

OPERATIONS EVALUATION

Evaluation of the European Fund for Strategic Investments

June 2018



European
Investment
Bank



Thematic Evaluation Report

June 2018

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Operations Evaluation, EV

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ABBREVIATIONS AND ACRONYMS

3PA	Three Pillar Assessment
ARRA	American Recovery and Reinvestment Act
BoD	Board of Directors of the European Investment Bank
CAD	Capital Adequacy Ratio
CAPEX	Capital Expenditure
CC	Cost Coverage
CCS GF	Culture and Creative Sectors Guarantee Facility
CEF	Connecting Europe Facility
CEPS	Centre for European Policy Studies
CMU	Capital Markets Union
COP	Corporate Operational Plan
COP21	Conference of the Parties; held annually in the context of the United Nations Framework Convention on Climate Change
COSME	EU Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises
CPR	Common Provisions Regulation
CTI	Cost To Income
DG ECFIN	Directorate General for Economic and Financial Affairs of the European Commission
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion of the European Commission
DG GROW	Directorate General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission
DG REGIO	Directorate General for Regional and Urban Policy of the European Commission
DG RTD	Directorate General for Research and Innovation of the European Commission
DMD	Deputy Managing Director of the European Fund for Strategic Investments
DSM	Digital Single Market
EAFRD	European Agricultural Fund for Rural Development
EaSI	EU Employment and Social Innovation programme
EC	European Commission
ECA	European Court of Auditors
ECB	European Central Bank
ECG	Evaluation Cooperation Group
EFG	Equity Facility Growth
EFSI	European Fund for Strategic Investments

EGFF	European Growth Finance Facility
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIBIS	Investment Survey of the European Investment Bank
EIF	European Investment Fund
EIPP	European Investment Project Portal
EM	External Multiplier
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESG	Environmental, Social and Governance
ESIF	European Structural and Investment Funds
EU	European Union
EU-13	The EU's newer entrants (the 13 countries which have joined since 2004 - Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia)
EU-15	The EU's earlier entrants (the 15 countries which have joined before 2004 - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom)
EU-28	All the member states of the European Union
EV	Operations Evaluation Division of the European Investment Bank
FIs	Financial Intermediaries
FoFs	Funds of Funds
GDP	Gross Domestic Product
GNI	Gross National Income
H2020	Horizon 2020
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFI	International Financial Institution
IIW	Infrastructure and Innovation Window of the European Fund for Strategic Investments
IM	Internal Multiplier
INEA	Innovation and Networks Executive Agency
InnovFin	EU Finance for Innovators
IPE	Investment Plan for Europe
IPs	Investment Platforms

IT	Information Technology
JRC	Joint Research Centre of the European Commission
KMI	Key Monitoring Indicators of the European Fund for Strategic Investments
KPI	Key Performance Indicators of the European Fund for Strategic Investments
LG	Loan Grading Application of the European Investment Bank
LGF	Loan Guarantee Facility
MBILs	Multiple Beneficiary Intermediated Loans
MC	Management Committee of the European Investment Bank
MD	Managing Director of the European Fund for Strategic Investments
MDB	Multilateral Development Bank
MFF	Multiannual Financial Framework of the European Union
MS	Member States
NPBs	National Promotional Banks
NPIs	National Promotional Institutions
OECD	Organisation for Economic Co-operation and Development
(P)FLP	(Portfolio) First Loss Piece
PIC	Project Investment Cost
PSA	Programme Support Actions
RCR	Risk Capital Resources of the European Investment Bank, managed by the European Investment Fund
RDI	Research, Development and Innovation
ReM	Results Measurement Framework
RHOMOLO	Dynamic Spatial General Equilibrium Model for EU Regions and Sectors
S&P	Standard & Poor's
SA	Special Activities
SAFE	Joint European Commission/European Central Bank Survey on the access to finance of enterprises
SMEG	SME Guarantee Facility
SFSB	Smart Finance for Smart Buildings
SMEs	Small and Medium-Sized Enterprises
SMEW	Small and Medium-Sized Enterprises Window of the European Fund for Strategic Investments
SMEW EP	SMEW Equity Product
TEN-E	Trans-European Networks for Energy
TENs	Trans-European Networks
TEN-T	Trans-European Networks for Transport
TFP	Total Factor Productivity

UK	United Kingdom
US	United States of America
VAM	Value Added Methodology of the European Investment Fund
WEF	World Economic Forum

KEY TERMS

3PA	The three pillar framework for assessing the projects to be financed by the European Investment Bank. The three pillars comprise: (i) contribution to EU policy, (ii) quality and soundness of the project, and (iii) EIB technical and financial contribution. Each pillar is composed of indicators and sub-indicators.
Cohesion countries	(Based on the EIB Investment Report (2015, 2016) categorisation of EU MS): Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.
Core countries	(Based on the EIB Investment Report (2015, 2016) categorisation of EU MS): Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Sweden and the UK.
Credit rating agency	Credit rating agency is the external credit assessment institution that is registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.
Deleveraging	Process by which a company attempts to decrease its total financial leverage, i.e. the amount of debt used vis-a-vis equity. Most often achieved by immediately paying off any existing debt on its balance sheet.
Direct/indirect equity	In direct equity investments the investor directly purchases the shares of the investee, while in indirect equity investment such purchase is made through an intermediary vehicle (e.g. an investment fund).
Efficiency metrics	The cost-to-income ratio is a key financial measure, particularly important in valuing banks. It shows a company's costs in relation to its income. To get the ratio, divide the operating costs (administrative and fixed costs, such as salaries and property expenses, but not bad debts that have been written off) by operating income. The ratio gives investors a clear view of how efficiently the firm is being run – the lower it is, the more profitable the bank will be. The cost coverage ratio stems from the interpretation of Art.17.1 of the EIB Statute. The following interpretation of cost coverage has thus been adopted: Total (relevant) revenues (i.e. intermediation revenues + amortised appraisal and similar fees + administrative revenues + commitment fees) should at a minimum cover operating costs (i.e. staff costs + other operating expenses + depreciation). The difference between the above-mentioned total relevant revenues and operating costs is referred to as the cost coverage. Accordingly, the ratio of revenues vs. operating costs is referred to as the cost coverage ratio.
EFSI Agreement	Agreement on the Management of the EFSI and the Granting of the EU Guarantee dated 22 July 2015, as amended and restated on 21 July 2016 and 21 November 2017.
(EFSI) EU guarantee	A EUR 16bn guarantee from the EU budget, which is to be an unconditional, irrevocable, first demand guarantee in favour of the EIB for the purposes of the European Fund for Strategic Investments.
EFSI Investment Guidelines	Means the EFSI Investment Guidelines applicable to the IIW set out in Annex II to the EFSI Regulation as may be supplemented or modified from time to time by means of delegated act or supplemented by the Steering Board.

EFSI investment period	For the purposes of reaching the objective of EUR 315bn of investment mobilised, the period between mid-2015 and mid-2018 according to EFSI Regulation 2015/1017. Extended up to end-2020 (in terms of approvals) and end-2022 (in terms of signatures) by EFSI Regulation 2017/2396 in relation to a new objective of EUR 500bn of investment mobilised.
(EFSI) Portfolio First Loss Piece (PFLP)	In relation to an IIW Debt Portfolio, the first loss tranche provided by the EU Guarantee; or in relation to the IIW Equity Portfolio – NPBs, the sum of the first loss tranche provided by EU guarantee and of the first loss tranche provided by EIB, on a <i>pari passu</i> basis.
(EFSI) Residual Risk Tranche	The part of an IIW Debt Portfolio or an IIW Equity Portfolio that is not covered by its respective Net Available PFLP and in relation to which the EIB retains full risk.
EFSI Regulation	Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 - the European Fund for Strategic Investments (OJ L 169, 1.7.2015, p. 1) (the "EFSI Regulation") establishes the European Fund for Strategic Investments (the "EFSI") and foresees its management by the EIB Group. The EFSI Regulation also provides for a guarantee granted by the EU budget to the EIB Group for financing investments in the EU, including cross-border projects. Amended by Regulation (EU) 2017/2396.
EFSI Scoreboard	Means, for the IIW, the scoreboard referred to in Article 7(14) of the EFSI Regulation as established by the Commission Delegated Regulation (EU) 2015/1558 in accordance with Article 23(1) to (3) and (5) of the EFSI Regulation.
EIB Loan Grading	The Loan Grading system provides an overall framework within which the assessment of credit risk is quantified, both prior to signature and throughout the life of the loan.
Financial Intermediaries	Banks or other financial vehicles (such as funds) through which the EIB Group undertakes its' intermediated financing operations.
Hybrid Debt	Corporate hybrid debt has characteristics of equity and debt, so that some of the debt can be accounted for as equity on the company's balance sheet, keeping its credit rating stable even as it raises more money in the debt market.
Investment gap	Refers to both cyclical and structural investment gaps. Cyclical investment gaps are due to temporary macroeconomic issues and refer to a decline in gross fixed capital formation as a percentage of GDP. Structural investment gaps refer to a systematic under-investment in certain sectors as a result of market failures. Structural gaps exist independently of the economic cycle.
Market failure	Situation in which markets fail to reach the socially optimal outcome because of their inability to internalise social costs or benefits through the price system. Most common market failures: public goods, market power, externalities, information asymmetries, co-ordination failures.
Multiannual Financial Framework	The framework that establishes the spending priorities and maximum amounts that the EU may spend in particular areas over a fixed period of several years.
Quasi-Equity	Quasi-equity is a contingent and participating loan, meaning that its profits are contingent on the success of the company and that it participates in the risk and the potential upside.

Risk-sharing instruments; (De)Linked Financing; Partial or Full Delegation	In risk-sharing operations, in the context of intermediated operations, the EIB Group assumes the risk on underlying transactions in order to support the origination of an EFSI eligible new portfolio of loans. Such risk-sharing operations can be structured as “linked” whereby the EIB Group guarantees up to 50% of new EFSI eligible operations originated by a partner Financial Intermediary (FI) during a pre-determined allocation period. These structures can either be “linked partial delegation”, i.e. the EIB Group retains the right to approve/reject any addition to the portfolio, or “linked full delegation” i.e. the EIB delegates to the FI the selection of the loans based on pre-defined criteria. Risk-sharing operations may also be structured as “de-linked” whereby the EIB guarantees up to 50% of a selected number of existing identified performing (at the date of signature of the EIB guarantee) loans, the “reference portfolio”. In order to benefit from the guarantee, the FI commits to building up a portfolio of new EFSI eligible loans (not guaranteed by the EIB), the “new eligible portfolio”. In this structure, regulatory capital of the FI would normally be released on the guaranteed portfolio in order to support the origination of the new portfolio. The coverage of the EU Guarantee shall become effective from the point at which the portfolio of new financings reaches a pre-defined minimum volume which can range from 1 to 2 times the guaranteed portion of the “reference portfolio”. This may occur in full or proportionally.
Sector under-investment	Shortfall of investment in a given sector with respect to a policy objective.
Signature	Event upon which the EIB Group signs a finance contract.
Special Activities	“Special Activities” (SA) is the collective denomination of those activities that entail a risk that is greater than the risk generally accepted by the Bank, in line with article 16.3 of the Bank’s Statute. SA are defined as: (i) Lending/guarantee operations with a risk profile as determined by their Loan Grading of D- or below; (ii) “Equity-type” operations.
Sub-optimal investment situation	(For the purpose of this evaluation) Shortfall of investment in a given sector induced by market failures.
Value Added Methodology	Framework for assessing the EIF’s value added with reference to different types of transactions (e.g. Guarantees and Securitisation, Equity etc.). Assesses value added at different levels of intervention, based on the impact of the EIF with regard to a) overall financial market development and reduction of specific market gaps; b) transaction-level structural improvements and enhanced access to finance for SMEs; and c) catalytic effect and expansion of mobilised resources for SME finance (multiplier effect).
Vulnerable Member States	(Based on the EIB Investment Report (2015, 2016) categorisation of EU MS): Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain.

OVERVIEW

This report presents the results of the Evaluation of the European Fund for Strategic Investments (EFSI), completed by the Operations Evaluation Division (EV) of the European Investment Bank (EIB), in accordance with Article 18 of the EFSI Regulation (2015/1017). It follows the publication of the previous (Mid-Term) Evaluation of the Functioning of EFSI by EV, published in October 2016. The evaluation provides an assessment of: (a) the rationale and design of EFSI (corresponding to the evaluation criterion of *relevance*); (b) results achieved so far, with emphasis on *additionality* (*effectiveness*); (c) *complementarity* and *coordination* of EFSI with other European Union (EU) programmes; and (d) adequacy of the inputs mobilised for the implementation of EFSI (*efficiency*). The timing of the evaluation precludes the assessment of the long-term *impact* and *sustainability* of EFSI results, as they will take time to materialise, especially for the type of projects supported by EFSI under the Infrastructure and Innovation Window (IIW) and can only be assessed after project completion.

The evaluation scope encompasses the portfolio of EFSI operations in all EU Member States (MS) since inception, as well as its organisational, staff and financial resources. In terms of institutions, the scope includes the EIB Group, EFSI governing bodies and relevant economic actors in MS, including final beneficiaries (Mid-cap companies and Small and Medium-sized Enterprises (SMEs)), and private and public co-investors (including National Promotional Banks (NPBs) and Investment Platforms). While the other two Pillars of the Investment Plan for Europe (IPE) are out of scope, they are considered in the discussion of EFSI's design and its complementarity and coordination with other initiatives, to the extent that they may affect the effectiveness of EFSI.

It is worth noting that the evaluation is completed in a context where the extension of EFSI has already taken place. Though this extension is out of scope, changes introduced by the amended EFSI Regulation (2017/2396) are taken into account to ensure that the evaluation's findings remain relevant for the continued implementation of EFSI.

The evaluation draws on a wide range of sources and methods. As EFSI is an instrument with macroeconomic, EU-wide objectives, the assessment of its relevance and effectiveness relies less on traditional project-level evaluations and more on macroeconomic and portfolio analysis, complemented with insights from 15 in-depth case studies. Other sources and methods of analysis include: literature reviews of legal, academic, policy and strategic documents, as well as internal reporting documents and previous evaluations of EFSI; 62 interviews with internal (EIB Group, EFSI governance bodies) and 21 interviews with external (European Commission (EC) and NPBs) stakeholders; review of project documentation; comparative analysis of risk profiles for EFSI and non-EFSI EIB Special Activities (SA); and two surveys of final beneficiaries under each of the two Investment Windows (the IIW and the Small and Medium-sized Enterprises Window (SMEW)).

