it is ultimately impossible to know what the EFSI money ultimately supports. For example, the fund RiverRock[52] benefited from EIB financing in order to "provide investors with a range of strategies in European private markets of SME debt, specialty financing, real estate, infrastructure and shipping" – a pretty broad description.

But this support with EU public money comes with little strings attached on transparency, as there is no information in the public domain about which infrastructure projects end up being built under the EFSI guarantee.

Airports, airports, airports

The EFSI has supported numerous airports

45 The Juncker Plan (EFSI), InvestEU, and the European Investment Bank (EIB): Assessing achievements and limitations. Stephany Griffith-Jones, Natalya Naqvi. Forthcoming. FEPS working paper.

46 https://www.eib.org/en/projects/pipelines/all/20160349

47 https://www.eib.org/en/scoreboards/all/85769896

48 2017 Report to the European Parliament and the Council on 2017 EIB Group financing and investment operations under EFSI, http://www.eib.org/attachments/strategies/efsi_2017_report_ep_council_en.pdf

49 https://www.eib.org/en/projects/pipelines/pipeline/20150645

50 https://www.eib.org/en/projects/pipelines/pipeline/20170932

51 https://www.eib.org/en/projects/pipelines/pipeline/20170119

52 https://www.riverrock.eu/

53 https://www.eib.org/en/projects/pipelines/pipeline/20160605

54 https://www.eib.org/en/projects/pipelines/pipeline/20170360

55 https://www.eib.org/en/projects/pipelines/pipeline/20160291

56 https://www.eib.org/en/projects/pipelines/pipeline/20150745

57 https://www.eib.org/en/projects/pipelines/pipeline/20140095

58 https://www.eib.org/en/projects/pipelines/pipeline/20170500

59 https://www.eib.org/en/projects/pipelines/pipeline/20170911

60 https://renewablesnow.com/news/spains-aena-gets-eur-86m-loan-to-make-airports-energy-efficient-651044/

since its creation. In total, 10 projects have been financed, for a total of EUR 1.4 billion.

Projects worth mentioning are the Budapest airport concession in Hungary[53], the development of the Venice airport in Italy[54], the Copenhagen airport expansion in Denmark[55], the Tallinn airport upgrade in Estonia[56], the pre-privatisation upgrade of Greek airports[57], airport developments in La Reunion[58] and Guadeloupe[59] (France) and a recent loan to the Spanish company Aena to make its airports energy efficient[60].

A case in point is the expansion of the Budapest airport[61]. The airport development plan assumes a 50 percent increase in passenger numbers, from the current 15 million per year to 21 million in 2030. The construction of a new terminal 3 is planned, which will be accompanied by the expansion of the existing terminal 2 and the reconstruction of the runaway. Although the airport is located close to settlements, its expansion has not been accompanied by any Environmental Impact Assessment. The affected municipalities and individuals have unsuccessfully attempted legal action to force the competent authorities to take into account the negative environmental and social impacts they are facing such as polluted air, noise, damaged houses, depreciation of properties and increased passengers traffic to and from the airport[62]. The impacted people's local action group has called on the EIB and EFSI Investment Committee to withdraw financing until an environmental and social impact is conducted with public consultations.

This support to airports is all the more problematic given that, according to the NGO Transport & Environment, aviation is one of the fastest growing sources of greenhouse gas (GHG) emissions and the most climate-intensive form of transport. Aviation emissions have more than doubled in the last 20 years and the sector is responsible for an estimated 4.9 percent of global warming emissions[63].

This trend is not extremely surprising though, given that the EFSI Regulation puts limited restrictions on investments in the transport sector, while the EIB Transport Policy itself is outdated and dates back to 2010. A review of this policy - planned for 2020 – is necessary to make EIB financing really transformative, instead of supporting business as usual.

Unsustainable biomass investment in Spain

In July 2018, the EIB signed in July 2018 an EFSI backed loan worth EUR 60 million for the Curtis Biomass Power Generation Plant in Spain. Developed by the company Greenalia SA, the project concerns the construction of a 50 MWe electricity-only biomass plant in Galicia, Spain. According to the EIB website, the plant will use 100 percent forestry residues in wood chip form, which will be sourced from the region in a 100 km radius around the plant[64].

However, in January 2019, environmental lawyers from ClientEarth took the EIB to the EU's highest court for refusing to apply crucial environmental scrutiny to its funding decision[65]. ClientEarth claims that *"the loan breaches the bank's financing criteria for responsible investment in renewable energy generation and that numerous errors were made in the assessment of financing for the project"*. The fact that the plant has very low efficiency – therefore not meeting the EIB's financing thresholds for renewable technologies – is at the core of the critique of the EIB's decision to finance the project[66].

The Strasbourg Bypass: when the EFSI subsidizes a planned fiasco

A project supported by the EFSI is facing strong public opposition in France: the Strasbourg bypass (Grand Contournement Ouest de Strasbourg – A355), which consists of the construction of a 24km motorway bypassing the city of Strasbourg on its western side. The EIB provided a EUR 229 million to the project under the EFSI.[67]

The EIB claims that the construction of the bypass would help to reduce significantly the level of congestion on the existing motorway north of Strasbourg, thereby contributing to faster travel times for road users.

But opponents of the project criticise its health, environmental and financial impacts. First, local action groups argue that the project would not improve Strasbourg's accessibility for local inhabitants since the whole objective of the project is to have the bypass being used primarily by trucks. The harmful impacts on air quality and local biodiversity of the project have been criticised by local opponents and confirmed by several public studies since the 1970s – for instance 300 hectares of agricultural land and 30 hectares of forests and wetlands would be destroyed, and the project would also jeopardise the Great Hamster of Alsace[68]. The environmental offsets proposed to mitigate the loss of 300 hectares of agricultural land are described as meaningless by opponents. Finally, the lengthy concession for the project means that the profits generated would end up in the pockets of the multinational French company Vinci for a period of 55 years[69] for a project with dubious added-value for the region it will cross as well as its citizens[70].

61 https://www.eib.org/en/press/all/2018-345-investment-plan-for-europe-eib-supports-further-expansion-of-budapest-liszt-ferenc-international-airport

62 https://dailynewshungary.com/will-budapest-airport-be-moved-from-ferihegy/

63 https://www.transportenvironment.org/what-we-do/aviation

64 https://www.eib.org/en/projects/pipelines/pipeline/20170647

65 https://www.clientearth.org/clientearth-takes-eib-to-court-over-failure-to-review-financing/

66 Ibid

67 https://www.eib.org/en/projects/pipelines/pipeline/20150234

68 http://www.leparisien.fr /environnement/ hamster-deboisement- pollution-pourquoi-le- projet-de- rocade-a-strasbourg-est- conteste- 10-09-2018-7883445.php

69 An ongoing public scandal in France around the long-term concessions and related profits that have been secured by motorway operators provides a further controversial backdrop to the project. The concessions have also been criticised by the French Court of Auditors in 2019.

70 See the petition on change.org https://www.change.org/p/appel-%C3%A0- rejoindre-l-opposition-au-grand- contournement-ouest-de-strasbourg-gco

71 https://www.equalitytrust.org.uk/ sites/default/files/ finance-development-not-dividends-2019-03-v4.pdf

Case study: the Juncker Plan and the promotion of Public Private Partnerships

Public-private partnerships (PPPs) are contracts where a private company pays for, builds and sometimes runs an infrastructure project or service that is traditionally delivered by the public sector, such as schools, roads, railways and hospitals. What differentiates PPPs from public procurement is that a private company is responsible for raising the up-front costs for the investment, which is then paid back by the taxpayer over the course of the contract where the private company most commonly builds, maintains and operates the service. In return, private companies expect a guarantee that they will make a profit on the investment[71].

The use of private financing for public services has rapidly grown over the past 25 years, in and outside of Europe, with governments increasingly choosing private investment in infrastructure as a means of keeping down debt. Case studies from around the world continue to demonstrate that when governments opt for private investment for the construction and service delivery of health, transport, education and energy, access to essential services by the poorest in a society is restricted and inequalities tend to increase[72].

In the EU, since the 1990s, 1749 PPPs worth a total of EUR 336 billion have reached financial close, according to the European Court of Auditors[73]. And by the 2000s, the EIB had become the single largest lender for PPP projects in Europe[74].

But the claims around the benefits of private financing instruments such as PPPs have broken apart. PPPs are increasingly facing a public backlash as their effects become clearer over time, and some European countries have moved away from the model.

In March 2018, the European Court of Auditors published a special report exposing the failure of PPPs and slamming EU's support for this model via the EIB and the EU funds. The court stated that PPPs are *"not always effectively managed and did not provide adequate value-for-money"*.

The report, entitled Public Private Partnerships in the EU: Widespread shortcomings and limited benefits[75] looked at 12 EU co-financed PPPs in France, Greece, Ireland and Spain in the fields of road transport and Information and Communication Technology (ICT). Inefficient spending was identified in contracts worth EUR 1.5 billion, out of which EUR 0.4 billion were EU funds. The report recommends that *"the Commission and the Member States should not promote a more intensive and widespread use of PPPs until the issues identified in this report are addressed (...) in particular, increasing assurance that the choice of the PPP option is the one that provides most-value-for-money."*

EFSI going all-in for PPPs

In the face of the growing scepticism and evidence against PPPs, it would have been logical for the EIB and the Commission to adopt a cautious approach in the use of such mechanisms under the Investment Plan for Europe. But the figures show that the EFSI is actually promoting the PPP model around Europe:

Until the end of 2018, the EFSI had approved and/or signed at least 28 PPP projects through guarantees of at least EUR 3.995 billion.