Background - EFSI in the context of the IPE

Launched in November 2014 as a flagship initiative of the EC, the Investment Plan for Europe (IPE) is a policy response to the consequences of the global financial crisis of 2008-2009 and the sovereign debt crisis of 2011-2012, which resulted in a sharp fall in investment.

The IPE builds on three mutually reinforcing Pillars, which respectively aim to (a) mobilise finance for investment, (b) make finance reach the real economy and (c) improve the investment environment. The first Pillar, which is the subject of this evaluation, is the European Fund for Strategic Investments (EFSI). It consists of a portfolio guarantee provided by the EU budget to the EIB Group and a capital contribution from the EIB in order to increase the risk-bearing capacity of the EIB Group, allowing it to finance operations which address market failures or sub-optimal investment situations in key sectors, and which could not have been carried out (to the same extent or within the same time frame) by the EIB, the European Investment Fund (EIF) or under existing Union financial instruments without EFSI support, thereby stimulating investment and

boosting sustainable economic growth in the EU.

In operational terms, EFSI's objectives are to: (a) support investments in infrastructure and innovation and (b) increase access to finance for SMEs (up to 250 employees) and Mid-cap companies (up to 3 000 employees). These two objectives are reflected in EFSI's two Investment Windows: the Infrastructure and Innovation Window (IIW) implemented by the EIB, and the Small and Medium-sized Enterprises Window (SMEW) implemented by the EIF.

In the context of the original EFSI Regulation, it was expected that the EUR 16bn guarantee and the EUR 5bn EIB contribution would generate EUR 60.8bn of additional financing by the EIB Group. This, in turn, was expected to mobilise EUR 315bn in total investment in the EU by July 2018. The extension of EFSI, which came into force on 30 December 2017, raised the EU guarantee to EUR 26bn, the EIB contribution to EUR 7.5bn, and the target for total investment mobilised to EUR 500bn by end-2020 (for approved operations) and end-2022 (for signed operations).

The second Pillar of the IPE focuses on making finance reach the real economy and aims to improve the way in which private investors and public authorities access information for the identification and preparation of investment projects. It comprises the European Investment Project Portal (EIPP), managed by the EC, which provides a publicly accessible pipeline of projects eligible for EU funding, and the European Investment Advisory Hub (EIAH), managed by the EIB, which provides advisory support to promoters and investors.

The third Pillar of the IPE aims at removing administrative and regulatory barriers to investment in the EU-28 and further reinforcing the Single Market. The responsibility for addressing these barriers is devolved to MS, with expert contribution from the EIB Group.

Rationale and design of EFSI

The evaluation assesses the extent to which EFSI is adequate, as a policy instrument, to

address the needs for which it was designed; namely the needs to stimulate investment and to increase access to finance for SMEs and Mid-caps in order to reduce investment gaps and thereby boost growth, employment and competitiveness in the EU.

First, the evaluation assesses the extent of the needs in the EU-28, both in terms of cyclical and structural investment gaps, as well as with regards to access to finance for SMEs and Mid-caps. Then, it assesses the extent to which the design of EFSI is adequate to address these needs.

The evaluation finds that, at the time EFSI was launched, the EU-28 suffered from investment gaps, both cyclical and structural. Cyclical investment gaps differed across MS. Using the EIB Investment Report categorisation of EU MS (2015, 2016), the evaluation finds that while in "Core countries"¹ the ratio of investment to Gross Domestic Product (GDP) had largely recovered its pre-crisis levels, for "Vulnerable Member States"², which had suffered a much sharper drop in investment, it remained well below the long-term average. In "Cohesion countries"³, despite a sharp fall, the investment-to-GDP ratio never actually fell below the long-term average. However, these countries still had significant investment needs as most were (and still are) "catching up" with the level of capital per capita in the EU-15.

At the same time, the EU-28 suffered from considerable structural investment gaps in key sectors including Research, Development and Innovation (RDI), energy, and transport infrastructure, largely due to market failures and the resulting systemic under-investment by the market.

As regards access to finance for SMEs and Mid-caps, the evaluation finds that, after a long period of continuous tightening of credit standards and deteriorating availability of external financing, by the time EFSI was launched, external financing conditions had started to improve. However, structural issues remained an important detrimental factor, particularly in the periphery and cohesion regions as well as for young, innovative, and small firms.

¹ Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Sweden and the United Kingdom (UK).

² Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain.

³ Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

The evaluation finds that EFSI was adequately designed to respond to structural investment gaps as it was designed to finance operations that address market failures and that could not have been financed by the EIB Group or other Union instruments, to the same extent or within the same timeframe, without it. Moreover, it was designed to finance projects in key sectors that are expected to strengthen human capital, knowledge and physical infrastructure and thereby enhance productivity and have a structural impact on the economy.

At the same time, the evaluation finds that the design of EFSI was less adequate to address cyclical investment gaps. Although it is designed to mobilise a volume of investment which is large enough to make a reasonable contribution to reducing the cyclical investment gap across the EU-28, most of the projects it is designed to support, like most EIB projects, have long implementation periods, with disbursements too spread over time to have a significant impact on aggregate demand and pull economies that are suffering from cyclical investment gaps out of stagnation.

Furthermore, as part of the IPE, EFSI is designed to address the supply of financing, by increasing the risk-bearing capacity of the EIB Group and allowing it to provide financing beyond what the market could provide. At the same time, cyclical investment gaps are caused both by factors that affect the supply of financing and factors that affect the demand for financing. Demand for financing is to be addressed by the other two pillars of the IPE, which deal with legal and regulatory barriers constraining demand as well as those related to weak capacity and lack of access to information.

Finally, the evaluation finds that EFSI was adequately designed to increase access to finance for SMEs and Mid-caps as it was set up to leverage the experience and networks of the EIF in order to quickly address the existing demand for higher risk financing.

Results in mobilising investment

In the context of the original EFSI Regulation (2015/1017) EFSI's operational objectives are to mobilise EUR 315bn of financing, by July 2018, for operations that are economically and technically viable, consistent with Union policies (including the objective of smart, sustainable and inclusive growth), maximise, where possible, the mobilisation of private sector capital, and

provide additionality. In so doing, EFSI is expected to increase investment directly as well as indirectly, through knock-on effects, generating further investments and resulting in an overall expansion of aggregate demand.

To assess the extent to which EFSI has achieved its operational objectives, the evaluation examines where EFSI stands in terms of mobilising investment (and particularly private financing), and reviews the multiplier methodology used to estimate total investment mobilised. The evaluation also examines the sector and geographical distribution of EFSI investments.

EFSI has succeeded in mobilising a large volume of investment. The evaluation estimates that by July 2018, EFSI will have mobilised EUR 315bn in terms of approvals and roughly EUR 256bn in terms of signatures. The target of EUR 315bn of investment mobilised (in terms of signatures) is expected to be reached by the beginning of 2019. Moreover, EFSI has succeeded in mobilising primarily private financing: overall, almost 80% of the financing crowded in by the EFSI-backed EIB Group financing has been private as of 31 December 2017.

While recognising the success of EFSI in meeting pre-defined investment goals, the evaluation underlines that achieving (or missing) the precise target of EUR 315bn by mid-2018 will not make much difference in economic terms; bearing in mind that the economic impact of EFSI projects will only materialise once the actual investments occur and the financing hits the economy. Therefore, the evaluation cautions against the risk of focusing on reaching the volume targets at the expense of the additionality of operations, which is what matters most for the structural, longer-term impact of EFSI.

Moreover, the amount of investment mobilised is an estimate that hinges on the multiplier assumptions used. The actual investment mobilised can only be measured at the end of the investment period. The evaluation found that information on how benchmark multipliers were derived is presently spread across EIB Services and it would be desirable to collect it all into a standalone document.

In terms of sectors supported, EFSI has been successful in mobilising financing in key sectors that suffer from market failures and sub-optimal investment situations, which are likely to have a structural impact on the EU economy; namely RDI, smaller

companies, digital, and social infrastructure (SMEW and IIW), as well as energy, transport, and environment and resource efficiency (IIW). A greater share of investment was mobilised for EFSI sectors which suffered from relatively larger structural investment gaps. The indicative sector concentration limits set by the EFSI Steering Board stipulate that, at the end of the investment period, the volume of signatures under the IIW in any sector should not exceed 30% of the total volume. As of 31 December 2017, energy accounted for approximately 28% and RDI for 22%.

In terms of the geographical distribution of EFSI investments, EFSI operations have been signed in all EU-28 MS and, accounting for the relative size of the economies, signed amounts were well distributed between the EU-15⁴ and EU-13⁵. The indicative geographical concentration limits set by the EFSI Steering Board stipulate that, at the end of the investment period, the share of IIW investment (in terms of signed operations) in any three MS together should not exceed 45% of the total EFSI portfolio. By 31 December 2017, the three MS with highest volume of signatures (France, Italy and Spain) accounted for roughly 47% of the volume signed.

The evaluation finds that, as of 31 December 2017, “Vulnerable Member States” and “Cohesion countries”, which have the largest and most persistent cyclical investment gaps, made up over 80% of volumes signed under EFSI overall, normalised by the share of EU GDP.

Finally, as regards increasing access to finance, the evaluation finds that SMEW financing partly went to the countries in which access to loans or venture capital was most difficult. This could be a reflection of the relatively low level of demand for loan or equity financing in these countries.

Results in providing additionality

One of the main operational objectives of EFSI is to finance operations that provide additionality. According to Article 5 of the original EFSI Regulation operations provide additionality when: (a) they address market failures or sub-optimal investment situations, and (b) they could not have been carried out

in the period during which the EU guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments without EFSI support. By definition, projects were also considered to provide additionality if they carried a risk corresponding to EIB SA, as defined in Article 16 of the EIB Statute and by the EIB internal credit risk guidelines. Under the amended EFSI Regulation, SA status provides a strong indication but no longer a direct link with additionality.

The first condition described above (addressing market failures) is in fact the “standard” requirement for a public institution in order not to crowd out/displace private sources of financing, but rather support projects which would not receive adequate financing with appropriate terms from the market (due to market failures). The second condition (operations could not have been carried out by the EIB Group or other existing Union financial instruments in the absence of EFSI) is specific to EFSI, and requires it to be additional not only to market sources, but also to the financing that would have been provided by the EIB Group and other Union financial instruments in its absence. As described in further detail below, other programmes and products targeting similar types of projects (e.g. the Connecting Europe Facility (CEF) had to be re-adjusted in order to ensure there was no overlap with EFSI).

To assess the extent to which EFSI operations provided additionality, the evaluation examined: (a) the extent to which EFSI operations provided additionality by virtue of being SA and the extent to which the risk profile of EFSI operations corresponded to that of SA; (b) the extent to which the portfolio of EFSI operations could have been financed by the EIB Group, to the same extent and within the same timeframe, in the absence of the EU guarantee; and (c) the extent to which EFSI operations addressed market failures or sub-optimal investment situations.

First, the evaluation finds that, as of 31 December 2017, 98.8% of signed operations (by number) were reported as SA, and hence, according to the original EFSI Regulation, were additional by definition. The 1.2% of EFSI operations that were not

⁴ The 15 MS which joined before 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK.

⁵ The 13 MS which joined since 2004: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

SA were also considered by the EFSI Investment Committee (as foreseen in the Regulation) to meet the additionality requirements. The evaluation finds that EFSI and non-EFSI SA operations have similar risk profiles. Recovery rates, one of the most important inputs for the calculation of expected loss, were comparable with those of non-EFSI SA. The credit quality of the EFSI portfolio improved after signature, which can be explained by the decreasing effective maturity of the operations as well as by the EIB's annual updates of the probability of default risk parameter.

Second, the EIB could not have financed the entire portfolio of EFSI operations under its own risk without potentially having a negative impact on its overall lending capacity, risk profile and, ultimately, the sustainability of its business model.

Third, as regards the requirement that EFSI operations should address market failures or sub-optimal investment situations, it is worth noting that while the concept of market failures is a basic concept of economics, its operationalisation (i.e. assessing how public interventions address them) is subject to different interpretations. Market failures refer to situations where the market, if left alone, fails to generate a socially optimal outcome for reasons such as the presence of externalities (e.g. knowledge externalities or CO₂ emissions), the public nature of the good (e.g. public roads, street lighting), imperfect information, and others. Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs), including the EIB, have generally operationalised “addressing market failures” as “providing inputs that go beyond what could be provided by the market”. Similarly, the Evaluation Cooperation Group (ECG) suggests that additionality ratings be based on a counterfactual assessment of how projects would have (or would not have) proceeded without IFI support, considering both financial and non-financial inputs. This counterfactual assessment can go one step further and also look at how the project activities (and results) would have proceeded in the absence of public support, as for example suggested by the Donor Committee for Enterprise Development (DCED). This evaluation adopted both approaches to operationalising the concept of “addressing market failures”.

The evaluation used survey data both from an original EV survey of IIW final beneficiaries as well as from an EC survey of a subset of SMEW final beneficiaries to analyse these two operational definitions of

addressing market failures; the first looks at the (financial and non-financial) inputs that the EIB Group provided that go beyond what the market could have provided, while the second assesses what would have happened to the operations (in terms of scope and timing) in the absence of EIB Group support. The analysis was complemented by in-depth case studies and a review of the information on additionality presented in project appraisal documents.

Overall, EFSI operations addressed market failures. With regards to the first operational definition, for which data was only available through the survey of IIW debt operations, the results show that 98% of operations addressed market failures; the market could not have provided comparable financial and/or non-financial inputs. Financial inputs include the amount of financing, but also specific terms of financing such as type of support (traditional debt, hybrid debt, equity etc.), tenor, and others. Non-financial inputs refer to other forms of support, which are generally not quantifiable (sometimes referred to as “soft enhancement” e.g. signalling effects to markets about the viability of an investment).

Non-financial inputs, particularly the EIB Group reputational effect, the opportunity to attract other financiers and the adoption of social and environmental standards, were found to be the most additional to the market.

With regards to the second operational definition, for which data was available under both Investment Windows, the surveys show that the majority of operations (76% for the SMEW and 67% for the IIW) addressed market failures as the projects supported would have had to stop or to be implemented with a reduced scope or at a slower pace in the absence of EFSI-backed financing. Under the IIW, equity type financing was found to provide the highest additionality in the sense that 81% of equity-type operations would have had to end or change their scale or timeframe in the absence of EIB support – compared to 63% for debt-type operations.

The case studies provided examples of the types of unique financial inputs that the EIB Group could provide compared to what would be available on the market (as well as to what the EIB Group could provide in the absence of EFSI). These included innovative products such as quasi-equity, hybrid loans, risk-sharing arrangements, and debt instruments with very long tenors. Examples of valuable non-financial inputs were mainly positive signalling effects that

result in the crowding in of other investors and, in some cases, the acceleration of investments, or, in other cases, the maintenance of investment levels through time.

Finally, almost all project documents examined (99%) provided information in support of additionality in line with internal EIB guidance. For example, for IIV operations: 95% claimed operations addressed market failures; 99% claimed there was a catalytic effect for other sources of financing; and 74% claimed they expanded EIB activities in new areas. The qualitative analysis of project documents carried out by EV rated the majority of such documents (93%) as “Excellent” and 6% as “Satisfactory” in terms of the relevance of information provided. Furthermore, it found that the depth of argumentation (i.e. the degree to which claims in favour of operations’ additionality were substantiated) was “Excellent” in 15% and “Satisfactory” in 81% of the cases analysed.

For SMEW equity transactions, 99% of operations claimed they addressed market gaps in the provision of financing; 98% asserted that EIF contribution had a positive influence on the terms and conditions of the fund; and 93% claimed that EIF contribution had a catalytic effect and facilitated the financial viability of the beneficiary fund.

Complementarity and coordination

In order to maximise its impact on the EU economy, EFSI has to avoid duplication of existing financial instruments, and instead complement, be combined with, strengthen or enhance existing Union programmes or other sources of Union funds or joint instruments (EFSI Regulation 2015/1017 Annex II Article 3). Furthermore, it has to leverage on the involvement of NPBs or National Promotional Institutions (NPIs) – rather than duplicate or crowd out their effort – considering their competitive advantage in terms of knowledge of national markets. Finally, the implementation of EFSI could be affected by the degree of progress on the other two Pillars of the IPE. Indeed, as an instrument that responds to existing demand for financing, EFSI relies on the other two Pillars of the IPE for stimulating demand, e.g. by facilitating access to information and preparation of projects and by removing legal and regulatory barriers and improving the investment environment.

The evaluation assessed the complementarity of EFSI with the following major EU programmes: the EU Programme

for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), and InnovFin (provided under Horizon 2020), the European Structural and Investment Funds (ESIF), and the Connecting Europe Facility (CEF).

EFSI catalysed the use of other EU funds through the frontloading of the implementation of existing guarantee instruments in the case of the COSME Loan Guarantee Facility (LGF), the InnovFin SME Guarantee (SMEG) and the Employment and Social Innovation (EaSI) Guarantee, which would not have been able to meet the demand for financing in 2016-2018 without EFSI. It was also complementary to other EU programmes through common equity instruments: for instance, EFSI funding was pooled with EaSI and Horizon 2020 funding to finance the piloting of a number of innovative instruments in support of social enterprises and social innovation. On the other hand, InnovFin and CEF debt instruments and COSME equity instruments had to re-adjust their scope and focus in order to eliminate the overlap with EFSI. A risk of crowding out was also identified with relation to financial instruments under ESIF.

The evaluation also examined the extent to which EFSI financing is combined with the above-mentioned instruments, and found that examples of combination between EFSI and ESIF and CEF grants remain limited. The obstacles to the combination of ESIF grants and EFSI relate to the different legal bases of the instruments, including diverging eligibility requirements, reporting requirements, rules on state aid and public procurement. Combination between CEF grants and EFSI is challenged by different project eligibility criteria and the EIB’s mandate to prioritise high risk financing, not often found in public infrastructure projects. Although different steps have been taken to address the issues outlined in the paragraphs above (e.g. revision of the Common Provisions Regulation), the evaluation highlights the need for a comprehensive review of the landscape of EU financial instruments. The presence of multiple financial instruments presents a challenge for potential investors, financial intermediaries and Managing Authorities, which have been requesting increased information and concrete examples of the successful combination of different instruments, as well as more streamlined application and reporting requirements.

With regards to other forms of complementarity and coordination at the national level, the evaluation found that EFSI

is complementary with NPBs/NPIs, for example where lending under EFSI IIW has complemented equity investment by NPBs/NPIs or in cases of co-investment in funds, especially under the fund writing mechanism enabled by EFSI's contribution to the EIB Risk Capital Resources (RCR) mandate. By 31 December 2017, 14% of operations (by number) were co-financed with NPBs/NPIs under the IIW, and more than 30% under the SMEW. Interviews revealed that, by and large, coordination between EFSI and NPBs is broadly adequate and could potentially improve the effectiveness of EFSI by building on the NPBs' knowledge of local markets, but there is scope for improving efficiency (e.g. by reducing the duplication of project appraisal processes). The evaluation also identified some evidence of (potential) duplication of NPB/NPI activities in terms of the provision of COSME LGF under EFSI to both public and private intermediaries within the same market. The requirement that NPBs/NPIs comply with EU state aid rules puts them in a less favourable position with respect to commercial intermediaries, which however is not an effect of EFSI/COSME but is rather due to the applicability of EU state aid rules. Overall, cooperation with NPBs was broadly adequate and can improve the effectiveness of EFSI by building on their knowledge of local markets.

Finally, no evidence was found that the other two Pillars of the IPE had any (positive or negative) impact on the implementation of EFSI. With reference to Pillar 2, interviewed stakeholders who had already cooperated with the EIAH indicated their satisfaction with the quality of cooperation. On the other hand, other stakeholders indicated that the visibility and local presence of the EIAH could be improved. The EIAH continues to focus on awareness-raising activities such as targeted roadshows. However, the length of a project preparation cycle especially for large infrastructure projects (approximately ten years) makes it difficult for the EIAH to have an immediate, significant impact on the IIW.

Adequacy of resources mobilised by the EIB Group to deliver EFSI

EFSI is a large-scale initiative that required the mobilisation of significant inputs by the EIB Group. The evaluation assessed the extent to which staff, organisational (processes and procedures) and financial resources and products were adequate for the implementation of EFSI in a sound and timely manner.

In terms of staff resources, the EIB Group made unprecedented recruitment efforts in order to be appropriately staffed, in quantitative and qualitative terms, to deliver EFSI. Recruitment levels have been at historic highs both at the EIB and the EIF during the last three years, of which a significant portion was driven by EFSI. For the EIB, more staff with different skill sets was needed to deliver a larger number of smaller and more innovative complex transactions (i.e. SA). For the EIF, more staff with similar skills were needed to deliver a threefold increase in annual business activity.

In terms of organisational resources, the EIB had to adapt its processes and procedures to a great extent, mainly (but not exclusively) driven by the need to comply with certain requirements of the EFSI Regulation. At the EIF, processes were streamlined to cater for EFSI, but this induced less change. Project appraisal tools, both at the EIB and EIF, are deemed to be adequate overall, with room for further strengthening of the tools used to assess additionality. By design, SMEW operations are subject to bespoke governance compared to IIW operations.

According to Article 6 of the EFSI Regulation, to qualify for support under the EU guarantee, EFSI operations have to be economically and technically viable, be consistent with Union policies (including the objective of smart, sustainable and inclusive growth), provide additionality and maximise, where possible, the mobilisation of private sector capital. These eligibility criteria are very similar to those for standard EIB Group operations, and hence the main tool for assessing the eligibility of operations for EFSI support, the Scoreboard, incorporates existing EIB appraisal tools (the Three Pillar Assessment), with the addition of a Fourth Pillar that addresses additionality (in line with the definition provided in Article 5), and macroeconomic (country, sector) indicators. Thus project appraisal tools used to assess the additionality of EFSI operations go beyond existing EIB tools by providing more information on how operations address market failures or sub-optimal investment situations, as well as on why operations could not have been carried out by the EIB Group in the same time frame or scope in the absence of EFSI. According to the Delegated Regulation establishing the Scoreboard of indicators for the application of the EU guarantee (2015/1558), such further information on additionality was initially required primarily for non-SA operations, but the EIB Services provided it to the Investment Committee (IC) for all

potential EFSI operations. The Scoreboard is presented to the EFSI IC along with other key project information.

The evaluation finds that the quality of evidence provided in support of the additionality of operations improved over time, but there was scope for further conceptual clarification, in order to: distinguish between the “standard” additionality of a public institution such as the EIB (addressing market failures and sub-optimal investment situations), and the “supplementary” EFSI-specific additionality (supporting operations that could not have been carried out in the period during which the EU guarantee can be used, or not to the same extent or within the same timeframe, by the EIB Group or other Union instruments), ensure common understanding of key terms such as “sub-optimal investment situations”, and strengthen the substantiation of how EFSI operations address market failures or sub-optimal investment situations. Following the extension of EFSI, many of the above findings were addressed by updated internal guidelines and tools.

In terms of product offering, EFSI has led to the EIB and the EIF operating in very similar market segments (intermediated equity and guarantees), and reinforced the need to better coordinate the Group product offer to ensure complementarity. EFSI initially allowed the EIF to frontload the forthcoming years’ budget for COSME LGF and InnovFin SMEG and to top-up RCR. All of the above mandates existed prior to EFSI, targeted deep market gaps, and had a strong pipeline of operations ready to be served. More recently, the EIF has developed new products, targeting under-served counterparts, by pooling resources from different counterparts having different risk appetites, which allows for optimal risk tranching.

The EIB, on the other hand, had to undertake riskier market and product development strategies from the inception of EFSI, as required by the original EFSI Regulation. Thus, the EIB Group now offers a wider range of financial products that is constantly evolving to meet market needs and pursue EFSI objectives.

In terms of financial resources, the EU guarantee has enabled the EIB Group to deploy, during EFSI years, a significant additional volume of high-risk financing. However, as regards cost coverage (i.e. the extent to which operating revenues cover operating costs) so far EFSI has been loss-

making for the EIB, while this is not the case for the EIF. Unlike the EIB, the EIF receives administrative fees from the EC for managing the SMEW mandates.

Although EFSI was set up as a temporary measure (initially three years and recently extended to five and half), some of the changes undertaken might have medium to long-term impacts. As highlighted in the EV Mid Term Evaluation of EFSI, it would be useful for the EIB Group to undertake a process of strategic reflection on the post-EFSI era, for which the analysis undertaken by the evaluation might be a useful starting point.

Conclusions

At the time EFSI was launched, cyclical and structural needs in terms of investment and access to finance varied across EU MS. The evaluation finds that EFSI was adequate to address structural issues, while less adequate to address cyclical issues; most of the projects it is designed to support have disbursements that are too spread over time to have a significant impact on aggregate demand and pull economies that are suffering from cyclical investment gaps out of stagnation. Moreover, by the time EFSI was launched, in some MS, investment to GDP had already recovered its pre-crisis levels.

The evaluation estimates that by July 2018, EFSI will have mobilised EUR 315bn in terms of approvals and roughly EUR 256bn in terms of signatures. Investment has been mobilised for projects in sectors that suffer from market failures and sub-optimal investment situations, and across all EU-28 MS. As of 31 December 2017, “Vulnerable Member States” and “Cohesion countries” accounted for over 80% of volumes signed, normalised by the share of EU GDP. As it will take time for investments to have an impact on the economy and since the volume of investment mobilised is merely an estimate, the evaluation cautions against the risk of focusing on volume targets at the expense of additionality, which is what matters to achieve a structural, long term impact on growth and employment.

EFSI operations provided additionality in accordance with the EFSI Regulation. As of 31 December 2017, 98.8% of operations (by number) were reported as SA and hence, according to the original EFSI Regulation, were additional by definition. The 1.2% of EFSI operations that were not SA were also considered by the EFSI Investment Committee (as foreseen in the Regulation) to meet the additionality requirements.

Moreover, the evaluation finds that: (a) the vast majority of EFSI operations addressed market failures; and (b) in the absence of the EU Guarantee, the EIB Group could not have financed the portfolio of EFSI operations under its own risk without a potential negative impact on its overall lending capacity and risk profile.

Complementarity and coordination of EFSI with other EU instruments is mixed. In some cases, EFSI has been complementary, catalysing the use of other EU funds through the frontloading of existing guarantee instruments. In other cases, the potential overlap with other EU instruments led to the revision of their implementation strategies. Moreover, combination of EFSI with ESIF and CEF grants has been limited so far. EFSI is generally complementary with NPBs, although there is also potential for overlap.

The EIB Group has tailored its inputs to EFSI needs. This has induced considerable change in the EIB as well as in the EIF, although to a lesser extent. Project appraisal tools were found to be overall adequate, with room for further strengthening of the tools used to assess additionality. The evaluation notes that useful improvements were already introduced in the context of the amended EFSI Regulation. For the time being the EU guarantee mitigates significantly the additional risk exposure brought by EFSI operations. However, the initiative's revenues do not cover the related costs at the EIB (IIW), but do so at the EIF (SMEW).

MANAGEMENT RESPONSE

Introduction

The Management Committee welcomes the Evaluation report on the functioning of the European Fund for Strategic Investments (EFSI), including the impact of investment in the European Union (EU), employment creation and access to financing for SMEs and mid-cap companies.

This report, which recognises the strong commitment of the EIB Group toward accountability and transparency principles, has been prepared by the EIB independent Operations Evaluation Division following international evaluation standards. It is the result of continuous and substantial exchanges between the Evaluation team, the EIB and EIF staff working on EFSI matters, but also members of the EFSI Steering Board and Investment Committee, staff from the European Commission (EC) and counterparts, including representatives from National Promotional Banks and Institutions (NPBs/NPIs).

The report was endorsed by the Management Committee on 26 June 2018, will be presented to the EIB Board of Directors at its 17 July 2018 meeting, reviewed by the EFSI Steering Board on 19 July 2018, and submitted by the Bank to the European Parliament, European Council and European Commission, in compliance with the EFSI Regulation.⁶

The Evaluation covers the period from mid-2015 to mid-2018, with data up to the end of 2017, and offers an opportunity to reflect upon possible areas of improvement. This will allow the EIB Group to make further progress and meet the new requirements of the revised EFSI Regulation that entered into force on 30th December 2017, which not only extended EFSI in terms of volume and duration, but already incorporated some of the observations from the period covered by the Evaluation.

Beyond EFSI's results, the Evaluation also assessed the Bank's operational strategy, procedures and organisational arrangements developed for EFSI. The Management will use the information and analysis provided, as it was done with the Mid-term Evaluation reports and will be done with the independent evaluation report commissioned by the EC as well as the performance audit by the European Court of Auditors (ECA), to make relevant adjustments as needed and to feed its strategic discussions on the role of the EIB Group during the next MFF period.