It is striking that for 14 (exactly half) of these PPP projects, the EIB and European Commission do not disclose the amount of financial support provided. This represents a genuine lack of transparency, considering this is public money (EIB loans) guaranteed by taxpayers money (the EU budget).

Looking at a breakdown of these investments by sector, the largest number are projects in the transport sector (17 projects), followed by health (4), education (2), digital (2), energy (1), social housing (1) and flood defence infrastructure (1).

In terms of geographical coverage, the biggest beneficiaries are Germany (6), the Netherlands (5), Ireland (3), France (2), Poland (2) and Austria (2).

Some of the most problematic trends and controversial projects in the field are exposed below:

- Why finance transport PPPs in Germany and the Netherlands?

From our database, we identified 4 motorways in Germany (A3[76], A6[77], A10 and A24[78]) and 3 motorways in the Netherlands (A6[79], A9[80] and A16) financed by the EFSI under PPP schemes by the end of 2018.

The first question is what the added value of the EFSI in financing motorways is at all, given their high carbon intensity. Knowing that under the Paris Agreement, all financial flows have to be aligned with a 1.5°C global warming trajectory, this is certainly questionable from a climate perspective.

72 https://jubileedebt.org.uk/wp/wp-content/uploads/2013/01/Double-standards_Final-version_08.17.pdf and https://eurodad.org /files/pdf/1546956-history-repppeated- how-public-private-partnerships-are -failing-.pdf

73 https://www.eca.europa.eu/Lists/ECADocuments/SR18_09/SR_PPP_EN.pdf

74 Lieve,M., Howarth,D., 2019. The EIB as policy entrepreneur and the promotion of PPPs. New Political Economy 1-18

75 https://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=9700

76 https://www.eib.org/en/projects/pipelines/pipeline/20160877

77 https://www.eib.org/en/projects/pipelines/pipeline/20140566

78 https://www.eib.org/en/projects/pipelines/pipeline/20150448

79 https://www.eib.org/en/projects/pipelines/pipeline/20150004

80 https://www.eib.org/en/projects/pipelines/pipeline/20180098

81 See this interesting article from the Heinrich Boell Foundation https://us.boell.org/2017/08/ 11/privatizing-german- autobahn-another-neoliberal-assault-public-provision

82 https://www.theguardian.com/world/2017/sep/20/row-over-autobahn -renewal-selling-it-off-like-a- second-hand-car-german-election

83 Bundesrechnungshof (2014): Bericht an den Haushaltsausschuss des Deutschen Bundestages nach §88 Abs.2 BHO ueber Oeffentlich Private Partnerschaften (OePP) als Beschaffungsvariante im Bundesfernstrassenbau. Bonn.

Secondly, the additionality of these investments is especially questionable in Germany and the Netherlands, where such infrastructure projects could be expected to be financed by other means. It is hard to believe that such investments are “risky” financially, or provide additional social or environmental benefits to these countries. What looks “risky” here is rather the financial engineering around old-school motorway investments.

Thirdly, the case of Germany is interesting, since there has been widespread opposition to the national PPP motorway programmes in recent years[81]. An example illustrates well the danger of PPPs: a private consortium operating a PPP-run motorway between Hamburg and Bremen has been threatening to sue the German government for damages amounting to EUR 778 million because the income from lorries using the highway was not as high as foreseen[82]. And in a 2014 study by the German federal audit office analysing six German PPP highway projects on their economic efficiency identified a cost disadvantage of EUR 1.9 billion or nearly 40 percent more than the public works alternative[83].

One argument advanced to justify this financing was that some of the projects were supported at the beginning of the EFSI, when there was a shortage of more “innovative” projects. But this is not entirely true, since the EIB for example approved a EUR 250 million loan for the A10-A24 highway in Germany in February 2018, after the start of EFSI 2.0. In its press release, the EIB tried hard to tout the innovative nature of its operation:

“The “A10/A24” project is the first of eleven PPP projects to be procured under the third A-model programme in Germany. Alongside the EIB loan of EUR 250m, the EU Bank will offer – for the first time in Germany – a EUR 8.3m Debt Service Reserve Facility (DSRF), which will be used as a liquidity buffer to cover potential temporary cash shortfalls for a period of up to six months. With this innovative product the EU Bank reacts to long-standing requests from bidding consortia for the German A-Model programme”[84].

While extending the EFSI until 2020 (EFSI 2.0), the European Commission pushed to exclude financing for motorways, which was then weakened by the European Parliament and Member States. So ultimately, business can be done as usual until the end of the EFSI.

- Privatising Greek regional airports: when the EFSI complements austerity measures

On 24 March 2017, thanks to an EFSI guarantee, the EIB signed two tranches of a loan worth a total of EUR 280 million for the so-called Greek Regional Airports PPP project[85].

According to the EIB, *“the project comprises the financing, design and construction of the expansion or refurbishment of a number of airports in Greece that are to be privatised by the Greek Government under the terms of a 40 year upgrade, maintenance, management and operation concession agreement.”*

A set of 14 airports in Thessaloniki, Kavala, Zakynthos, Chania, Kefalonia, Kerkira, Aktion, Rhodes, Kos, Mykonos, Santorini, Samos, Skiathos, and Mytilene are targeted by this loan covering the period from 2017 to 2021.

The bank further states the objective for its loan: *“The works represent the imminent capital expenditure requirements which are anticipated to address existing capacity shortfalls and current service level deficiencies at a number of Greek airports. The upgrading of the regional airports is expected to enhance Greece's profile as a tourist destination, thus significantly contributing to the country's growth potential.”*

But looking at the reality of the projects shows a slightly different picture: the EFSI is simply preparing the privatisation of several Greek airports by the German Fraport company.

The loan takes place in the context of austerity measures promoted in Greece by the Troika (European Commission, European Central Bank and International Monetary Fund). This includes the selling off of valuable public assets to fill the coffers of the Greek state under a massive privatisation programme. In July 2015, the debt package proposed by the debtors explicitly mentioned the privatisation of Greek aiports as a condition of the agreement – a condition ultimately accepted by the then newly-elected Tsipras government.

The EIB loan is going directly to the so-called Hellenic Republic Asset Development Fund SA – also known as TAIPED – which in April 2017 awarded a concession to the German Fraport company for the next 40 years for the operation of these 14 airports for the amount of EUR 1.234 billion.

Fraport Greece – which will operate the airports – is linked to the Fraport AG consortium, which initially operated Frankfurt airport in Germany. Among the shareholders of Fraport AG are the city of Frankfurt (20 percent) and the Land of Hesse (31.32 percent). In Greece, Fraport has created a subsidiary together with the Greek energy company Copelouzos.

To make it a more profitable investment, Fraport decried the bad condition of the airports it bought, and claimed damages from the Greek state to be able to refurbish the airports[86]. And this is where the EFSI operation comes in: helping to renovate and modernize the airports.

84 https://www.eib.org/en/press/all/2018-034-investment-plan-for-europe-eur-250m-loan-for-motorway-project-a10-a24.htm

85 https://www.eib.org/en/projects/pipelines/pipeline/20140095

86 https://www.liberation.fr/planete/2017/11/12/aeroports-grecs-cessions-et-grandes-concessions_1609624

87 https://thepressproject.gr/fakelos-fraport-apaitiseis-74-ekat-apo-to-dimosio/

88 Two main scenarios are on the table for these 23 regional airports: either a long-term concession to the private sector, or a PPP scheme. A hybrid scenario is also envisaged, under which the commercial part of the airports would be privatized and the building infrastructure would become a PPP project.

89 https://www.thepressproject.gr/article/117405/Fakelos-Fraport-Apaitiseis-74-ekat-apo-to-Dimosio

An interesting side of the story is that Fraport got to choose which airports to take under its control. From a list of 37 regional airports, it picked the 14 more profitable ones[87]. Hence, we end up in a situation where the remaining 23 airports, which are most in need of financial support and investments, have been excluded from this scheme.[88]

ThePressProject – a Greek investigative website – has documented several more issues with this deal[89]. Indeed, the website disclosed the 200 pages long contract between Fraport and TAIPED and raised concerns about the advantageous conditions for Fraport.

On tax for instance, under the agreement Fraport will not pay any local or property taxes, but could set up new taxes for its future passengers. Those taxes would simply feed its treasury without going to the Greek coffers.

In addition, it would be up to the State to pay compensation to Greek staff if Fraport decides to fire them, or in case of work accidents – even if the responsibility of the company is proven. And if a strike occurs, Fraport would be able to ask for compensation from the Greek state for the incurred losses. This is in addition to the fact that labour relations are always complex in these kind of projects: there are so many different companies, contractors and sub-contractors involved that the relation between employees and employer risks being lost on the way.

In this story, it appears that the EIB and the European Commission used the EFSI to facilitate more profits for German companies stripping Greece of its assets under its privatization programme. Under the promise of additional investments in the Greek economy, the loan ends up socializing risks and privatizing profits in a country massively hit by the financial crisis.

- What model does the EFSI promote for the health and education sector?

We have identified four PPP projects in the health sector, and two in the education sector, financed under the EFSI since the Investment Plan for Europe was set up.

In the health sector, the EFSI supported a nation-wide programme to develop up to 14 primary care centres in Ireland[90] via a EUR 70 million loan. The three other projects cover loans for hospitals in Vienna (Austria), Treviso (Italy) and the Midland Metropolitan hospital in the United Kingdom.

The case of primary care centres in Ireland

Since 2001, the Irish government's healthcare strategy has been committed to moving extensive amounts of healthcare out of hospitals and into community-based primary healthcare centres[91]. While this strategy was vaunted as a core component of modernising Ireland's healthcare system, a less-reported feature was the system's reliance on public-private partnerships as the mechanism for implementing the strategy. PPPs were severely tainted by their association with the financial system which had caused the economic collapse in Ireland. Already in 2005, the risks associated with relying on private investment to develop primary healthcare centres were clear. In 2005, a private businessman had announced plans to build 60 primary care centres, on the basis of leasing them to the state, only for the initiative to collapse entirely due to the property crash.[92] Nonetheless, the commitment to delivering Ireland's new network of community-based primary healthcare centres remained intact, as per the 2001, pre-crash strategy.