Presentation of EFSI & Results

The report comes in a very timely manner, 3 years from the start of the implementation of EFSI. EFSI is the first pillar of the Investment Plan for Europe (IPE), an initiative launched in November 2014 and developed jointly by the EC and the EIB Group. Its dual aim is to address investment gaps in the EU by mobilising private financing for strategic investments in key economic sectors and improving access to finance for entities with up to 3 000 employees, which are the backbone of the European economy. The implementation of EFSI was entrusted to the EIB Group. It received strong support from all EU Member States (MS), the shareholders of the EIB Group, as EFSI is expected to foster investments and increase access to finance by enhancing the risk bearing capacity of the EIB Group. EFSI can thereby make a significant contribution to the improvement of the European economies' competitiveness. EIB's higher volumes of risk financing not only leads to increased access to financing in response to market failures or sub-optimal investment situations but also to crowding-in of private and public investors which aims at generating a substantial (EUR 315bn) injection of investment in the economy.

Over the last decade the EIB Group had already twice been called up to provide extraordinary support to the European economy; once from its existing capital reserves immediately after the

⁶ Regulation (EU) 2017/2396 of the European Parliament and of the Council of 13 December 2017 amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub (OJ L 345, 27.12.2017, p. 34).

financial crisis hit, and a second time in 2012 on the basis of a capital increase provided by all MS. Building on these recent precedents, the implementation of EFSI has been an unprecedented challenge and opportunity for the EIB Group. A challenge which the EIB Group successfully lived up to, including by building up significant resources, to devise and implement new and more complex financing products to better serve the needs of, to a significant extent new, beneficiaries, developing new and closer ways of cooperating with National Promotional Banks (NPBs) and other financial intermediaries. The EIB Group has managed to do this whilst maintaining the high level of expertise and professional banking excellence in line with the MS owners and other public shareholders rightful expectations. EFSI has represented an opportunity as well, as the EIB Group has expanded its expertise and skillset, has greatly deepened its relationship and cooperation with public and private partner banks, and has further developed its ability to react rapidly and in a flexible manner to market needs and developments.

As outlined in the report, the results achieved so far demonstrate that the objectives of EFSI are met both qualitatively and quantitatively. The report shows how much, and how effectively, the EIB Group has adapted and how it is committed to make EFSI a success, so that the guarantee provided by the EU to the EIB, together with the EIB Group's own contribution, could reach the expected outcomes and impacts: to support strategic investments, increase SMEs and Mid-Caps access to finance, ultimately participating in the reinforcement of EU growth and competitiveness, climate action and the creation of sustainable jobs. The report also highlights the EIB Group's support to new features introduced in the revised EFSI Regulation, while always asking to the involved stakeholders to keep EFSI as a market-driven instrument addressing political goals, but without any political interferences.

As at 12 June 2018, one month ahead of the third anniversary of EFSI, with close to EUR 59bn of approved financing expected to facilitate almost EUR 295bn of investments, the EIB Group has reached nearly 94% of the initial target. The EIB Group is therefore firmly on track to deliver, by mid-2018 as expected, the initial EUR 315bn target of mobilised investment. The higher risk-taking capacity available through EFSI allowed the EIB to engage with new clients, with the EIB maintaining a stable but impressive ratio of new counterparts (around 4 in 5 operations signed as at end 2017 concerned new clients). EFSI reached its cruising speed thanks to the rollout of the new products designed by the EIB Group for the purpose of delivering on EFSI objectives meeting market needs and supporting additionality of investment. In that respect, the EIB products palette expanded in particular with new equity and risk-sharing instruments as well as new effective forms of cooperation with NPBs and other financial institutions, allowing for more risk taking and reaching new counterparts and enhanced investment scope/spread. The market absorption of the EIF-managed SME Window, in turn, was quick, reflecting an adequate product mix offer to a strong demand from intermediary institutions and fund managers. This product innovation and intensified cooperation work are at the root of the successful delivery of EFSI, reflected in the almost doubling of most key indicators in the last year, and in the recognition, by the various evaluations carried out so far on EFSI, that, overall, it has supported additional and higher-risk investment, in the targeted sectors and geographies, and with the expected volumes. It is worth mentioning in particular the development of Investment Platforms (IPs) which almost doubled in 2017. Such structures allow for aggregating public and private financing in order to support pools of projects across sectors and countries, with a focus on NPBs and public authorities acting as platform sponsors or promoters. The legal forms of IPs can be diverse, ranging from co-financing arrangements to layered fund structures. IPs may be a useful tool to use public financing in order to attract private investors to support clusters of projects, rather than individual operations, taking into account reduced transaction and information costs and more efficient risk allocation between various investors. EIAH can also provide support in the set-up of IPs, such a role being further enhanced under the amended EFSI Regulation.

Why EFSI works

Before responding to individual conclusions presented in this report, the Management is pleased to see that it is clear, from the findings and conclusions of this report but also from other evaluations and the feedback received from our clients, partners, stakeholders and the civil society, that EFSI, as implemented by the EIB Group, works.

The full commitment and strong partnership of the two partners, the EIB Group and the EC, and the support of the MS was key to the success of EFSI. EIB Group hit the ground running, already proceeding with the first EFSI financings in early 2015 solely on its own balance sheet, even before the Regulation came into force. This quick start was only possible because EFSI is fully integrated in EIB organisation, its funding capacity, governance structure and relationships with project sponsors and partner institutions throughout the EU.

Taking the relevant strategic decisions jointly in the Steering Board, the EC and EIB Group developed the EFSI Strategic Orientation and steered its implementation while ensuring regular consultation of civil society and relevant stakeholders on those matters.

EFSI, launched to address investment needs, was designed as a market-driven and not a policy-driven instrument, which remains key for our clients and other investors, who are also reassured to find, with the EIB Group, a strong implementation partner, having the mandate and know-how to apply EU policies, as well as extensive experience across all EU MS and sectors.

The EFSI Regulation is clear on the quantitative target and the qualitative objectives. This helped the EIB Group to develop and implement a business strategy, to submit to the Investment Committee projects in line with eligibility and additionality criteria and objectives as defined in the investment guidelines. The appraisal and due diligence of the projects adhere to well established and proven EIB Group methodologies and standards, and facilitates clear indications on expectations and achievements for our client and others stakeholders. Furthermore, the EIB Group quickly developed new and tailor-made products dedicated to market's and clients' needs, thanks to its strong financial engineering and flexibility. It also builds on its close cooperation with NPBIs, who largely contributed to the successful implementation of EFSI.

Finally, EFSI works because of its lean and efficient governance, with a decision-making process on granting the EFSI guarantee that is both fully independent (in the form of the Investment Committee) and embedded in the EIB Group governance processes, ensuring good coordination and timely decisions, to the benefit of our clients and projects. This governance model has also enabled the EIB Group to quickly act and make adjustments when receiving feedback from the Steering Board, where the EIB Group has a representative, or from the Investment Committee via the Managing Director. The Managing Director, an experienced and respected EU leader, played a crucial role in managing the EFSI on a daily basis, assisted by a Deputy Managing Director. They initiated changes that have aided EIB Group to better document financing proposals – creating a virtuous feedback loop. They also supported the Steering Board in preparing strategic decisions, a function that has been recognised by the legislators which have now granted them permanent observer status in all Steering Board meetings. They also contributed to explaining and promoting the impact and merits of the IPE and EFSI when meeting the civil society or EU leaders. The EFSI governance was complemented by an increased degree of transparency, fully supported by the EIB Group, but which needs to be balanced with the justified interests of clients, projects and markets for confidentiality of sensitive information.

Specific answers to EV conclusions

The Evaluation finds that EFSI adequately addressed structural investment gaps, including access to finance for SMEs and Mid-caps where EIB and EIF experience could quickly address the need for financing. The report also recognises that it is still too early to see all the impacts of EFSI at this stage, as disbursements are spread over time for projects with typically long implementation periods. The Management will continue to closely follow the impact of EFSI, to assess its contribution to growth, employment and competitiveness. The EIB Group's monitoring models, sometimes specifically developed thanks to EFSI, such as the Rhomolo-EIB model, allow regular supervision and transparent communication to various stakeholders. Based on this Rhomolo model, the EIB Group estimated that EFSI operations approved from inception to 31 December 2016 would have added 0.67% to EU GDP and generated 690 000 new jobs by 2020, compared to the baseline scenario. The Management would also like to highlight the positive impact of the Advisory Hub, part of Pillar 2 of the IPE, providing advisory support to promoters and investors, and contributing, together with partner NPBIs, to identify projects eligible for EFSI support. The Management, who also encouraged the EIB Group's contribution to Pillar 3 work

managed by the EC in order to share its expertise in removing barriers to investments with better regulation, standards and administrative procedures, will further support such contribution as a crucial tool for EU competitiveness and strengthening EFSI impacts.

The Evaluation recognises that EFSI has succeeded in mobilising a large volume of mainly private investments across all EU-28 MS and all eligible sectors suffering from market failures or sub-optimal investment situations, for instance RDI, smaller companies, digital or social infrastructure, as well as energy, transport, environment and resource efficiency. The Management followed the EFSI Strategic Orientation defined by the EFSI Steering Board and built a diversified portfolio to the benefit of the EU economy, while respecting the market-driven nature of EFSI as well as additionality and eligibility criteria. The Management will continue to ensure that investments are diversified both geographically and sectorally. The published scoreboards demonstrate that the EIB's engagement priority shall be qualitative- rather than quantitative-oriented. EFSI operations have provided additionality as defined in the Regulation, creating jobs and supporting growth, and will continue to do so.

The evaluation concludes that EFSI operations provided additionality in accordance with the EFSI Regulation. Specifically, the evaluation recognises that EFSI operations address market failures, and that they could not have been carried out without EFSI support in the period during which the EU guarantee can be used, or not to the same extent and within the same time frame by the EIB, EIF or under existing EU financial instruments.

The Evaluation report gives a nuanced picture of the complementarity and coordination of EFSI with other pre-existing EU instruments. The EIB Group has worked together with the EC to refine the operational strategies of CEF and InnovFin, allowing enhanced complementarity with EFSI. Some initial overlaps between EFSI with other EU level financial instruments offering similar products have been resolved through prompt action by re-focusing existing instruments towards new market segments (e.g. projects outside the EU or new thematic products in the case of InnovFin's EIB debt products) and/or developing a deal allocation policy formalising the preferential use of EFSI over more specialised instruments. The (external) independent evaluation of EFSI has found that it is overall complementary to pre-existing EU funding and financial instruments recognising that, where there was some unintended overlap by initial design, the EIB group stepped up to readjust the instruments' respective investment scopes ensuring maximum but differentiated reach. EFSI is not only complementary but at instances meant to be combined at portfolio or project level with other instruments (InnovFin, CEF or ESIF) reinforcing each other's impact. However, combining other EU instruments with EFSI in order to increase the investment impact, while a priority for the EIB, has continued to face certain operational challenges due to the complexity of existing rules and the lack of shared understanding, among promoters, managing authorities and other stakeholders, of the opportunities and limitations of such combinations. Revisions to the rules applicable to the combined use of European Structural and Investment (ESI) Funds and EFSI are currently going through the legislative procedure in the context of the revision of the Common Provision Regulation by the so-called Omnibus Regulation. This revision is expected to make such combination easier in a limited number of cases, namely for financial instruments.

The Management agrees with the Evaluation when it comes to describing the changes that EFSI has induced in the EIB Group. The considerable recruitment effort made to deliver EFSI was, and still is, a challenge for the EIB. This certainly allowed to diversify the skill sets needed to appraise complex operations and develop new products, but required a modernised recruitment process, strong on-boarding procedure and the management of short-term contracts adapted to the limited timeframe of EFSI. The Personnel Department responded to such a challenge in order to motivate, develop and manage diverse talents across a reshaped demography in the EIB Group. Performance management tools, including training offers, have been reviewed. The Management paid even stronger attention to talent management, including optimisation of internal mobility, and to leadership skills and styles needed in a changing organisational culture. EFSI also induced changes in operational strategy and procedures. The Management encouraged the development of new products, supported the adaptation of relevant documentation and tools, where EFSI specificities could be fully reflected. These changes, together with the high number of smaller operations financed, generate high costs for the EIB Group, a matter that will be assessed more closely by the EIB Group when engaging in future mandates and initiatives.

1. INTRODUCTION

This report presents the results of the Evaluation of the European Fund for Strategic Investments (EFSI), carried out by the Operations Evaluation Division (EV) of the European Investment Bank (EIB). The evaluation of EFSI is part of the EV Work Programme approved by the EIB Board of Directors (BoD) and required under the EFSI Regulation.⁷ In 2016, EV conducted a Mid-Term Evaluation of EFSI.

Article 18.3 of the original EFSI Regulation (2015/1017) states that:

*“By 30 June 2018 and every three years thereafter:
(a) the EIB shall publish a comprehensive report on the functioning of the EFSI, which shall include an evaluation of the impact of the EFSI on investment in the Union, employment creation and access to financing for SMEs and Mid-cap companies.”*

This is further elaborated in the Agreement on the Management of EFSI, which specifies that the EIB shall “publish [...] an evaluation of the effectiveness, efficiency and impact of EFSI on investments in the EU, employment creation and access to financing for Mid-cap companies, small Mid-caps and SMEs as well as mobilisation of private sector financing” by 30 June 2018 and every three years thereafter.⁸

The scope of the evaluation is subject to two important constraints:

1. First, impacts can only be measured and assessed once projects or companies' investments have been implemented and started producing economic effects. Thus, since very few have been fully implemented so far under the Infrastructure and Innovation Window (IIW), it is too early to measure the impact and sustainability of EFSI.⁹ In addition, even if they were implemented, the nature of many of the EFSI-backed investments (e.g. infrastructure, innovation) is such that it might take several years for them to have an impact on the real economy. Therefore, this evaluation focuses on those aspects of the performance of EFSI that can be evaluated at this stage, namely relevance, effectiveness and efficiency, including the additionality of EFSI operations and the complementarity and coordination of EFSI with other European Union (EU) instruments.
2. Second, the evaluation comes at a time when EFSI has already been extended. On 30 December 2017, Regulation 2017/2396 amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 entered into force. It increased the EU guarantee from EUR 16bn to EUR 26bn (the EIB Group contribution also increased from EUR 5bn to EUR 7.5bn), increased the investment target from EUR 315bn to EUR 500bn and extended EFSI's timeline from mid-2018 to end-2020. Therefore, this evaluation focuses on elements where it can add value within a context where the regulatory framework of EFSI has already evolved.

The rest of this report is structured as follows:

- Chapter 1 presents EFSI in the context of the Investment Plan for Europe (IPE),
- Chapter 2 analyses the rationale and the design of EFSI,
- Chapter 3 assesses the results of EFSI as of 31 December 2017,¹⁰
- Chapter 4 assesses the additionality of EFSI operations (as per the definition of additionality in the original EFSI Regulation),

⁷ Regulation (EU) 2015/1017 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments, 25 June 2015.

⁸ Agreement on the Management of the European Fund for Strategic Investments and on the Granting of the EU Guarantee between the European Union and the European Investment Bank. Brussels: 22 July 2015: Art. 26(2).

⁹ For the SMEW, it could be assessed as the majority of operations have resulted in disbursements to SMEs, however this evaluation was not able to obtain access to SME-level data that would allow for such an analysis.

¹⁰ The findings presented in Chapter 3 could be marginally affected when considering projects signed from January 2018 onwards.

- Chapter 5 assesses the complementarity and coordination of EFSI with other EU programmes, National Promotional Banks (NPBs) and other Pillars of the IPE,
- Chapter 6 assesses the adequacy of EFSI's inputs with respect to its objectives,
- Chapter 7 provides conclusions,
- The annexes present details on the data and methods used for this evaluation, and complementary information on the analysis of investment gaps in Chapter 2.

1.1 Evaluation objectives and scope

This evaluation aims to address the following set of evaluation questions (see Annex 1 for a full presentation of the Methodology):

1. To what extent has EFSI been, and remains, an adequate response to the investment gap(s) and a means to boost growth and employment in the EU?
2. To what extent has EFSI achieved its objectives, including the provision of additionality?
3. To what extent is EFSI complementary with other EU interventions and coordinated with NPBs, Investment Platforms and Pillars 2 and 3 of the IPE?
4. To what extent has the EIB Group mobilised adequate inputs to achieve EFSI's objectives?

To this end, the evaluation draws on a particularly wide range of sources and methods. As EFSI is an instrument with macroeconomic, EU-wide objectives, the assessment of its relevance and effectiveness relies less on traditional project-level evaluations and more on a macroeconomic and portfolio analysis, although in-depth case studies are included to illustrate and delve deeper into the findings of the portfolio-level analysis. Sources for this evaluation included:

- A number of literature reviews of legal, academic, policy, and strategic documents, as well as operational guidelines, reports and completed evaluations and audits of EFSI.
- Interviews with 62 internal (EIB Group, EFSI governance bodies) and 21 external (European Commission (EC) and NPBs) stakeholders.
- A review of the complete portfolio of EFSI operations as of 31 December 2017.
- A limited portfolio risk analysis for EFSI and non-EFSI EIB Special Activities (SA).
- An in-depth review of the evidence and quality of project documentation justifying the additionality of EFSI operations.
- Analysis of the results from two surveys of final beneficiaries under the IIW and the Small and Medium-Sized Enterprises Window (SMEW):
 - A survey of final beneficiaries under the IIW carried out by this evaluation.
 - A survey of final beneficiaries of the COSME Loan Guarantee Facility (LGF) undertaken by the EC for the Interim Evaluation of the EU Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), as a proxy for the SMEW.
- An analysis of the results from in-depth case studies, including field visits of 15 EFSI operations in six countries (11 under the IIW and four under the SMEW).

The scope for this evaluation covers EFSI since inception; its underlying portfolio of operations in the EU-28, its governance and organisational structures and relevant project procedures and guidelines. In terms of institutions, the scope includes the EIB Group and relevant entities in the EU Member States (MS), including final beneficiaries (Mid-cap companies and SMEs), financial intermediaries and private and public co-investors (including NPBs and Investment Platforms).

While the other Pillars of the IPE are out of scope for this evaluation, they are considered to the extent that they enhance (or not) the effectiveness of EFSI. The extension of EFSI is also out of scope of this evaluation; however, changes introduced by the amended EFSI Regulation are taken into account to ensure that the findings of this evaluation remain relevant for the continued implementation of EFSI.

1.2 The Investment Plan for Europe

The IPE was adopted in November 2014 as a flagship initiative of the EC. The Plan was initiated as a policy response to the consequences of the twin crises that affected the European economy;

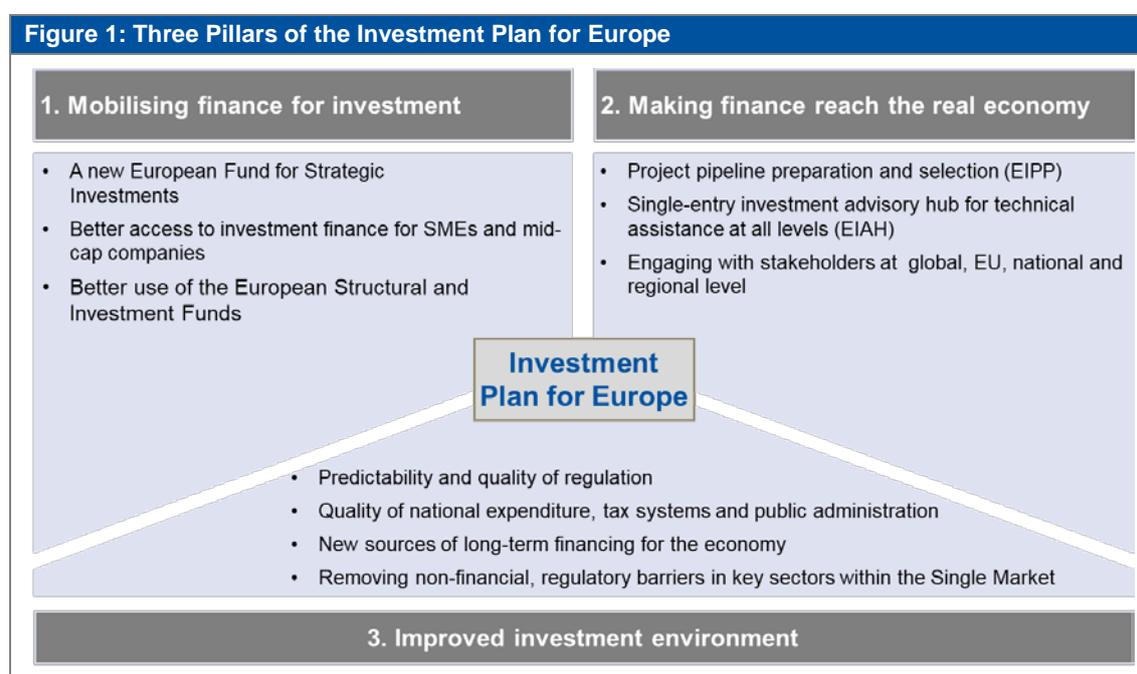
the global financial crisis of 2008-2009 and the sovereign debt crisis of 2011-2012. At the core of the IPE was the strong fall in investment in the EU-28 during and after the twin crises.

To address the problem of investment shortfall, the IPE defined the following policy objectives:

- Reverse downward investment trends and help boost job creation and economic recovery, without weighing on national public finances or creating new debt;
- Take a decisive step towards meeting the long-term needs of the EU economy and increase its competitiveness; and
- Strengthen Europe's human capital, productive capacity, knowledge and physical infrastructure, with a special focus on the interconnections vital to the Single Market.¹¹

The IPE builds on three mutually reinforcing Pillars (as illustrated in Figure 1). The first Pillar, which is the subject of this evaluation, is EFSI and consists of a portfolio guarantee provided from the EU budget to the EIB Group and a capital contribution from the EIB. Its goal is to increase the risk-bearing capacity of the EIB Group, allowing it to finance operations that address market failures or sub-optimal investment situations in key sectors, that it would otherwise not have been able to finance to the same extent or within the same time frame by the EIB, the EIF or under existing Union financial instruments, thereby stimulating investment and boosting sustainable economic growth in the EU. In the context of the original EFSI Regulation, it was expected that this financial structure would result in the mobilisation of EUR 315bn of investments by July 2018.

The second Pillar of the IPE focuses on making finance reach the real economy, and aims to improve the way in which private investors and public authorities access information for the identification and preparation of investment projects. It comprises the European Investment Project Portal (EIPP), managed by the EC, which provides a publicly accessible pipeline of projects in search for funding, and the European Investment Advisory Hub (EIAH), managed by the EIB, which provides advisory support to promoters and investors.



Source: EC Communication on an Investment Plan for Europe. Adapted by EV

The third Pillar aims at removing administrative, regulatory and non-regulatory barriers to investment in the EU-28 and further reinforcing the Single Market through complementary actions at EU and national levels. The responsibility for addressing these barriers is devolved to MS.

¹¹ European Commission: COM(2014) 903 final: An Investment Plan for Europe. Brussels: November 2014.

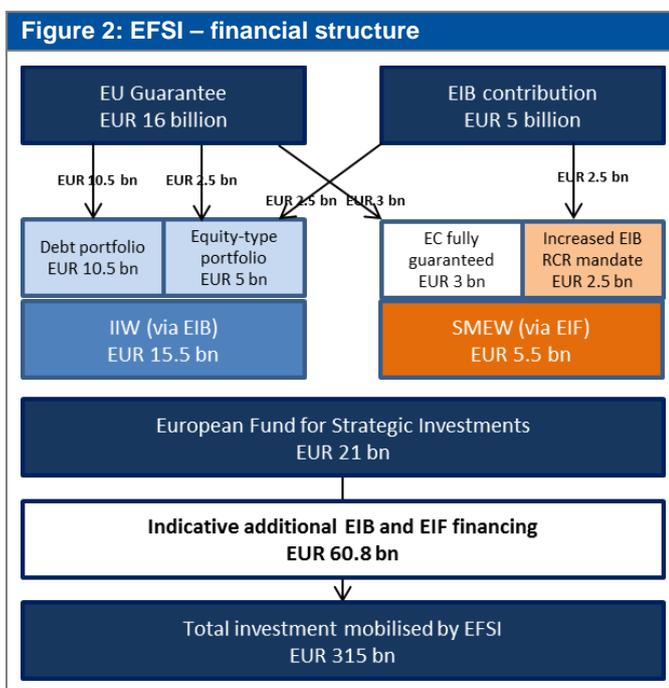
1.3 The European Fund for Strategic Investments

EFSI was created to stimulate investment in the EU-28, thereby boosting economic growth and employment. In operational terms, EFSI aims to: (a) support investments in infrastructure and innovation and (b) increase access to finance for SMEs (up to 250 employees) and Mid-cap companies (up to 3 000 employees). These two objectives are reflected in EFSI's two Investment Windows: the Infrastructure and Innovation Window (IIW) and the SME Window (SMEW).¹² The IIW is implemented by the EIB and the SMEW by the European Investment Fund (EIF).

EFSI (prior to the recent extension which occurred at the end of 2017) comprised a EUR 16bn guarantee provided to the EIB Group from the EU budget and a EUR 5bn capital contribution provided by the EIB. As Figure 2 illustrates, the Guarantee was allocated as follows:

- Up to EUR 10.5bn to the IIW debt portfolio;
- Up to EUR 2.5bn to IIW equity-type portfolio; and
- Up to EUR 3bn to a dedicated, EC fully guaranteed portfolio within the SMEW¹³.

The EIB's contribution of EUR 5bn, provided at the Bank's own risk, consisted of an additional contribution of EUR 2.5bn to the Risk Capital Resources (RCR) Mandate falling under the SMEW, and up to EUR 2.5bn of matching *pari passu* financing for IIW's equity-type portfolio, which benefited from the EU Guarantee.



Source: EV

Indicatively, the EU Guarantee and the Bank's contribution were expected to enable EFSI to generate EUR 60.8bn of additional financing by the EIB Group (an Internal Multiplier effect of approximately x3). This, in turn, was expected to mobilise EUR 315bn in total investment in the EU by July 2018 (an External Multiplier effect of approximately x5).

The extension of EFSI, which came into force on 30 December 2017, raised the EU Guarantee from EUR 16 to 26bn and the EIB contribution from EUR 5 to 7.5bn, and the target in terms of investment mobilised from EUR 315bn to EUR 500bn.

¹² The IIW also addresses the needs in terms of access to finance of Small and Medium-Sized Enterprises and Mid-cap companies, while the SMEW also extends to Mid-cap companies.

¹³ In July 2016, an amendment to the Guarantee Agreement between the EC and the EIB was made. Following this amendment, EUR 0.5bn were transferred from the EU guarantee contribution initially supporting the debt portfolio of the IIW to the SMEW.

2. RATIONALE AND DESIGN OF EFSI

Summary

EFSI was launched in 2015 in the aftermath of the global financial crisis and sovereign debt crisis to (a) stimulate investment in infrastructure and innovation and (b) increase access to finance for SMEs and Mid-cap companies, in order to reduce the investment gap and boost growth, employment and competitiveness in the EU.

This Chapter assesses the relevance of EFSI, namely the extent to which EFSI is adequate to address the needs in terms of investment gaps and access to finance for SMEs and Mid-caps. The Chapter is organised as follows: Section 2.1 assesses the rationale behind EFSI, i.e. the extent of the investment needs –in terms of both cyclical and structural investment gaps, in the EU-28 overall and its MS, at the time EFSI was launched. Section 2.2 assesses the extent of the needs as regards access to finance for SMEs and Mid-caps. Section 2.3 assesses the design of EFSI, i.e. the extent to which it is adequate to address the investment gap(s) and increase access to finance for SMEs and Mid-caps.

The evaluation finds that at the time EFSI was created the EU-28 suffered from an investment gap, both cyclical and structural. From a cyclical perspective, the extent of the investment gap differed across groups of MS. Using the EIB Investment Report categorisation of MS (2015, 2016), the evaluation finds that in the “Core countries”¹⁴ investment gradually recovered after 2007 and by the time EFSI was launched the cyclical gap was already very small. For the “Vulnerable Member States”¹⁵, which suffered a much sharper drop in investment, the investment-to-GDP ratio remained well below the long-term average up to and after the launch of EFSI. In the case of “Cohesion countries”¹⁶, despite the sharp fall in the investment-to-GDP ratio in 2007-2010, it never actually fell below its 1999-2005 average. However, these MS still had significant investment needs as the level of capital per capita was (and is still) below the level of the EU-15 and they were (and are) in the process of catching-up. Beyond the cyclical investment gaps, the evaluation finds that, at the time EFSI was created, there were considerable structural investment gaps in the EU-28 as the economy suffered from systematic under-investment by the market in several key sectors including Research, Development and Innovation (RDI), energy and transport infrastructure.

As regards access to finance, the evaluation finds that by the time EFSI was launched, external financing conditions for SMEs and Mid-cap companies had improved with respect to 2012-2013. However, the improvement in access to external financing came after a long period of continuous tightening of credit standards and deteriorating availability of external financing. Indeed, 2014 was just the beginning of a turnaround process in a situation still characterised by unfavourable access to finance conditions for SMEs, particularly in the periphery and cohesion regions and for some types of firms – young, innovative and/or small businesses. While cyclical issues related to access to finance had overall improved, structural issues remained an important detrimental factor.