14 of the 140 primary care centres delivered in Ireland since 2001 have been via PPPs funded under the EFSI, with EUR 70 million of EIB funding and matching co-funding from commercial lenders Talanx Asset Management and the Bank of Tokyo-Mitsubishi.[93, 94] A further 55 percent of the primary care centres built are operated via a lease from a private landlord.[95] Only a third are publicly-owned. Under the PPP mechanism, the Irish Health Service Executive (the public body responsible for managing the Irish healthcare system) contracts a company to finance, build and maintain the new Care Centre for a period of 25 years, and in exchange pays a fixed monthly unitary charge to compensate the company.

At no point has there been a 'healthcare

90 https://www.eib.org/en/projects/pipelines/pipeline/20140692

91 https://health.gov.ie/wp-content/uploads/2014/03/primcare-report.pdf

92 Mercille, 2019

93 https://www.eib.org/en/press/all/2016-123-eibs-first-backing-for-primary-health-care-investment-in-europe-supports-14-schemes-across-ireland

94 https://www.eib.org/en/projects/pipelines/all/20140692

95 Mercille, 2019

96 Mercille, J. (2019). The Public–Private Mix in Primary Care Development: The Case of Ireland. International Journal of Health Services, 49(3), 412–430. https://www.researchgate.net/publication/331932208_The_Public-Private_Mix_in_Primary_Care_Development_The_Case_of_Ireland

rationale' for the use of PPPs (or private leasing) to deliver Primary Care Centres. However, because the Health Service Executive retains ownership of the centres, it is unlikely commercial interests will have an impact on healthcare decisions per se. A more likely risk, according to a critical article[96] published in the International Journal of Health, is that, at current estimates, the cost of the PPP healthcare centres over the 25 year funding period will certainly exceed the cost if they had been carried out through public financing. The government Department of Expenditure has already acknowledged that PPPs should be avoided due to excessive cost. However, this information does not appear on the documentation relating to the delivery of the Primary Healthcare Centres.

A major concern is that the type of healthcare provided will tend to be driven by commercial needs to repay loans and leases, over and above community healthcare initiatives. For example, "complementary" private therapies such as counselling, well-being, mindfulness, are all private and for-profit, therefore easier to generate rent from than general practitioners' services. Another problem is that in many cases the PPP scheme involved building a new centre, when the Irish state already owned different centres, which are now lying vacant. So it actually facilitated property development, rather than investment in healthcare.

In education, a PPP programme for schools was supported in Vienna, as well as the construction of new school complexes, and the extension and refurbishment of existing ones in the city of Espoo in Finland[97].

Such investments have proven highly problematic in these sectors.

For example, the NGO network Eurodad has compiled various case studies, including the telling case of a hospital financed by the EIB in Sweden via a Public Private Partnership[98]. In this case, in 2010, the Swedish authorities gave a single bidder, the Swedish Hospital Partners (SHP), a PPP contract to build and manage the Nya Karolinska Solna Hospital. It was intended to be "one of the world's most advanced hospitals", but is now known as the "world's most expensive hospital". It is still not fully operational due to technical failures. Furthermore, the cost of the project has rocketed — a fact that was only fully exposed in 2015 by journalists at the Svenska Dagbladet newspaper. Meanwhile the private consortium has made a significant profit.

While all infrastructure projects can overrun, the complexity of PPPs make it extremely hard to enforce contract conditions and adequately penalise the concessionaire. There is ample literature available on this topic - from academics, trade unions and NGOs - critically analysing the concept and experiences of PPPs in the health and education sectors[99]. In addition, several international and regional organisations have criticised the model. For example, the African Commission on Human and Peoples' Rights adopted in May 2019 a resolution[100] on States' obligations to regulate the private sectors involved in the provision of health and education services.

In conclusion, if they are really to benefit European citizens, European public investments should be re-oriented towards supporting and further developing efficient public services in the health and education sector. Instead, the EFSI is currently contributing to the privatization and weakening of existing public services in the field by financing ill-designed national programmes and privatization schemes.

99 See for example „Exploring public private partnerships in health and education: a critique", Jasmine Gideon & Elaine Unterhalter, 2017

100 http://www.achpr.org/sessions/64th_os/resolutions/420/

101 https://www.ucd.ie/t4cms/WP37_Norris&Hearne.pdf

102 https://www.eib.org/en/projects/pipelines/all/20160287

3 Incremental steps taken on governance, integrity and transparency, but concerns remain

In its 2016 report *What's new in the Investment Plan for Europe?*, Counter Balance's conclusion was that the EFSI's governance structure did not provide for proper accountability of the decisions to grant the EU guarantee to specific projects, making it acutely vulnerable to corporate capture. In its 2016 report 'Investing in Integrity', Transparency International EU also flagged weaknesses in the transparency and accountability practices of the EFSI[103].

This chapter will review the changes that have taken place since, and look into the issues that are still pending.

The EFSI's governance

The EFSI has been established within the EIB and is essentially a structure aimed at approving the use of a guarantee stemming from the EU budget to provide support to the EIB's operations or its sister the European Investment Fund (EIF).

The EFSI governance structure is composed of a Steering Board, and an Investment Committee which is headed by a Managing Director.

The Steering Board[104] determines the strategic orientation of the EFSI, including its risk profile and its operating policies and procedures. It is controlled by the European Commission and the EIB.

The Steering Board comprises five members, three appointed by the EC, one by the EIB, and since the adoption of EFSI 2.0, the European Parliament has also appointed a representative in the Board. The Chair of the Steering Board is a representative of the Commission.

The Investment Committee[105] is responsible for approving the support of the EU guarantee in line with the EFSI's investment policies and the requirements of the EFSI Regulation.

It is made up of eight independent experts who have been appointed by the EFSI Steering Board and contracted by the EIB for a fixed term of up to three years, renewable up to a maximum term of six years. The EFSI Regulation insists on the importance of the multidisciplinarity of this group of experts. Article 7 insists that the composition of the Investment Committee must be gender-balanced and be made up of experts with a high level of market experience in project structuring and financing, as well as micro- and macro-economic expertise in one or more of the following fields: research and innovation, transport, renewable energy, education and health.

The investment committee is chaired by a **Managing Director** who is responsible for EFSI's day-to-day management and for the preparation and chairing of meetings of the Investment Committee. Former Vice-President of the EIB Wilhelm Molterer[106] has been appointed to this position, and is supported by a **Deputy Managing Director** (Iliyana Tsanova, a former employee of the European Bank for Reconstruction and Development – EBRD). Both nominations were endorsed by the European Parliament and renewed in 2018.

103 https://transparency.eu/wp-content/uploads/2016/11/EIB_report_digital-version.pdf

104 http://www.eib.org/efsi/governance/efsi-steering-board/index.htm

105 http://www.eib.org/efsi/governance/efsi-investment-committee/index.htm

106 His online CV is accessible here https://www.eib.org/attachments/documents/cv_wilhelm_molterer_en.pdf

Ups and downs on transparency

A central problem with the first years of the EFSI was its low level of transparency on the projects it supported.

A central demand by NGOs, the European Parliament and the Court of Auditors was to disclose more information about how decisions are taken by the EFSI Investment Committee. For example, the European Parliament, in its June 2017 report on the implementation of EFSI, called *"for the decision-making process to be made more transparent"* and to publish the assessments of all EFSI projects made via scoreboards of indicators[107].

Scoreboards are the documents under which the Investment Committee rate a proposed project to ensure it fulfills the requirements set out by the EFSI regulation, for instance about additionality and added-value for EU policies. Under EFSI 2.0, the publication of scoreboards has been made obligatory. In addition, the Investment Committee is now obliged to disclose its rationale supporting the use of the EU guarantee.

Since the adoption of the new Regulation, the EIB has disclosed most scoreboards for the projects approved by the Investment Committee. These scoreboards include a so-called Pillars Assessment with additionality and the main project characteristics judged against key performance indicators. This is a major step forward towards more transparent decision-making. However, information under the various Pillars evaluating the quality and soundness of projects and the EIB's particular contribution – like financial and non-financial benefits going beyond what commercial banks can offer - is not disclosed, even for public sector projects. In addition to the scoreboards, the rationale of the Investment Committee is now included in the decisions published approving the use of the EU guarantee for EIB operations. This new feature generally addresses NGO concerns as well as the European Court of Auditors' request for more transparency.

Still, it appears that a significant number of EFSI projects are not disclosed when approved, or only their name is disclosed (without the amount of the guarantee provided, the scoreboard and rationale publicly accessible). This exception is justified by the EIB as necessary for certain projects led by private promoters not to lose out to competitors, with the often-used business confidentiality argument. This is a serious issue, as for these projects, the public is kept in the dark about how EU public money is being used.

As far as the transparency of governing bodies is concerned, the EFSI is respecting the requirements set out by law. For example, the minutes of the Steering Board meetings are regularly published on the EIB website. CVs and declarations of interest of each member of the Investment Committee are published on the EIB website, together with a summary of decisions taken during the Investment Committee meetings.

Nevertheless, as flagged above, these summaries of decisions published after the Investment Committee meetings do not contain all the approved projects. Once the contracts for these projects are signed, the EIB then complements the list of projects that were approved with an additional document covering each year of EFSI operations. But for these projects, no scoreboard is available.

The case of the EIF: Alongside the EIB, the other implementer of EFSI is the European Investment Fund (EIF), a subsidiary of the EIB Group. Here the level of transparency is much lower than in the case of guarantees managed by the EIB. The EIF uses EFSI guarantees by offering equity and guarantee transactions through financial intermediaries (equity and investment funds, commercial and national promotional banks). However, the final beneficiaries are unknown in these cases and the only available information relates to the financial intermediaries which have been selected.

Is EFSI governance fit for purpose?

Before the EFSI was set up, the European Commission had pondered whether to create a whole new fund from scratch – as a separate structure from the EIB – while the EIB was more inclined to streamline the EFSI within its already existing procedures to make it as similar as possible to its usual operations. What came out of the inter-institutional negotiations is a hybrid structure: the EIB decision-making process is intact, while the EFSI governing bodies are officially separated from the EIB's internal structure.

How does EFSI governance work in practice?

- The EIB staff does most of the work: it is contacted by project promoters who want to benefit from EIB support, generally via a loan. Then, the EIB judges the merits of a project via the 'appraisal' phase in which it assesses the economic viability of the project and its consistency with relevant national and European legislations.

- When the EIB staff, following its initial assessment, identifies a project with a particular risk profile or added-value which makes it necessary for the EIB to use the EU guarantee provided by the EFSI, it sends the relevant project assessment to the EFSI investment

107 http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0270&language=EN&ring=A8-2017-0200

committee (IC).

- Then, a few days before the EIB's directors adopt the project, the IC votes on whether the proposed project should be granted an EFSI guarantee or not.

- Once the granting of the EFSI guarantee is formalised, the EIB directors can approve the project, and it is then up to the bank to sign the contract with the project promoter and to provide financial support for it.

The main real change compared to usual EIB practices lies in the decision by the Investment Committee to provide an EFSI guarantee. In EIB President Werner Hoyer's own words, the "EFSI is a guarantee facility which resides within the EU bank"[108]. Other than this decision to grant a guarantee, most of the work is carried out by the EIB itself.

The European Commission stills plays a role in this process: first of all, it is in the driving seat through the Steering Board which stipulates the overall direction and guidelines for EFSI operations. The Commission is also involved in the regular EIB decision-making process thanks to its seat at the Bank's Board of Directors and its consultation on every EIB project under the Article 19 procedure[109]. But the Commission does not play a formal role in project selection. For example, it cannot veto a project under the EFSI once it is proposed to the Investment Committee.

Looking at the external scrutiny over the EFSI, it appears that the European Court of Auditors has so far taken its role seriously, by providing regular assessments on the EFSI's implementation.

As far as the European Parliament is concerned, the formal involvement of MEPs has revolved mainly around the legislative process for setting up the EFSI and then EFSI 2.0, as well as for the formal appointment of the Managing Director and Deputy Managing Director of the fund. In terms of monitoring EFSI implementation, the Parliament produced a non-binding report in June 2017 and is kept informed by the EIB about operations supported by the EFSI. Ultimately, some of the recommendations flagged in its 2017 report were integrated in the EFSI 2.0 Regulation.

To date, however, the Parliament has not put in place a thorough system to analyse the impacts of the EFSI and engage in a structured dialogue with the EIB and the Commission (despite the fact that representatives from the EIB and the Commission have regularly responded to MEPs's questions on the EFSI in various committees and plenary sessions). At this stage, it is hard to judge the added-value of the Parliament's presence as an observer in the Steering Board of the EFSI.

Overall, it appears that the EIB holds a central position in terms of project selection, while the European Commission mainly provides policy guidance to the EFSI. The European Parliament, in this context, is mainly able to scrutinise EFSI implementation, but without very concrete tools or capacity to influence its operations.

Let us now turn to the role played by experts under the EFSI Investment Committee.

EFSI below par on accountability of its Investment Committee

A key question here is whether the EFSI Investment Committee (IC) is well placed to ensure the best use of public money and is an accountable body. Indeed, in June 2017 the European Parliament stated it *"is concerned about documented conflicts of interest on the part of Investment Committee members, which must in all circumstances be avoided in the future".*

Since this report, a renewed IC took up its duties in August 2017[110] after its members had been selected by the Steering Board for a fixed term of 18 months.

The EFSI Regulation sets out various requirements for the EFSI Investment Committee, including its gender balance and the multidisciplinarity of its members. The objective of such a selection of experts was to guarantee the independence and non-politicisation of the decisions of the Committee.

The Committee takes decisions about the use of the EU guarantee by simple majority with each of its members having one vote, including the Managing Director and the Deputy Managing Director.

According to the report on EFSI operations in 2018 by the EIB, *"in 2018, individual IC members declared eight conflicts of interest related to proposals presented by the EIB. The affected IC members were excluded from the distribution of concerned documents and of the decision-making, in line with the IC Rules of Procedure. In addition, information on the declaration of conflicts of interest by the IC members was included in the Summary of IC decisions, published on the EIB website following each Board of Directors' meeting".*

We have analysed the CVs and declarations of interest of all the eight experts of the Investment Committee, as published on the EIB website[111]. *In reality, the composition of the Committee fails to fulfill the criteria of independence, even if it is gender-balanced.*

Of the eight members of the Investment

108 Conference "Europe as an Investment Destination", 6 April 2016, http://www.eib.org/infocentre/events/all/europe-as-an-investment-destination.htm

109 Under the Article 19 procedure, the Commission provides an opinion on EIB projects before they are adopted by the Board of Directors. A negative opinion nearly equals a veto on a given project.

110 https://www.eib.org/en/press/all/2017-189-eib-appoints-members-of-investment-committee-for-european-fund-for-strategic-investments.htm

111 http://www.eib.org/efsi/governance/efsi-investment-committee/index.htm

Committee, we found that at least two of them work (and two had worked) for companies that have benefited in the past from EIB loans. This casts doubt on how independently these experts can act in their new endeavour. Would these experts be in a strong enough position to refuse to award the EU guarantee to projects that were earmarked by EIB services for that purpose, given the financial relation between their former/current company and the bank?

In addition to jeopardising their standing in front of the EIB, this proximity between the IC and the EIB itself brings risks of corporate capture. By hiring a set of experts closely linked to business and industry sectors which are historic clients of the EIB, it is unlikely that the EFSI would take a radically different direction compared to standard EIB operations. This also considerably increases the risk of conflicts of interest for individual members of the IC – as testified by the declaration of eight conflicts of interests just for 2018 (see above).

Finally, this lack of independence leads to further confusion in the delimitation of the private and public spheres, especially in relation to managing a public budget – in this case the European budget. When Jean-Claude Juncker first proposed an investment plan, it was perhaps not fully expected that it would turn out to be a fund whose use of the public European budget would be determined by investment bankers and financial elites.

Why would business experts ultimately decide on the use of EU budget? Should not it rather be elected people or civil servants working in institutions controlled by the elected representatives of European citizens – the European Parliament – and guided by a mission to contribute to the public interest, such as within the European Commission itself?

This is surely not the first time that so-called experts are responsible for missions of public interest – see recurring criticisms of European expert groups by NGOs or the European Ombudsman[112]. But this is the first time that such an approach is being used for EIB investments and guarantees coming from the EU budget. The Investment Plan for Europe created a new body – the Investment Committee – with very limited accountability and whose decisions are practically unchallengeable. This shift towards a business-expert-centred approach is particularly worrying when applied to EFSI, as higher democratic standards for a flagship EU initiative would rightly be expected.

112 See for example this case in which the European Ombudsman asked the European Commission to improve the transparency of its 800 plus expert groups by publishing comprehensive minutes of their meetings https://www.ombudsman.europa.eu/en/press-release/en/63520

EFSI Investment Committee members working or having worked for EIB clients

The fact that members of the Investment Committee (IC) are linked to EIB clients is not per se proof of wrongdoing or unlawful in any way. Still, it questions the independence of IC members: would they frontally oppose projects proposed by EIB and therefore be considered as obstacles by the EIB when their current or former employers are financially supported by the bank?

THIERRY DEAU

Thierry Deau[113] is the founder and CEO of Meridiam SAS (Paris, France), a global investor and asset manager specialising in public and community infrastructure. Meridiam is a growing investment fund which manages EUR 6.2bn of assets for more than 60 projects. On its website, it mentions that it was founded *"with the belief that the alignment of interests between the public and private sector can provide critical solutions to the collective needs of communities"*[114].

The EIB participated in the fund in 2009[115] and 2015[116].

Deau is also a board member of Lisea Biodiversity, a foundation launched by Lisea, a French company which is a concession from Vinci set up to build the high speed rail line Tours-Bordeaux. Lisea Biodiversity[117] aims to help preserve and improve the natural heritage in areas crossed by this rail line and participates in the funding of local projects proposed by associations, companies and public- or private-sector research centres located in one of the six French *departments* crossed by the rail line. Lisea also benefitted from an unprecedented EUR 1.2bn loan from the EIB in 2011 for the Tours-Bordeaux project[118], and Meridiam SAS has been investing in the same project.

GORDON BAJNAI

Gordon Bajnai is a former Hungarian Prime Minister who has held several public positions in Hungary (he was Minister twice before taking the Prime Minister's office) and with the private sector (he was between 2000 and 2005 the Group Chief Executive Officer of the private holdings company Wallis Investments Holding Ltd).

Similarly to Thierry Deau, he has held functions at the Paris-based Meridiam Infrastructure. From 2014 to early 2017 he was Chief Operating Officer in the investment fund[119].

As indicated above, this investment fund has received support from the EIB in the past, in 2009[120] and 2015[121]. Since then, in June 2018 the EIB indicated that it had just liquidated *"part of its holding in this pioneering fund under very good conditions"*[122]. In his declaration of interest for his new position in the EFSI Investment Committee, he stated that its interests and positions in Meridiam SAS were sold in full by mid-2017[123].