The evaluation finds that EFSI was adequately designed to address structural investment gaps. It was designed to provide an EU guarantee to operations that address market failures and could not have been financed, in the same period that the EU guarantee can be used, or to the same extent, by the EIB Group or other Union instruments without EFSI. Moreover, it was designed to finance projects in key sectors, which are expected to strengthen human capital, knowledge and physical infrastructure and thereby have a (structural) impact on productivity and hence longer term growth, employment and competitiveness. At the same time, the evaluation finds that the design of EFSI was less adequate to fulfil its cyclical objectives. On the one hand, EFSI was large enough to make a reasonable contribution to the reduction of the cyclical investment gap across the EU-28 through both direct and indirect effects. On the other hand, by design, EFSI will mobilise EUR 315bn of investment only by 2018 and it will then take time for funds to be disbursed and to

¹⁴ Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Sweden and the UK.

¹⁵ Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain.

¹⁶ Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

hit the economy. Indeed, many projects it has been designed to support (namely in infrastructure and innovation) have long implementation periods and disbursement takes place over a long time span. This implies that the effects on investment and GDP, albeit important, would be too spread in time to have a significant and timely impact on aggregate demand and pull economies that are suffering from cyclical investment gaps out of stagnation.

Furthermore, as part of the IPE, EFSI is designed to address the supply of financing, by increasing the risk-bearing capacity of the EIB Group and allowing it to provide financing beyond what the market could provide. At the same time, cyclical investment gaps are caused both by factors that affect the supply of financing and factors that affect the demand for financing. Demand for financing is to be addressed by the other two pillars of the IPE, which deal with legal and regulatory barriers constraining demand as well as those related to weak capacity and lack of access to information.

Finally, the evaluation finds that EFSI was adequately designed to increase access to finance for SMEs and Mid-caps as it was set up to leverage the experience and networks of the EIF in order to quickly address the already existing demand for higher risk financing.

2.1 Investment gaps in the EU-28

EFSI was launched in 2015 in the aftermath of the global financial crisis and the sovereign debt crisis, which had taken a heavy toll on GDP growth, investment and employment. The deep effects of the crises led to a slow recovery: the EU economy grew by less than 1% in 2013. Investment declined by 2.4% in 2012 and by 1.5% in 2013, with dire macroeconomic consequences.¹⁷ At the same time, the EU-28 continued to suffer from structural under-investment in certain key sectors, particularly as compared to major global competitors. In the short run, stalling investment meant lower GDP and higher unemployment. In the long run, under-investment led to a loss of external competitiveness given that other regions of the world invested more. Thus, investment recovery was deemed a prerequisite for stable economic growth and job creation.

In line with this logic, the European Council on 18 December 2014 concluded that “fostering investment and addressing market failure in Europe is a key policy challenge” and called for “setting up a European Fund for Strategic Investments (EFSI) in the EIB Group with the aim to mobilise EUR 315bn in new investments between 2015 and 2018”.¹⁸ EFSI was therefore set up to mobilise investment in the EU-28 with a view to addressing the cyclical and structural investment gaps and ultimately stimulate growth and employment and strengthen EU competitiveness (see Box 1 for an explanation of cyclical and structural investment issues).

This Section analyses the nature, extent, and causes of the investment gaps in the EU-28. The first sub-section assesses the extent of the cyclical investment gap in the EU-28 overall, and its causes. The second sub-section provides a break down by groups of MS. The third sub-section explores the extent and causes of the structural investment gaps.

Box 1: Cyclical and structural gaps

Investment in the EU-28 raises two types of concerns.

- The first – of a cyclical nature – refers to the decline in Gross Fixed Capital Formation (GFCF) as a percentage of GDP in the EU economy. It is due to temporary macroeconomic issues such as deleveraging, uncertainty or low anticipated demand.
- The second – of a structural nature – corresponds to a systematic under-investment in certain key sectors with respect to major global competitors or to specific policy benchmarks. It is a result of market failures. It exists independently of the cycle, even though the general lack of investment is likely to aggravate under-investment in strategic sectors as well.

¹⁷ Eurostat: Database by themes, Economy and Finance, National Accounts (ESA 2010), Annual National Accounts, Main GDP Aggregates, GDP and main components (output, expenditure and income), Gross Fixed Capital Formation, chain-linked volumes (2010).

¹⁸ EFSI Regulation, Preamble 8.

2.1.1 The cyclical investment gap in the EU-28

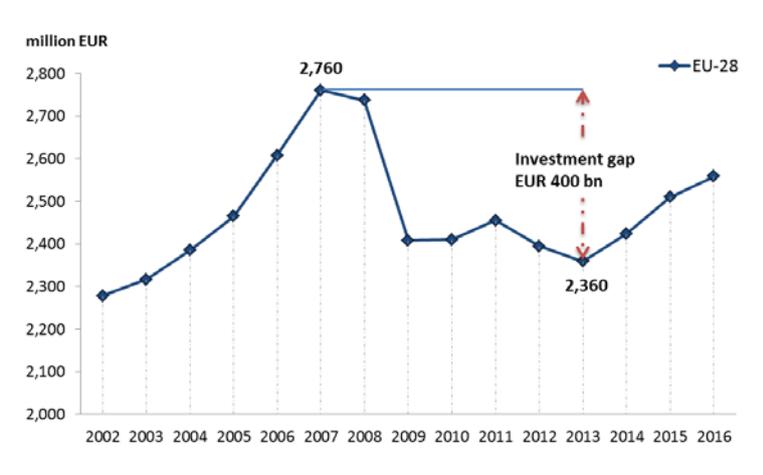
The EFSI Regulation begins by setting the context for why EFSI is needed: “The economic and financial crisis has led to a lowering of the level of investments within the Union. Investment has fallen by approximately 15% since its peak in 2007”.¹⁹

Indeed, there is consensus in the policy literature that, at the time EFSI was launched, the EU-28 suffered from a cyclical investment gap (defined as a shortfall in Gross Fixed Capital Formation (GFCF)). However, estimates of its scale vary.

The Factsheet produced jointly by the EC and the EIB in November 2014, estimated that in 2013, investment in the EU-28, in real terms, was EUR 400bn lower than at its peak in 2007 (see Figure 3); i.e. it had dropped by roughly 15%.

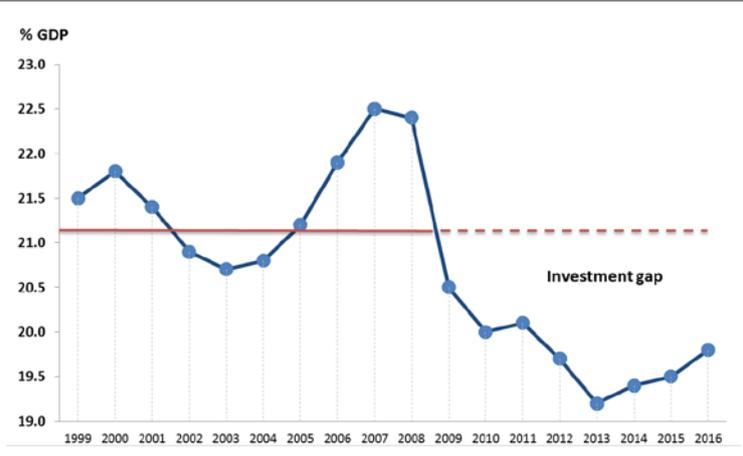
The same Factsheet pointed out, however, that the 2007 level, in EUR, was a peak that preceded the global financial crisis. This trend had been largely driven by the real estate boom with some of the investment likely being sub-optimal. Thus, it argued that a more appropriate reference point was the longer term average investment-to-GDP ratio (1995-2015).

Figure 3: Real Gross Fixed Capital Formation, in million EUR (in 2005 EUR), EU-28



Source: EV, based on Eurostat²⁰, GFCF, Chain linked volumes (2005), million EUR

Figure 4: Gross Fixed Capital Formation, in % GDP, EU-28, 1995-2015



Source: EV, based on Eurostat²¹, GFCF, % GDP, 1999-2015

standing at 19.3% in 2013, the authors of the Factsheet estimate it was 2 percentage points below the historical average of 21.2% (excluding boom and bust years). Figure 4 illustrates this point: the investment-to-GDP ratio oscillates around this long-term average. The period 2009-2015 is characterised by the investment-to-GDP ratio being consistently below the long-term average. Since the lowest point of 2013, the investment gap has been slightly closing. However, this modest surge in investment-to-GDP in 2014-2016 did not

¹⁹ EFSI Regulation, Preamble 1.

²⁰ Database by themes, Economy and Finance, National Accounts (ESA 2010), Annual National Accounts, Main GDP Aggregates, GDP and main components (output, expenditure and income), Gross Fixed Capital Formation, chain-linked volumes (2005) million euros

²¹ Database by themes, Economy and Finance, National Accounts (ESA 2010), Annual National Accounts, Main GDP Aggregates, GDP and main components (output, expenditure and income), Gross Fixed Capital Formation, percentage of GDP.

allow the ratio to fully recover to its historical benchmark.²²

As seen from Table 1, when taking the historical average as a benchmark, the investment gap in 2013 is estimated at EUR 246bn, as opposed to EUR 400bn when using the difference with the level in 2007. When EFSI was launched in 2015, the gap stood at EUR 191bn for the EU-28. Indeed, in the policy literature the estimates of the size of the investment gap (for the years 2013-2015) range from EUR 130bn to EUR 330bn per year. Estimates of the investment gap, as a shortfall in GFCF, from different policy papers are presented in Annex 3.

2009	2010	2011	2012	2013	2014	2015	2016	2017
97	151	149	201	246	218	191	154	102

Source: Eurostat, EV calculations

As regards the causes, there is general consensus in the literature with the EC view that while part of the investment decline corresponded to the correction of previous sub-optimal investments, most of it was a negative consequence of the economic crisis. The resulting uncertainty led firms to delay investment projects and Financial Intermediaries to reduce financing. Firms' pessimistic demand expectations, largely self-fulfilling, generated a persistently low level of investment. At the same time, uncertainty translated into tougher credit constraints, particularly for riskier long-term projects as well as for SMEs and Mid-caps. Other factors cited by the EC as contributing to the investment gap were the fragmentation of EU financial markets, lack of sufficient risk-bearing capacity, political uncertainty, and high levels of indebtedness.

It is worth noting that the very notion of an investment gap has been questioned by some authors. According to the Centre for European Policy Studies (CEPS), while most of the fall in investment is attributable to the end of the real estate bubble, there was also a decline in Total Factor Productivity (TFP) and a decline in the labour force growth, requiring lower investment to GDP. If the investment-to-GDP ratio was maintained at its previous level despite falling TFP and labour force, it would lead to a lower return on capital. Therefore, according to CEPS, instead of increasing the investment rate, the objective should be to increase consumption leading to a recovery in investment. Following this line of thought, CEPS highlights that the recoveries in the United States (US) and the United Kingdom (UK) have been largely driven by consumption.²³

2.1.2 The cyclical investment gaps across Member States

The notion of the EU-28 investment gap hides significant regional heterogeneity. According to the EIB-EC Factsheet cited above, five MS accounted for 75% of the drop in investment since 2007: Spain accounted for 31%, Italy for 22%, Greece for 9%, the UK for 8% and France for 6%.

The evaluation used the categorisation of countries adopted by the EIB Investment Report (2015, 2016):²⁴

- Core countries: Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Sweden and the UK;
- Vulnerable Member States: Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain;
- Cohesion countries: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

Figure 5 presents the evolution of the investment-to-GDP ratio for these three groups of MS. It shows that the GFCF-to-GDP ratio had fallen, with respect to the 1999-2005 average, for the three groups since 2007. However, its subsequent evolution differed considerably across the three groups.

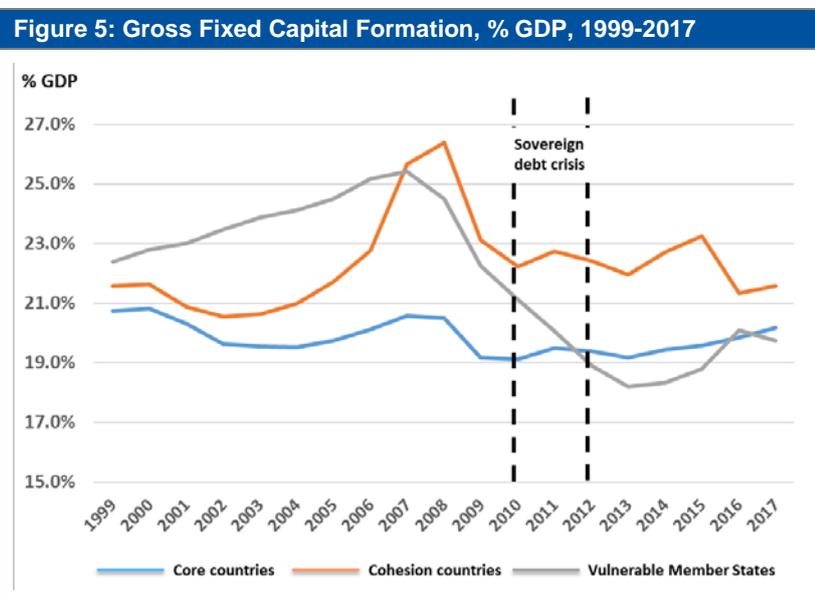
²² It is important to acknowledge that this is a comparison of investment ratios to their past levels. Those past levels may or may not have been optimal then, and they may or may not be optimal going forward. Thus, the gap measures simply the difference between actual and past investment ratios, and it should not be interpreted as a measure between actual and optimal investment ratios.

²³ "Investment as the key to recovery in the euro area?", Daniel Gros, November 2014, CEPS Policy Brief.

²⁴ "Annual Report on Investment and Investment Finance in Europe", EIB Group 2015, 2016.

For the “Core countries”, investment gradually recovered after the crisis. The cyclical investment gap – defined as the difference between the current GFCF-to-GDP ratio and the average GFCF-to-GDP ratio in 1999-2005 – was small in 2014, the year before EFSI was launched, shrank further in 2015-2016 and disappeared by 2017. Therefore, from a cyclical perspective, investment needs for this group were less important than for the others.²⁵

For the “Vulnerable Member States”, the fall in the investment rate was much sharper than for the two other categories and the modest recovery in 2013-2017 never allowed investment to reach pre-crisis levels. The investment gap represented more than 5 percentage points of GDP in 2014 and remained large – over 3 percentage points of GDP – in the following years. For this group, the shortfall in investment is due to the recessionary context with difficulties both in terms of the supply of funds (because of the heightened risk aversion, the limited inflows of foreign capital, and the banking crisis) and the demand for financing (because of the deleveraging and pessimistic expectations of the entrepreneurs). Thus, from a cyclical perspective, investment needs for this group were the most pronounced.