Gordon Bajnai is currently the Chairman of the Global Advisory Board at Campbell Lutyens, a global and independent private capital advisor specialised in raising private equity, infrastructure and private debt funds from institutional investors[124].

MANFRED SCHEPERS

Manfred Schepers has been a Member of the Supervisory Board of Nederlandse Waterschapsbank N.V. (NWB Bank) – a Dutch Bank – since 2016[125].

In December 2015 and December 2016, the EIB signed two loans to the Dutch bank, worth respectively EUR 400 million[126] and EUR 250 million[127].

The objective of this credit facility is for NWB Bank to invest the funds in projects across sectors as social housing, environment, knowledge economy and water, all developed by local governments in the Netherlands.

DALIA DUBOVSKE

Dalia Dubovske[128] was project manager for Lietuvos Energija, a Lithuanian energy company. In 2015 the EIB financed the Vilnius CHP Project[129] for the development of two combined heat and power plants constructed by Lietuvos Energija.

Before that, she held various positions including that of Project evaluator and Public Private Partnership (PPP) Expert at the Central Project Management Agency in Lithuania[130].

Photos: EIB

113 http://www.eib.org/efsi/governance/efsi-investment-committee/thierry-deau.htm

114 http://www.meridiam.com/en/

115 http://www.eib.org/projects/loans/2009/20090627.htm

116 http://www.eib.org/infocentre/press/releases/all/2015/2015-209-meridiam-announces-eib-participation-in-its-africa-fund.htm

117 http://www.vinci.com/vinci.nsf/en/newsroom/pages/launch_of_the_lisea_biodiversity_foundation_france_122012.htm

118 http://www.eib.org/infocentre/ press/releases/all/2011/2011-083- ligne-a-grande-vitesse-sud- europe-atlantique- tours-bordeaux-financement- sans-precedent-de-la-bei -1-2-milliards-deuros.htm

119 https://www.eib.org/attachments/documents/cv_gordon_bajnai_en.pdf

120 http://www.eib.org/projects/loans/2009/20090627.htm

121 http://www.eib.org/infocentre/press/releases/all/2015/2015-209-meridiam-announces-eib-participation-in-its-africa-fund.htm

122 http://www.meridiam.com/uploads/pdf/cp_meridiam_eib_june_vf.pdf

123 https://www.eib.org/attachments/documents/declaration_interest_gordon_bajnai_en.pdf

124 http://www.campbell-lutyens.com/

125 https://www.eib.org/attachments/documents/cv_manfred_schepers_en.pdf

126 https://www.eib.org/en/press/all/ 2015-301-eib-and-nwb-bank- sign-deal-for-public-sector-investments

127 https://www.eib.org/en/press/all/2016-363-nwb-bank-and-eib-agree-on-an-extra-eur-500-million-for-sustainable-economy.htm

Is the EFSI strong enough on the integrity front?
The case of the A4 Motorway in Italy and alleged corruption

The widening of the Autovie Venete A4 is the third largest infrastructure project that the EIB has financed in the North-East of Italy, after the infamous MOSE and Passante di Mestre. It is a EUR 1.18 billion project for which the EIB committed overall EUR 420 million, with a contract signed in February 2017. The project has also benefited from a European guarantee under the EFSI[131].

The operation consists of widening a 18.5 km highway section between Quarto d'Altino and San Donà di Piave (in the Veneto region) and the 41 km highway section between Palmanova (A23 junction – Friuli Venezia Giulia) to Portogruaro (A28 junction – Veneto). The stated objectives of this project are to save time and reduce vehicle operating costs for road users due to enhanced road capacity, as well as to offer safety and environmental benefits by reducing congestion.

This project was already approved for financing by the EIB back in 2010, and the first part of the project was constructed and inaugurated in 2014[132, 133, 134]. Therefore, the EFSI financing covers only the second part: the 41 km highway section between Palmanova and Portogruaro (A28 junction – Veneto)[135].

Apart from the questionable environmental benefits of building a highway and its added-value in delivering on the EU's climate objectives, the history of this project and its connection to the so-called 'Veneto System'[136] also raises concerns:

- This highway is connected to the Passante di Mestre bypass, close to the city of Mestre, whose main sub-contractors carrying out works are under corruption investigations. In a previous report, Counter Balance and its Italian member group Re:Common highlighted the links between the companies and individuals involved in this project and the above-mentioned 'Veneto System'[137] – since then, several key individuals have been convicted or settled after pleading guilty.

Interestingly enough, the promoter of the Passante di Mestre project – CAV – also has the mandate to complete the construction of the A28 junction, raising the question of what due diligence on integrity the EIB and EFSI governing bodies undertook in granting their support to the A4 motorway.

- On 21 November 2018 the Italian fiscal police searched the offices of EIB client Autovie Venete concerning the A4 highway enlargement project, lot 2. The EIB financed lots 2, 3 and 4 of the project.

- The police operation involved 120 companies and 220 individuals in 14 Italian regions. Autovie Venete and its contractor and subcontractors are accused of collusive practices linked to fraud in the construction and maintainance of public construction works, illicit disposal of waste and environmental destruction[138].

- Autovie Venete's contractors for lot 2 of the project – financed by the EIB – are Pizzarotti and Rizzani De Eccher. The offices of both companies and the private properties of their CEOs were also searched by the fiscal police in November 2018[139].

- The offices of another subcontractor, Consorzio Veneto Cooperativo (CoVeCo), were also searched. CoVeCo was also part of the Consorzio Venezia Nuova in charge of building the MOSE project (another project financed by the EIB) and already facing trial for the MOSE corruption scandal. Its CEO Pio Savioli appealed for a plea bargain and is facing trial[140].

- In previous letters to the EIB (from 27 September 2017, 1 February 2018 and 10 January 2019), Counter Balance already raised to the Bank the connections between the A4 Motorway project and the MOSE scandal as part of the broader Veneto corruption system. These connections were denied by the EIB in its reply from 10 November 2017.

In addition, the EIB has not fulfilled our request to share the due diligence undertaken so far on the project, in particular the internal monitoring of the project implementation. Nor has it opened an independent internal investigation on the project, looking at the client, its contractors and subcontractors as well as the reporting provided by the regional monitoring office. Finally, it has not suspended the disbursement of the loan until the conclusion of the investigation.

Without a deep analysis of integrity aspects of EFSI projects, it is impossible to assess whether such issues are widespread in the EFSI portfolio. Nevertheless, what this case in Italy confirms is that the due diligence under the EFSI is entirely left to the EIB, and that EFSI does not bring specific added-value in this regard. Hence the problems linked to the implementation by the EIB of its "zero tolerance towards fraud and corruption" policy are likely to appear as well in the framework of the EFSI.

128 http://www.eib.org/efsi/governance/efsi-investment-committee/dalia-dubrovske.htm

129 http://www.eib.org/projects/pipeline/2015/20150433.htm

130 https://www.linkedin.com/in/dalia-dubovske-budriene-01a47250

131 https://www.eib.org/en/projects/pipelines/pipeline/20090448

132 http://www.salini-impregilo.com/it/sala-stampa/comunicati-stampa/inaugurata-con-otto-mesi-di-anticipo-la-terza-corsia-a4-tratto-quarto-d-altino-san-dona-di-piave.html

133 http://mattinopadova.gelocal.it/regione/2014/11/18/news/quarto-d-altino-san-dona-apre-la-terza-corsia-dell-a4-1.10335839

134 http://www.salini-impregilo.com/en/projects/in-progress/motorways-airports/third-lane-of-the-a4-between-quarto-d-altino-and-san-dona-di-piave-ve.html

135 http://www.commissarioterzacorsia.it/Progetto

136 The "Veneto System" is a scandal of systemic corruption known as one of the biggest corruption scandals in Italian history, leading to the arrests of politicians, businessmen and public officials.

137 'Highway to Hell: European money fuelling controversial infrastructure projects': http://www.counter-balance.org/highway-to-hell-european-money-fuelling-controversial-infrastructure-projects/

138 https://ilpiccolo.gelocal.it/trieste/cronaca/2018/11/21/news/fvg-inchiesta-grande-tagliamento-delle-fiamme-gialle-su-appalti-per-oltre-un-miliardo-di-euro-1.17484501

139 https://www.ilfattoquotidiano.it/2018/11/21/appalti-pubblici-indagine-su-150-gare-da-un-miliardo-di-euro-anche-quelle-della-ricostruzione-post-terremoto-centro-italia/4780529/

4 What's next with the InvestEU investment programme?

In a stock-taking exercise, the European Commission published in November 2018 a communication sending a clear signal: the Investment Plan for Europe is a success, and the Invest EU programme for the post-2020 period will build on the satisfactory basis set under the EFSI[141]. Some quotes are telling:

"Today, the EFSI's successful model is becoming the new benchmark for EU-supported investments, both within and outside the EU, with the new InvestEU[142] fund and the Neighbourhood, Development and International Cooperation Instrument[143] proposed by the Commission for the next long-term EU budget".

Commission Vice-President responsible for Jobs, Growth, Investment and Competitiveness, Jyrki Katainen, said: *"The Investment Plan has been a game-changer. After four years, this new and unique approach to mobilising private investment for the public good has brought €360 billion in fresh financing to the economy. We have also helped innovative projects get off the ground, and we have improved the investment environment in Europe. In the EU's next long-term budget, we want to keep the momentum going, and ensure that the Investment Plan's successful model becomes the new European standard for investment support."*

Hence, it is no surprise that the InvestEU programme, as proposed by the European Commission, bears a lot of similarities to the Investment Plan for European and its cornerstone – the EFSI. Below is a brief description of the key changes in comparison to the EFSI:

Overall structure and objectives

- The new InvestEU[144] will aim to unlock an additional EUR 650 billion of investments for the period 2021-2027, via EUR 15.2 billion from the EU budget, turned into a EUR 38 billion guarantee[145].
- The InvestEU Fund will replace the EFSI, as a guarantee fund to support investments. This first pillar will integrate several existing financial instruments (not only what used to be the EFSI) such as the Natural Capital Finance Facility or Connecting Europe Facility debt & equity instruments. But all these instruments will now rely on a single set of rules and requirements.
- The second pillar of InvestEU will be the InvestEU Advisory Hub, which will integrate in a one-stop-shop 13 existing technical assistance instruments, with a planned budget of EUR 525 million. This expands the European Investment Advisory Hub which existed under the Investment Plan for Europe.
- The InvestEU Fund will support four policy areas (instead of the Innovation and Infrastructure Window and SME Window under EFSI): 1/ sustainable infrastructure 2/ research, innovation and digitisation 3/ SMEs 4/ Social investment and skills.
- Each policy window will be composed of two compartments, an EU compartment and a Member State compartment:

The EU compartment should address Union-wide market failures or sub-optimal investment situations; supported actions should have clear European added value.

The Member State compartment should give Member States the possibility to contribute a share of their resources of Funds under shared management to the provisioning of the EU guarantee to use the EU guarantee for financing or investment operations to address specific market failures or sub-optimal investment situations in their own territory, including in vulnerable and remote areas such as the outermost regions of the Union, to deliver objectives of the Fund under shared management.

Different responsibilities: the EIB won't be the sole implementer

- The biggest change compared to the EFSI is certainly the fact that the EIB will not be the sole implementer of InvestEU. Indeed, Member States' national and regional promotional banks and other institutions which can offer specific expertise and experience may become financial partners for the EFSI. Therefore, in the Commission's proposal, the EIB has somewhat lost its privileged status compared to its role in the EFSI.

Still, the Commission indicated that *"given its role as the EU's public bank, its capacity to operate in all Member States, and its experience*

140 https://www.vvox.it/2018/05/30/processo-mose-accusatori-chiedono-patteggiamento/

141 http://europa.eu/rapid/press-release_IP-18-6484_en.htm

142 http://europa.eu/rapid/press-release_IP-18-4008_en.htm

143 http://europa.eu/rapid/press-release_IP-18-4086_en.htm

in managing the EFSI, the European Investment Bank (EIB) Group will remain the Commission's main financial partner under InvestEU." Accordingly, the proposed regulation mentioned that "around 75 % of the EU guarantee under the EU compartment would be allocated to implementing partner or partners that can offer financial products in all Member States", which appears to apply to the EIB.

But this proposed change provoked a strong reaction at the EIB, which led to acute tensions with the European Commission. Ultimately, a deal was struck between the two institutions, and further agreed by the European Parliament and Council in March 2019[146], making it explicit that the EIB will implement 75 percent of InvestEU, and that the bank will provide the necessary banking expertise for the benefit of all implementing partners, and assure the risk management function for the overall programme.

- Another new feature of InvestEU is that Member States will have the option of channelling some of their allocated Cohesion Policy Funds into the InvestEU guarantee. The idea behind it is for any funds channelled into the Fund to benefit from the EU guarantee and its high credit rating, giving national and regional investments more firepower. If Member States choose to do this, the funds will be earmarked for that particular country. Thus the guarantee fund may increase, which would mean more investments at the end of the day.

A new governance structure

The Commission initially proposed drastic changes to the EFSI's governance. But what came out of the negotiations and subsequent agreement with the European Parliament and Council bears similarities with the EFSI. Below are the key differences:

- The European Commission will play a stronger role than under the EFSI, especially regarding assessment of individual projects proposed for financing through InvestEU. This includes the possibility of carrying out a policy check in relation to the compliance of the proposed project with EU legislation and policy priorities before the project goes to the Investment Committee – which seems a positive step forward to exert more control over EFSI projects.

  But such a policy check by the Commission will apply only to projects proposed by implementing partners other than the EIB. Because for EIB-proposed projects, the Commission would use its usual procedure under the EIB Statute, under which it is to deliver an opinion on EIB projects before they go for adoption by the directors of the Bank. In the past, the use of such procedure has not always meant that controversial projects with harmful environmental or social impacts were blocked by the Commission – apart from the specific case of projects located in tax havens since 2017. The European Commission indicated that it plans to make better use of this procedure in the future, but this has yet to materialise.

- An Advisory Board will be set up in order to allow the Commission to consult the financial partners and Member States when preparing and designing new financial products, to follow market developments and to share information. The Advisory Board members will be representatives of all EU Member States as well as representatives of implementing partners (the EIB, as well as all banks who succeeded the so-called "7-Pillar assessment" to be deemed eligible by the European Commission for implementing the EU budget), one representative of the European Economic and Social Committee, and one expert appointed by the Committee of the Regions. The advisory board will be chaired by a representative of the Commission, and a representative of the EIB will be vice-chair.

- The Steering Board will be quite similar to its current version under EFSI, as well as the Investment Committee.

- Transparency and reporting requirements, for example the disclosure of scoreboards for each project, will abide by the same standards as under EFSI.

A reinforced but insufficient climate dimension

40 percent of the investment volume under the InvestEU Programme will have to contribute to climate objectives[147]. A specific climate target has also been set up for the Sustainable Infrastructure window, at 55 percent. But this is only a soft target, while specific targets for the other investment windows are missing.

The contribution of the InvestEU Fund to the achievement of the climate target is to be *"tracked through an EU climate tracking system developed by the Commission in cooperation with potential implementing partners"* and using the criteria established under the so-called „taxonomy" of sustainable investments – which should guide

146 https://www.eib.org/en/press/all/2019-081-agreement-on-investeu-confirms-eib-group-as-central-partner-for-new-eu-investment-programme-in-2021-2027.htm

147 The text as adopted states that: "Actions under the InvestEU Programme are expected to contribute at least 40 % of the overall financial envelope of the InvestEU Programme to climate objectives".

the EU in determining whether an economic activity is environmentally sustainable.

At project level, the main step forward is that all projects supported under InvestEU should be subject to sustainability proofing. The regulation mentions that *"financing and investment operations shall be screened to determine if they have an environmental, climate or social impact and if so, shall be subject to climate, environmental and social sustainability proofing with a view to minimise detrimental impacts and maximise benefits on climate, environment and social dimension".* And it will be the role of the European Commission to develop such guidance for implementing partners to implement the sustainability proofing. According to the Regulation set-up, for Invest EU, this guidance should:

> *"(a) as regards adaptation, ensure the resilience to the potential adverse impacts of climate change through a climate vulnerability and risk assessment, including relevant adaptation measures, and, as regards mitigation, integrate the cost of greenhouse gas emissions and the positive effects of climate mitigation measures in the cost-benefit analysis;*
>
> *(b) account for consolidated project impact in terms of the principal components of the natural capital relating to air, water, land and biodiversity;*
>
> *(c) estimate the social impact, including on gender equality, the social inclusion of certain areas or populations and the economic development of areas and sectors affected by structural challenges such as the decarbonisation needs of the economy;*
>
> *(ca) identify projects that are inconsistent with the achievement of climate objectives.*
>
> *(cb) provide implementing partners with guidance for the purpose of the screening. In case the implementing partner concludes that no sustainability proofing is to be carried out, it shall provide a justification to the Investment Committee."*

But in relation to what will be considered as climate action under InvestEU, once more the EU institutions failed to clearly exclude any support to fossil fuel projects. The final regulation states that the following operations are not eligible under InvestEU: "Investments related to mining / extraction, processing, distribution, storage or combustion of solid fossil fuels and oil as well as investments related to extraction of gas". The reference to solid fossil fuels means that gas distribution would still be eligible. This exclusion does not fully cover the whole spectrum of fossil fuel projects – in particular gas infrastructure – that is currently financed under the EFSI. In addition, exceptions have been added to the exclusion measure, so that it will not apply to "projects where there is no viable alternative technology" or "projects related to pollution prevention and control" for instance.

To conclude, in our view, *the InvestEU regulation as approved in March 2019 fails to truly tackle the weaknesses identified in the EFSI.* Indeed, it merely builds upon a similar business model (using scarce public resources to de-risk private investments) and a largely similar governance model. It also weakly reflects the urgency to align all financial flows with the Paris Agreement because it does not exclude fossil fuels and requires only a non-binding target of 40 percent of climate investments for the full InvestEU programme.

Still, as flagged in our recommendations below, there are promising elements to be reinforced through the actual implementation of the fund, such as the sustainability proofing at project level.

EFSI & Social Investment: still too few projects financed, but big changes in mindsets

A guest comment from a social investment viewpoint

By Thomas Bignal, Policy Advisor at the European Association of Service providers for Persons with Disabilities (EASPD)

Europe has a significant (and often growing) gap between its evolving social needs and the level of social investment it makes. This investment gap[148] can primarily be explained by the cuts to public funding (in real terms) in all EU Member States over the last decade, in particular to the budgets of local and regional authorities (which are generally in charge of funding social service provision). It is equally important to note that demand for social care and support has also grown significantly, as well as expectations by beneficiaries for more person-centred care and support. A good example is the increase in demand for elderly care, and especially for homecare or community-based services (rather than in large residential care homes). Self-evidently, these changes come with important investment needs. This was highlighted in the report by the High Level Taskforce on Social Infrastructure[149] which estimates the investment gap in social infrastructure at EUR 150 billion / year for the next ten years.