Source: Prepared by EV, based on Eurostat²⁶, Gross fixed capital formation, % GDP, 1999-2017

Notes: Core countries: Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Sweden and the UK; Vulnerable Member States: Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain; Cohesion countries: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

Finally, for the “Cohesion countries” group, the sharp fall in the GFCF-to-GDP ratio in 2007-2010 was followed by a modest recovery. The Central and Eastern European countries typically had lower levels of capital per capita in the 1990s and were in the process of catching-up, supported by their accession to the EU. Even though the investment-to-GDP ratios for these MS had never fallen below their 1999-2005 average, the level of capital per capita in these MS – mainly the EU-13 – is still below the level of the EU-15.²⁷ Thus, for this group, investment needs remain, and an expected positive effect of EFSI is to stimulate the catch-up process.

²⁵ It should be noted that several MS within the “Core Countries” group had negative output gaps in 2015 (i.e. the economy produced less than it was able to produce given the existing stock of capital and labour). According to EC estimations, in 2015, 20 out of 28 EU MS had a negative output gap, with 14 out of 28 with a negative output gap larger than 1%. Eight MS had a positive output gap (Estonia, Ireland, Latvia, Lithuania, Malta, Hungary, the United Kingdom, and the Czech Republic).

²⁶ Database by themes, Economy and Finance, National Accounts (ESA 2010), Annual National Accounts, Main GDP Aggregates, GDP and main components (output, expenditure and income), Gross Domestic Product, Gross Fixed Capital Formation, Chain-linked volumes (2005), million EUR

²⁷ The EU-15 Member States are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The EU-13 Member States are: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

2.1.3 The structural investment gaps

Alongside the cyclical decline in investment, EFSI seeks to address the structural investment issues that cripple the competitiveness of the EU economy. This Section attempts to quantify these structural investment gaps and understand their causes.

The EIB “Restoring EU Competitiveness” report (2016) provides an overview of some of the main investment gaps, relative to global benchmarks and EU targets, which require long-term investment and are critical to longer term growth and employment. Using the findings of the EIB report, the evaluation analysed the extent to which there are structural investment gaps in the sectors eligible for EFSI financing. Table 2 summarises the size of the investment gaps, as quantified in the “Restoring EU Competitiveness” report, for the different EFSI sectors.²⁸ It shows that there were considerable investment gaps in all the sectors that EFSI is designed to support, and particularly in RDI and Energy.

Table 2: EU-28 Sector investment gaps				
EFSI Sectors	Investment needs identified in “Restoring EU Competitiveness”, 2016	Annual investment EU-28 (EUR bn)		
		Required	Current	Deficit
RDI	<ul style="list-style-type: none"> Achieving 3 % GDP target for annual R&D investment 	370	240	130
Industry	<ul style="list-style-type: none"> Adoption of latest generation technology in advanced manufactured sector 	320	230	90
Human capital	<ul style="list-style-type: none"> Matching US investments in education 	960	860	100
Transport infrastructure	<ul style="list-style-type: none"> Modernising urban transport to meet global benchmark Ensuring sufficient capacity in interurban traffic 	160	80	80
Energy	<ul style="list-style-type: none"> Upgrading energy networks Energy efficiency savings in buildings and industry Power generation, including renewables 	230	130	120
ICT	<ul style="list-style-type: none"> Reaching global benchmark for broadband services Matching US data centre capacity Matching US investments in cyber-security 	160	95	65
Environment and resource efficiency	<ul style="list-style-type: none"> Water security, including flood risk management Compliance and rehabilitation of Europe's water infrastructure Enhancing waste management/materials recovery Additional needs for resilient and efficient urban infrastructure 	138	48	90
SMEs and Mid-caps	<ul style="list-style-type: none"> Matching US levels of VC financing as a share of GDP 	-	-	35

Source: “Restoring EU Competitiveness” report, 2016

The evaluation also carried out a literature review to identify the causes of the structural investment gaps in the EFSI sectors. All sectors eligible for EFSI financing suffer from under-investment as a result of market failures (see Box 2).

²⁸ The figures for “Current” and “Required” investment are presented in the EIB “Restoring EU Competitiveness” report 2016. The figures for “Current” investment refer to 2013 (except for Water and waste/environment). The figures for “Required” investment refer to different years depending on the sector and were computed based on different sources. In the present evaluation, the figures are used as a proxy for the annual, i.e. recurrent from year to year, estimates.

Box 2: Structural investment gaps in EFSI sectors

Research, Development and Innovation (RDI)

Despite being one of the main drivers of long-term growth, the RDI sector suffers from persistent under-investment. EU RDI intensity (gross domestic expenditure on RDI relative to GDP) has slowly increased over the past decade, reaching approximately 2% in 2016, but remains below the 3% target of the Europe 2020 strategy. EU investment in RDI (especially private investment) lags behind world competitors: in 2016 private sector RDI intensity stood at 3.2% in the EU compared to 5.8% in the US, mostly due to the latter's outperformance in high-tech sectors (e.g. ICT and biotech industries).²⁹ Investments are hampered by the public good nature of RDI and associated positive externalities (the non-appropriability of research leads to a weak innovation process), as well as by imperfect information (the uncertainty of research outcomes entails high risk and high transaction costs).

SMEs and Mid-cap Companies

SMEs and Mid-cap companies are crucial for the competitiveness of an economy. However, they are disproportionately affected by market imperfections, which result in credit rationing. Issues such as fragmentation of financial markets or under-developed equity markets in some MS further deepen difficulties in access to finance for Mid-cap companies and especially for SMEs as larger firms may detract finance from smaller companies.³⁰

Energy Union and the Environment

Energy and environmental issues have become a global and EU priority. The Europe 2020 strategy set three "20-20-20 sustainability objectives": (i) 20% reduction in EU greenhouse gas (GHG) emissions from 1990 levels; (ii) increase to 20% for the share of EU energy consumption produced from renewable energy sources (RES); (iii) 20% improvement in the EU's energy efficiency from 1990 level. Nevertheless, investments in the energy sector are hampered by a multitude of factors, including regulatory barriers, concentrated market structures, information asymmetries, and externalities (e.g. unpriced or insufficiently priced negative externalities from GHG emissions). Moreover, the non-excludable nature of environmental resources may result in the "tragedy of the commons" where the lack of a market for common property (e.g. water, air, waste) leads to environmental degradation. The private sector fails to invest sufficiently in environmental markets due to lack of commercial benefits or long pay-back horizon, while the public sector is subject to fiscal constraints. As a result, many MS are struggling to reach the national 2020 targets because of insufficient investment levels.

Transport Infrastructure

Transport infrastructure is closely linked to the achievement of energy and RDI policy objectives.³¹ A key priority of the Europe 2020 strategy is to establish interconnections and interoperability between national transport networks in a resource-efficient and sustainable way.³² In 2014, the EC estimated that total investment needs for transport infrastructure amount to more than EUR 600bn until 2020 and EUR 1.5tn by 2030.³³ The main challenge is finding adequate financing not only for new projects but also for the maintenance and improvement of existing networks. The completion of TEN-T requires substantial investment with long-term maturity, especially in countries where network density is low and service is infrequent – e.g. Cohesion countries.³⁴ Sources of market failures include coordination failures (lack of cross-border coordination results in high contracting costs, uncertainty about the collaborative outcome), and positive externalities (e.g. benefits from the development of cross-border trade are not taken into account by the private sector).

- ²⁹ European Commission, Joint Research Centre, The 2016 EU Industrial R&D Investment Scoreboard.
- ³⁰ fi-compass: Ex-Ante Assessment Report of Financial Instruments, Business Competitiveness, Employment and Enterprise, ESIF 2014-2020, September 2015.
- ³¹ EIB: Evaluation on Climate Action 2010-2014, 2015.
- ³² European Commission: "Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system", White Paper, 2011.
- ³³ European Commission: "Attracting Investments towards transport infrastructure – potential lines for action", 2014.
- ³⁴ European Commission: Seventh report on economic, social and territorial cohesion, September 2017.

Information, Communication Technology (ICT) and the Digital Economy

ICT infrastructure is essential for the competitiveness of the European economy. The EU Digital Agenda for 2020 prioritises the Digital Single Market (DSM), and sets targets for internet access with broadband speeds of at least 30 Mbps for all EU citizens and over 100 Mbps for at least 50%. Estimates of the total investment needed to implement the Digital Agenda amount to EUR 180-270bn for 2011-2020. The EU is making steady progress, with fast broadband coverage (at least 30 Mbps) reaching 76% of homes in 2016, however, many MS (e.g. Romania, Bulgaria, Greece, Croatia, Poland, and Hungary) still have important uncovered investment needs. Most common sources of market failures include monopolistic market structures (creating barriers to entry for new market actors), and externalities (e.g. creating a DSM or providing broadband services to rural areas entail positive externalities not taken into account by private actors; only 40% of homes in EU rural areas – “the last mile” – are covered³⁵).

Social Infrastructure

Though “intangible”, social infrastructure (education, health, human capital) is crucial for the competitiveness of the EU economy. The Europe 2020 strategy has set the following targets: (i) rates of early school leavers below 10%; rates of completion of higher education at least 40% for people aged 30–34; (iii) employability of young people (aged 20-34) at 82%. Yet the current levels of investment (particularly public) are not sufficient to bring up to pace the new as well as the ageing workforce e.g. with new digital skills. Investments have traditionally been undertaken by the public sector, but are limited by budget constraints. Furthermore, the long-term returns and the public good characteristics of education and health tend to make them unattractive investments for the private sector.

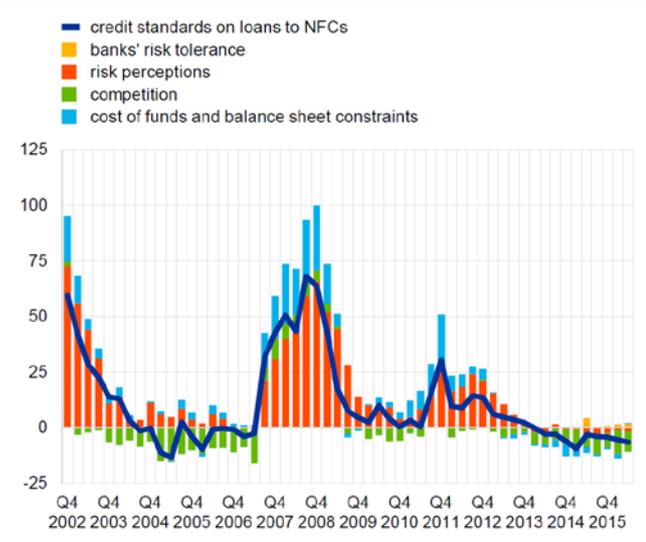
2.2 Access to finance for SMEs and Mid-cap companies

In line with the macroeconomic objective of stimulating investment and strengthening growth and competitiveness, EFSI sought to address the issue of access to finance for SMEs and Mid-cap companies. The rationale being that, in the aftermath of the twin crises, access to finance for SMEs and small Mid-caps was particularly constrained.

This Section examines to what extent access to finance for SMEs and Mid-caps was constrained at the time EFSI was launched and what were the causes. First, it analyses the evolution of credit standards during the years preceding the launch of EFSI and the extent to which risk perceptions played a role in driving change in banks' credit standards. It then assesses the evolution of the availability of different types of external financing for SMEs as well as the evolution of the gap between financing availability and financing needs in the years leading up to the launch of EFSI.

Figure 6 depicts the quarterly change in credit standards on loans to enterprises applied by Euro Area banks between Q4 2002 and Q4 2015.³⁶ It shows that, following a long

Figure 6: Euro area banks' credit standards on loans to enterprises and contributing factors (% change)



Source: *The euro area bank lending survey, ECB Occasional Paper Series, September 2016*

³⁵ European Commission, European Digital Progress Report: review of Member States' progress towards digital priorities, 10 May 2017.

³⁶ According to the Glossary of the Bank Lending Survey (BLS) of the euro area, ECB, “Credit standards are the internal guidelines or loan approval criteria of a bank. They are established prior to the actual loan negotiation on the terms and conditions and the actual loan approval/rejection decision. They define

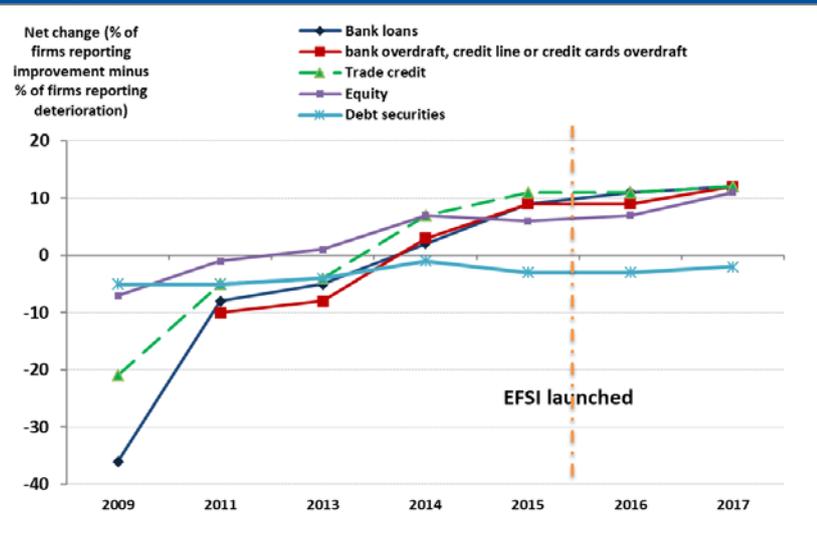
period of consistent tightening of credit standards, by the time EFSI was set up the improvement of credit standards in the Euro area had only just started. Arguably, this implied that at that time borrowers were still facing unfavourable credit conditions. It also shows that risk perceptions had indeed been the main driver in the tightening of credit standards on loans to enterprises throughout the period 2002-2015 and particularly during the two peaks of the twin crises in 2008-2009 and 2011-2012.

The joint EC-ECB Survey on the Access to Finance of Enterprises (SAFE) provides an indication of the prevalence of financing constraints in the EU-28. The survey covers all EU countries. It was first published in 2009 and, as of 2013, it is published annually.