Given this context, and rightly or wrongly, many social service providers[150] are looking to diversify their funding streams and take more advantage of private investment schemes; in particular to finance their infrastructure developments. The European Fund for Strategic Investments, which targets "social infrastructure, social and solidarity economy", came as a welcome opportunity; in particular as banks often argue that guarantees are one of the major challenges when it comes to investing in the social field.

It quite soon became clear that EFSI was unable to make major progress on Europe's social investment gap, with only 4 per cent of it being used in the social field (which includes an extremely broad definition; encompassing health, education, housing, social care and support and culture – over 20 per cent of the EU GDP) and well under 1 per cent in the social care and support sector.

EFSI's major bottlenecks[151] to boosting social investment include(d):

Ill-suited instruments; with most infrastructure investments in social services requiring loans between EUR 500 000 and EUR 10 million, whereas EFSI's instruments - via the EIB group - targeted primarily loans below or above these numbers or instruments (social impact bonds, etc) which do not fit the social sector's primary investment needs.

A lack of capacity-building for local social service providers with investment needs but in need of support to make them EIB-bankable (bundling, creation of special purpose vehicles, public authority support, etc.); with the European Investment Advisory Hub only intervening once projects are already submitted.

An issue of communication between investors and social sector stakeholders; with investors struggling to understand the modus operandi of social service providers (and vice versa). This was partly due to the lack of social sector involvement in the development and implementation of EFSI, which meant that many of those who were in charge of unlocking social investment were lacking an in-depth understanding of the social sector itself.

Limitations in public expenditure due to the Stability and Growth Pact; very often, the elephant in the room as boosting private social investment relies on a committed and reliable public social investment strategy.

This being said, the EFSI was hugely influential in initiating (for the first time at EU level) serious discussions between public and private investors, the European institutions and social sector providers; with all (/most) stakeholders recognizing the need to boost private social investment and working together to find solutions to the main bottlenecks.

The outcome is clear. Four years ago, the idea of earmarking part of the EFSI for social investment was met with wide eyes. Now, the future InvestEU programme has its own Social Investment and Skills Window with a dedicated guarantee of EUR 4 billion and the recognition that more sector-specific instruments are required to engage successfully with social investment. The InvestEU programme will also have a much larger capacity-building budget to support the development of a pipeline of local projects. The InvestEU Investment Guidelines – currently being developed – also take a strong line on the need for the social projects to be in line with internationally recognized human rights conventions and to support positive quality trends in the social field.

Some critical issues[152] continue to remain such as the lack of formal/structural engagement with social sector stakeholders and the fact that the capacity-building budget will be managed by the "Implementing Partners" (in other words: Investors) alone. If misused, this will continue to hinder the impact InvestEU could have in the social field.

Social service providers continue to have unmet investment plans, yet thanks to InvestEU, we will be one step closer to meeting those needs than 4 years ago, when the EU Investment Plan was first launched.

148 http://www.socialinvestment.eu/templateEditor/kcfinder/upload/files/EASPD%20Report%20-%20Investing%20in%20Social%20Care%20and%20Support%20-%20an%20EU%20imperative(1).pdf

149 https://ec.europa.eu/info/sites/info/files/economy-finance/dp074_en.pdf

150 https://www.easpd.eu/sites/default/files/sites/default/files/bucharest_2019_conference_report__2.pdf

151 http://www.socialinvestment.eu/templateEditor/kcfinder/upload/files/EASPD%20Report%20-%20Investing%20in%20Social%20Care%20and%20Support%20-%20an%20EU%20imperative(1).pdf

152 https://eurohealthnet.eu/sites/eurohealthnet.eu/files/publications/Steering%20Board%20for%20Social%20Infrastructure%20-%20InvestEU%20-%20Position%20Paper.pdf

Conclusions and recommendations

Based on our analysis, we conclude that the track record of the EFSI over its pilot phase of 3 years is at least mixed. Serious doubts remain about the additionality and geographic concentration of EFSI operations. While it has managed to improve its transparency since the beginning of its operations, the Investment Plan for Europe stills grades low on sustainability by continuously supporting high-carbon projects in the energy and transport sectors. Finally, the EFSI supports numerous controversial PPP projects, while its governance structure makes it prone to corporate capture.

In the light of such critical analysis, it is worrying that the EFSI model is being rolled out after 2020 through the InvestEU programme. We believe that the European Commission needs to go further than simply congratulating itself for delivering on investment volumes and focus instead on the quality and additionality of EFSI and future InvestEU operations.

Therefore, several key recommendations for the implementation of InvestEU are listed below.

Sustainability

- The European Commission must issue stringent guidelines for sustainability proofing InvestEU projects. These must lead to the exclusion of fossil fuel projects from the scope of InvestEU, as such projects are not in line with the objectives of the Paris Agreement.

  This should be coupled with an assessment of the structural transformation impact of projects regarding sectoral decarbonisation pathways.

- The European Commission must use future policy checks and opinions on EIB projects to rule out high-carbon investments in the energy and transport sectors.
- InvestEU must focus its operations on energy efficiency, small-scale, decentralized renewable energy projects and on net-zero emission infrastructure and processes in its sectors of operation.

Transparency and integrity

- The European Commission must make the scoreboards of indicators for each InvestEU project more meaningful, with minimum thresholds necessary to reach the Investment Committee. These thresholds should integrate at their core the sustainability of proposed projects, not only their financial additionality.
- The European Commission must exert more stringent control at project level to avoid supporting operations linked to corruption allegations, as well as halting the aggressive promotion and incentivising of PPPs for social and economic infrastructure financing, and publicly recognise the financial and other significant risks that PPP entail, especially in sensitive public services sectors.

Governance

- The purpose of the Investment Committee needs a serious rethinking. Having the European Commission more strongly involved in the adoption of projects benefiting from an EU guarantee is an option to be considered. At minimum, the Commission and Parliament must ensure that no conflicts of interests exist in the Investment Committee, strengthen its independence towards the EIB and re-balance its composition from the banking and financial industry to include trade unions and civil society representatives.
- Reinforce parliamentary scrutiny by setting up a stronger monitoring tool at the Parliament to analyse the impact of InvestEU and engage in a structured dialogue with the European Commission, the EIB and other implementing partners.

Cohesion

- Reinforce the focus of InvestEU on cohesion regions and countries where social and economic inequalities are exacerbated.
- Use the new advisory services to help local authorities develop viable and sustainable projects, including small-size projects in the energy efficiency and renewable energy fields.

How the InvestEU is shaped will largely determine how EU public finance will look like in the post-2020 era. In this context, there is no time left for business as usual. The InvestEU needs to truly learn lessons from the pilot phase of the Investment Plan for Europe in order to address its main shortcomings.

Annex: response from the EIB to the report's findings

Ms Anna Roggenbuck
Policy Officer
CEE Bankwatch Network

Mr Xavier Sol
Director
Counter Balance

Luxembourg, 5 September 2019

SG/CR/CS/2019-1114/HL/GG/hd
EIB – Public Use

Dear Ms Roggenbuck, dear Mr Sol,

We thank you for giving the European Investment Bank (EIB) Group[1] the opportunity to review the draft report "*Not worth celebrating – yet? The Investment Plan for Europe - a critical analysis of the pilot phase of the "Juncker Plan""* from Counter Balance and CEE Bankwatch Network prior to its publication.

While the EIB Group welcomes comments and constructive criticism from all stakeholders regarding its activities, and has strived to address relevant comments over time in the implementation of EFSI, we would like to point out that the above mentioned draft report is partially based on incorrect or old figures, outdated statements from old reports, and anecdotal examples and data. It also omits updated and positive information and fails to give sufficient account of changes and improvements brought about by EFSI 2.0. As a result, it provides some misleading views of EIB and EIF activities, particularly those related to EFSI.

The EIB Group would also like to point out that, contrary to its title, the draft report does not address, except for some isolated mentions, the other pillars of the Investment Plan for Europe.

In this respect, the EIB Group is pleased to provide you with some key updated facts and comments and would be grateful if you could give them due consideration within the draft report as well as in the conclusions and the executive summary, which is still to be added to the report.

EFSI has been a game changer

The draft report raises questions on the implementation, additionality and geographical balance of EFSI. While the EIB Group strives to continuously improve EFSI implementation, EFSI has met the objectives set for in the Regulation and it has been a "game changer" for public financing in the post-crisis EU economy.

Additionality

The EIB Group could not have financed the operations approved under EFSI without the support that EFSI has allowed, or at least not to the same extent. Analysis of the EFSI portfolio shows that, under EFSI, the EIB has been able to considerably expand its riskier financing, as regards scope, scale, product range and client groups, thereby addressing different market failures and suboptimal investment situations. As a result, projects financed under EFSI are generally riskier (compared to non-EFSI operations, rated by the same EIB policy), more complex, and, on average, smaller than EIB standard operations, while 75% of the clients (including public entities) are new counterparts to the EIB. As the draft report recognises, the volume of signatures in the Special Activities category increased from 4.5bn EUR in 2014 to 18bn EUR in 2017. The disbursement rate is also growing (55%, June 2019,

[1] The EIB Group is made of the European Investment Bank (EIB) and the European Investment Fund (EIF).

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Infrastructure and Innovation Window - IIW) following the normal gradual implementation of projects, and full disbursement only occurring towards the end of the implementation period.

Contrary to what is implied in the draft report, EFSI is a portfolio guarantee and EFSI-supported transactions should not be referred to as individual 'guarantees'. Intermediated lending, at partial and full delegation, is one of the key features pursued by EFSI by design (not only in the SME Window), in order to widen EFSI reach and allow banking institutions EU-wide to benefit from the use of the EU guarantee.

The EFSI 2.0 Regulation has further clarified the definition of 'additionality'. As a result, assessment of proposed operations for EFSI support encompasses broader qualitative information on additionality aspects, including how the operations address market failures or sub-optimal investment situations. The assessment also refers to the availability of complementary and/or alternative sources of finance, the latter to avoid potential cases of crowding-out. EFSI 2.0 also included the objective of 'regional development' (missing in the report) in addition to that of 'bio-economy'.

Investment Mobilised

By the EFSI Regulation, the investment mobilised is an ex-ante estimate based on figures at the time of approval of operations, with actual amounts revised at project completion. This has been the method chosen, in line with international standards, to capture total investment of EFSI operations towards the EFSI investment mobilised target. It does not however claim a direct relation of causality between the EFSI financing and the total investment. Contrary to what is stated in the draft report, the ECA audit states that EFSI investment mobilised overstated (only) "in some cases the extent to which EFSI support actually induced additional investment in the real economy", although it admitted that the methodology in place provided guidance on making adjustments in such cases. The EIB confirms that, in line with the methodology, corrections were made in those few cases as soon as the information became available. With regard to statements contained in the ECA audit (January 2019), the EIB further invites CEE Bankwatch Network and Counter Balance to review the joint EC and EIB response, published at the end of the audit report.

Geographical Balance

The EIB Group agrees that reaching a geographic balance in EFSI investment is essential. The primary goal of EFSI was to support investment after the economic and financial crisis. Measured in relation to the size of the economy, as at end July 2019, Greece, Portugal, Spain and Italy feature among the top ten in expected mobilised EFSI investment – as are Estonia, Bulgaria, Poland, Latvia and Lithuania. In addition, calculations of the EIB and the EU's Joint Research Centre point to the fact that the direct impact of EFSI on jobs and GDP-growth is particularly pronounced in crisis-hit countries and that the impact for the EU-13 region is comparable to the EU average[2].

In addition, a study has recently been prepared by the EIB and EC at the request of the EFSI Steering Board, which reviews the observed EFSI geographical spread, as well as the economic and investment aspects which may affect the uptake of EFSI. The study has been steered and endorsed by two external High-Level Experts[3].

The study concludes that while, compared to the EU15, the EU13 receive less EFSI financing on a per capita basis, the EU13 share of total EFSI lending (both by signed volume and investment mobilised) exceeds their economic weight in the Union as measured both by GDP and Gross Fixed Capital Formation. The study suggests that more investment in the EU13 can contribute to sustainable long-term economic convergence across the Union but it observes a gap, due to different factors, between long-term investment needs in the region and investment demand, which is to be monitored.

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[2] https://www.eib.org/en/about/economic-research/assessing-macroeconomic-impact/rhomolo.htm

[3] The study and the subsequent recommendations of the EFSI Steering Board can be consulted on: https://www.eib.org/en/efsi/governance/documents.htm

The study has also made an analysis on the geographical allocation of EFSI financing under the SMEW in relation to local SMEs' access to finance. In general, it found that countries where SMEs face more severe access to finance challenges, benefit to a greater extent from EFSI.

EFSI's contribution to sustainability

Sustainability has always been at the heart of EFSI's approach to long-term durability of the intended economic impact and contribution to environmental protection. This goes well beyond the issues related to climate action that are the focus of Counter Balance and CEE Bankwatch Network's report. In implementing EFSI, the EIB applies its approach towards environmental and social sustainability, which supports the respect of the key objectives and principles set out in the relevant EU environmental, climate and social legal and policy framework in all sectors of operation. Indeed, EFSI supports investments that contribute to a number of sustainability objectives other than climate action – such as water, and land air depollution, improved natural resources management, the promotion of a circular economy and sustainable urban development. The focus of EFSI on climate action was further reinforced under EFSI 2.0.

With specific regard to climate action, figures show that EFSI is achieving progress in promoting sustainability. After having reviewed data provided in the draft report, it seems that the claim that EFSI falls short on sustainability results from erroneous calculations.

The EIB uses an internationally agreed methodology to identify climate action project components or cost shares of projects that contribute to climate action within the EFSI IIW[4]. As at end-2018, the share of project components contributing to climate action stood at 36% for signatures within the IIW (excluding financing to SMEs and small Mid-Caps in line with the EFSI Regulation), going largely beyond the EIB's overall priority of committing at least 25% of investments to climate action. Looking ahead, the EIB is continuing to work towards the indicative target of 40% in the EFSI 2.0 Regulation (and a positive trend can further be observed as the percentage of EFSI approvals, as at end June 2019, is already reaching this target).

The EIB is also not able to replicate the calculations leading to the figures mentioned in the draft report in relation to the different sub-categories within the energy and transport sectors, thereby observing stronger support to sustainability objectives.

In addition, the Bank's transport and energy lending activities under EFSI are fully aligned with EU policies and are focused on operations where EFSI can provide additionality, particularly those with higher risk profiles. Moreover, following a public consultation, the EIB proposed in July 2019 a new energy lending policy, which, if approved, would phase out support to energy projects reliant on fossil fuels[5].

As national support schemes have evolved over time, it is also important to emphasise that renewable projects have typically been exposed to new, generally higher and different types of risk. EFSI enabled the Bank to support operations at the higher end of the risk profile, acceptable to senior debt providers. In this respect, EFSI is also instrumental in financing innovative companies in different sectors to support more efficient, safer, less polluting and cleaner (electric) technologies. In contrast to assumptions within the draft report, this also includes projects supporting electrification efforts within the automotive industry[6].

[4] List of eligible sectors / eligibility criteria can be consulted on:
http://www.eib.org/attachments/strategies/climate_action_lending_eligibility_list_en.pdf

[5] EIB draft energy lending policy (https://www.eib.org/en/about/partners/cso/consultations/item/public-consultation-energy-lending-policy.htm).

[6] Examples of projects include: NORTHVOLT ETT-LARGE SCALE BATTERY PLANT (Sweden), SMART BATTERIES SYSTEMS (France), ALLEGO BV (TRANSPORT CHARGING INFRASTRUCTURE) (The Netherlands), NAVYA (France) or RIMAC (Croatia).

Public Private Partnerships (PPPs)

The EIB has a neutral stance as for the use of PPPs in operations seeking EIB financing and the added value of any such scheme must be assessed on a case by case basis. The decision to procure a project using a PPP or another delivery model is a Member State or public authority decision. The EIB is ready to consider financing Member State projects as PPPs or other delivery models, subject to the Bank's normal due diligence process. The European PPP Expertise Centre (EPEC) further offers support and technical assistance, including for public authorities.

Governance, integrity and transparency

Different evaluation reports and stakeholders have indicated that EFSI's lean governance structure supported an effective implementation of EFSI, while the Investment Committee has been considered as a competent and fully independent organ, providing legitimacy and credibility to EFSI's governance structure.

The draft report fails to acknowledge the independence and the diversity of expertise of the Investment Committee. As instructed by the EFSI Regulation, the Investment Committee is composed of market experts (active in the private and public sector) who have the technical knowledge and experience and the institutional independence to assess the proper use of the EU guarantee. Given the vast lending activity of the EIB within different economic sectors, experts' links to such activity, including conflicts of interests, can however not be avoided in all circumstances. When such situations have occurred, they have been managed in order to protect the decision making process of the Investment Committee on the concerned operations. This has been done consistently, efficiently and transparently by the existing governance structure in line with the applicable legal texts and provisions of the Investment Committee.

The EIB Group would also like to reiterate that it places great emphasis on integrity and good governance. It has a zero tolerance of prohibited conduct in connection with projects and activities financed by the EIB Group and is committed that its policies and procedures to avoid misuse of EIB Group operations are in line with the principles and standards of applicable EU legislation, best banking practices and applicable market standards.

Regarding the transparency of EFSI operations, as acknowledged by the draft report, the EIB Group is fully in line with the enhanced transparency provisions of the EFSI 2.0 Regulation, as well as with the EIB Group Transparency Policy. While the EIB Group is committed to be as transparent as possible, it has also the duty to protect the integrity of the projects it finances. In that respect, and based on the provisions set by the Policy and Regulation listed above, some information pertaining to the projects might have to be kept confidential in order to protect legitimate interests and to avoid jeopardising the achievement of the EFSI's objectives.

In order to ensure the highest degree of transparency, the EIB Group consistently implements EFSI 2.0 publication requirements and, in the exceptional case of information protected by confidentiality criteria, it follows up on its reporting obligations once confidentiality requirements have been lifted. Unlike indicated in the draft report, this also includes the publication of the scoreboards for operations, that were previously subject to the protection of commercially sensitive data. In addition, regular stakeholder meetings are organised to discuss the implementation of EFSI in a transparent way.

As regards the particular remark towards EIF intermediated financing, in order to improve communication and bridge further the information gap, the EIF has launched the www.eif4smes.com interactive map, which includes anonymised final beneficiaries data for over 1.3m companies in EIF's portfolio, including under EFSI.

InvestEU

The EIB Group looks forward to implementing EFSI 2.0 until the end of its investment period and, in time, InvestEU, which, despite similarities with EFSI, also bears important differences. While EFSI was successfully designed as an instrument to support a general boost to growth and jobs in Europe, InvestEU is intended to focus more on structural investment needs, to support policies that will foster a social, green and competitive EU, which is coherent with the EIB Group's own mandate and objectives.

The recommendations of the draft report seem to be mostly addressed to decision-makers, responsible for EFSI and future financial instruments, other than the EIB Group. Nonetheless, the EIB Group remains open to discuss the report and its recommendations further with the authors. In this respect, it also invites Counter Balance and Bankwatch to participate actively in the next annual EFSI Stakeholder event (foreseen to be held in January 2020).

We would appreciate if you could take into consideration the comments above when finalising your report and, in any case, publish this letter in its annexes as suggested in your email dated 20 August 2019.

Yours sincerely,
EUROPEAN INVESTMENT BANK

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