The joint EC-ECB SAFE results indicate that the importance of access to finance for SMEs in the Euro area declined from 2009 to 2016, both relative to other issues constraining SMEs and in absolute terms. First, EC-ECB SAFE shows that the relative importance of access to finance has declined through time. In 2009, it was the most pressing problem reported by SMEs in the EU-28; in total that year 17% of SMEs in the EU-28 reported access to finance as the most urgent problem they faced. By 2015, the percentage of respondents reporting access to finance as their most important problem declined to 10%, while the relative importance of other issues – finding customers or availability of skilled staff or experienced managers – increased.³⁷ These results are corroborated by the latest (2017) EIB Investment Survey (EIBIS), which shows that the availability of skilled staff and uncertainty about the future were reported as the main barriers to investment.

Second, the EC-ECB SAFE finds that the availability of most types of external financing had started improving by the time EFSI was launched. Figure 7 shows the evolution of the changes in the availability of bank loans, debt securities and trade credit as well as equity financing based on the EC-ECB SAFE results. Positive values indicate that the proportion of firms reporting an improvement in the availability of the type of external financing considered is higher than the proportion of firms reporting a deterioration.

Figure 7: Change in the availability of external financing for SMEs in the EU-28



Source: EC-ECB Survey on the access to finance of enterprises (SAFE): (i) Analytical report 2015, December 2015 and (ii) Analytical report 2017, November 2017

Negative values indicate that the proportion of firms reporting a deterioration is higher than the proportion of firms reporting an improvement.

the types of loan a bank considers desirable and undesirable, the designated sectoral or geographic priorities, the collateral deemed acceptable and unacceptable, etc. Credit standards specify the required borrower characteristics (e.g. balance sheet conditions, income situation, age, employment status) under which a loan can be obtained. In the survey, both changes in written loan policies and their application should be considered. Credit standards may change owing to changes in the bank's cost of funds and balance sheet situation, changes in competition, changes in the bank's risk perception, changes in the bank's risk tolerance or regulatory changes, for instance".

³⁷ The proportion of firms reporting access to finance as their most urgent problem was in the range of 6% to 16% in most of the EU Member States. However, in Greece and Cyprus the corresponding figures were 30% and 25% respectively.

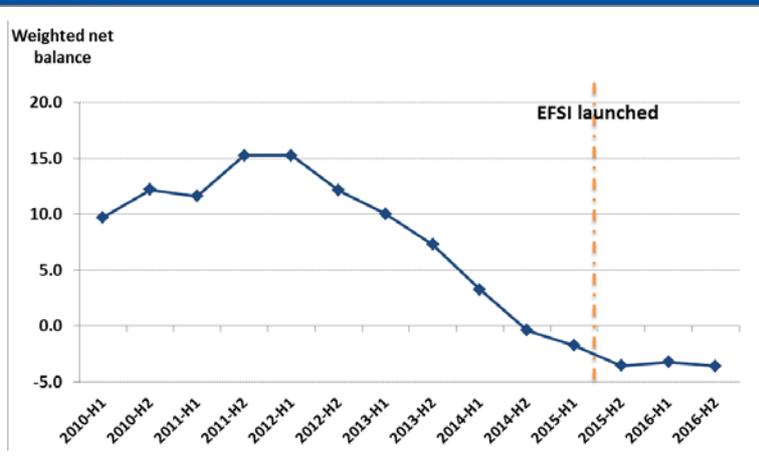
Figure 7 shows that the availability of bank loans, trade credit and equity financing had gradually started recovering already in 2014; before the launch of EFSI in mid-2015. By contrast, access to debt securities deteriorated consistently throughout the period. Even in 2017, the proportion of firms indicating a deterioration exceeded that of firms indicating improvement in the availability of this type of external financing.³⁸ This might be explained by the fact that the corporates considered in the SAFE survey are SMEs which typically have more difficulties in financing themselves through bond issuance than larger corporates.

In addition to the EC-ECB SAFE, the ECB carries out a separate SAFE survey only for Euro area countries. Amongst others, it goes beyond an assessment of financing availability and also looks at financing needs. The external financing gap indicator is a composite indicator which combines both financing needs and availability of bank loans, bank overdrafts, trade credit, and equity and debt securities at firm level. For each of the five financing instruments, an indicator of a perceived financing gap change takes the value of 1 (-1) if the need increases (decreases) and availability decreases (increases). If enterprises perceive only a one-sided increase (decrease) in the financing gap, the variable is assigned a value of 0.5 (-0.5). The composite indicator is the weighted average of the financing gap related to the five instruments. A positive value of the indicator suggests an increasing financing gap.

Figure 8 illustrates the evolution of the external financing gap indicator for SMEs in the Euro area from 2010 to 2016. It shows that, by the time EFSI was launched, the external financing gap had started to be perceived as decreasing. Indeed the financing gap indicator became negative after H2 2014.

It should be noted however, that the improvement in access to external financing came after a long period of continuous tightening of credit standards and deteriorating availability of external financing. So 2014 was just the beginning of a turnaround process in a situation still characterised by unfavourable access to finance conditions for SMEs.

Figure 8: Change in the external financing gap, SMEs, Euro area, 2010-2016



Source: ECB SAFE survey, 2016 H2

Indeed, some economies, mostly in the periphery and cohesion regions, and some types of firms – young, innovative and/or small businesses – still face challenging conditions today, particularly linked to the cost of funding and the need to provide collateral. The EIBIS (2017) finds that 10% of SMEs reported being dissatisfied with collateral requirements for the financing offered and received, and 8% with the cost – which is double the share of large companies. Among countries, dissatisfaction with collateral requirements was highest in Croatia, Cyprus, Greece and Lithuania (about one in five SMEs), and lowest in Estonia, France, Luxembourg and Sweden. The recent Interim Evaluation of COSME also mentioned the threat of a “collateral crunch”. Finally, it is worth noting that venture capital markets across European economies remain underdeveloped and have far from recovered their pre-crisis levels.³⁹

³⁸ It should be noted that in 2015, only 8% of SMEs reported debt securities as a relevant type of financing as opposed to 52% for bank loans or 57% for credit line and overdraft.

³⁹ Kraemer-Eis, H., Botsari, A., Gvetadze, S., Lang, F., & Torfs, W. (2017). *European Small Business Finance Outlook: December 2017* (No. 2017/46). EIF Working Paper

2.3 Adequacy of EFSI design to fulfil its objectives

This Section analyses the extent to which the design of EFSI was adequate with respect to the macroeconomic objectives of addressing cyclical and structural investment gaps as well as with respect to the objective of increasing access to finance for SMEs and Mid-caps.

2.3.1 Adequacy of EFSI to address the cyclical investment gaps

To assess the adequacy of the design of EFSI with respect to its cyclical objective, the evaluation first considered two alternative types of policy response that could have been considered to achieve this objective: a fiscal stimulus undertaken on a national level, or a budgetary action on the EU level.

When EFSI first emerged on the agenda in 2014, several MS – typically those with the largest investment gaps – lacked the fiscal space to initiate a fiscal stimulus, due to excessively high public debt burden. In addition, MS were constrained by the fiscal rules laid out in the Fiscal Compact and had little leeway to undertake any deficit-financed spending to stimulate investment. Some MS did have sufficient fiscal capacity to undertake fiscal stimulus (e.g. Germany), however those MS typically had a moderate or shrinking investment gap. Furthermore, a fiscal stimulus in these MS would likely have a limited impact on the most troubled MS because of weak trade links (Greece, Portugal) or the large size of their economies (Italy, Spain).⁴⁰

As regards the possibility of a budgetary action at the EU level, not only would it have been politically sensitive, but the EU budget would be too small (1% of EU Gross National Income (GNI) or EUR 180bn per year by 2015) to have an impact. Increasing Union resources would not be feasible, even if desirable, within the EFSI timeframe of 2015-2018. Therefore, a fiscal stimulus – on a national or an EU level – could not be envisaged as a viable alternative and therefore does not represent a good benchmark for EFSI. Thus, comparisons with fiscal stimulus plans such as the American Recovery and Reinvestment Act (ARRA) would be misleading.

As a result, neither a fiscal stimulus nor a budgetary action would have been feasible alternatives to address the cyclical investment gap in 2015. The evaluation further examined whether EFSI itself was adequately designed to address the cyclical investment gap.

By design, EFSI operations could affect the cyclical investment gaps in different MS and the EU-28 overall through both direct and indirect effects. EFSI mobilises financing, which is directly invested in projects. At the same time, these investments further stimulate investment, indirectly, through knock-on effects: (a) firms involved in the EFSI-supported projects purchase intermediate goods, potentially leading their suppliers to increase their investment and (b) firms that are not directly involved in the EFSI-supported projects envisage new investments if they perceive that EFSI would boost demand in the economy.

The magnitude of both channels through which EFSI could affect the investment gaps depends on the size of EFSI.⁴¹ Table 3 shows the annual and cumulative investment gap in the EU-28 (defined as a percentage point deviation from the 1999-2005 average of the investment-to-GDP) from 2013 to 2017 (the latest data available). It shows that, by 2017, the cumulative investment gap stood at EUR 911bn. EFSI was designed to mobilise EUR 315bn of financing by 2018, to be directly invested, generating further indirect effects described above. As such, its size can be considered reasonably adequate to have an impact on the investment gap.

⁴⁰ See IMF (August 2013), “*Germany Article IV Consultation*”.

⁴¹ It also depends on the products deployed under EFSI and the speed at which they were deployed. In the case of the SMEW, the disbursement and the implementation of projects by SMEs and Mid-caps has been relatively fast, for the period 2015-2018.

Table 3: Estimated size of the investment gap in the EU-28					
	2013	2014	2015 ⁴²	2016	2017
A - Investment flow in the EU-28 (chain-linked volumes 2010, bn EUR)	2,516	2,592	2,684	2,777	2,884
B - Hypothetical investment flow (bn EUR) if the investment-to-GDP ratio had been at its historical level of 21.2% of GDP	2,762	2,810	2,875	2,932	2,986
Investment gap in the EU-28 (chain-linked volumes 2010, bn EUR) (B – A)	246	218	191	154	102
Cumulative Investment gap in the EU-28 (chain-linked volumes 2010, bn EUR) (B – A)	246	464	655	809	911

Source: EV, based on Eurostat⁴³

The direct effect on aggregate demand depends on the demand for financing that firms address to EFSI, which in turn depends on the extent to which it is not completely satisfied by other sources (banks in particular) and on the return that firms foresee on future investment. EFSI, by design, increases the supply of financing by providing financing to projects that would not have otherwise been financed to the same extent and within the same timeframe. However, cyclical investment gaps are caused by both a reluctance of financiers to supply financing (supply factors) as well as by a lack of demand for financing because of a lack of viable projects or because firms are reluctant to invest as they anticipate low consumer demand for their products (demand factors). EFSI can only address supply side factors, while demand side factors can be addressed by the other two pillars of the IPE, which deal with legal and regulatory barriers constraining demand as well as those related to weak capacity and lack of access to information.

The indirect, knock-on, effects, beyond the sheer size, depend also on when the funding reaches the economy. In order to pull investment from stagnation and put it on a higher growth trajectory, a large volume of funding would have to hit the economy quickly (much as a fiscal stimulus would do) so as to positively affect agents' expectations regarding the evolution of aggregate demand and indeed initiate the virtuous cycle of investment spending. However, many of the projects EFSI aims to finance, namely infrastructure and innovation projects, have long implementation periods and hence funds are disbursed over time (similar to EIB projects in these sectors). Moreover, it takes time to build the pipeline of operations and the EUR 315bn would not be signed until mid-2018 and only subsequently would disbursement start. Therefore the indirect effects might occur anyway, but would be distributed over too long a period of time to kick-start an investment recovery.

Overall, while EFSI is designed to mobilise a substantial volume of investment that could contribute to the reduction of the cyclical investment gap across the EU-28, most of the projects it is designed to support have long implementation periods, with disbursements too spread over time to have a significant impact on aggregate demand and pull economies that are suffering from cyclical investment gaps out of stagnation.

2.3.2 Adequacy of EFSI to address the structural investment gaps

Beyond the issue of the cyclical investment gaps, EFSI was set up to address structural issues that affect investment in the EU-28. These issues persist independently of the economic cycle – they are therefore relevant for all MS – and refer to projects which the market is unable to finance adequately because of its inability to price benefits and costs or assess the subsequent risks; i.e. areas exhibiting market failures and sub-optimal investment situations (see Box 6 for the main sources of market failures).⁴⁴

⁴² For 2015, EFSI figures refer only to the second half of the year as the EFSI Regulation came into force only in July 2015.

⁴³ Database by themes, Economy and Finance, National Accounts (ESA 2010), Annual National Accounts, Main GDP Aggregates, GDP and main components (output, expenditure and income), Gross Domestic Product, Gross Fixed Capital Formation

⁴⁴ Although market failures exist independently of the economic cycle, the impact of some is amplified in a recessionary context. For instance, credit is relatively more rationed in the context of an economic contraction when credit conditions tighten.

EFSI was adequately designed to address structural investment gaps as it is intended to finance operations which address market failures and which could not have been carried out, in the period during which the EU guarantee can be used, or to the same extent, by the EIB Group or other EU instruments without the EU guarantee. Moreover, it was designed to finance projects in key sectors (e.g. RDI and infrastructure), which are expected to strengthen human capital, knowledge and physical infrastructure and thereby have an impact on productivity and hence longer term growth, employment and competitiveness.

2.3.3 Adequacy of EFSI to increase access to finance for SMEs and Mid-caps

EFSI was designed to increase access to finance for SMEs and Mid-caps mainly, although not exclusively, through the SMEW. The SMEW was designed to be implemented by the EIF, to expand existing mandates and products and to leverage on the EIF's extensive expertise in targeting the needs of SMEs and Mid-caps, as well as on the existing network of Financial Intermediaries (FIs) and their existing pipeline of final beneficiaries and projects.

Moreover, by implementing the SMEW through the EIF, EFSI was designed to allow substantial gains in terms of speed and efficiency. Indeed, an alternative design (e.g. a separate financial structure instead of the SMEW being delegated to the EIF) would have involved important setup costs (legal and logistic setup, staff recruitment etc.). The latter, in turn, would have implied delays in the implementation of EFSI – identifying reliable FIs, putting in place a larger set of new financial products, building a pipeline of projects, all of which would require time, while the intention of the legislator and the EC was to move fast. Finally, such an alternative would have produced a direct overlap with the EIF, largely duplicating the efforts of the latter.

Overall, with particular reference to the objective of increasing access to finance for SMEs and Mid-caps, the design of EFSI contributed to the speedy deployment of substantial amounts of financing.

3. RESULTS ACHIEVED – MOBILISING INVESTMENT

Summary

As discussed in the previous chapter, the objectives of EFSI are to stimulate investment in order to reduce the investment gap and boost growth and employment in the EU. As reflected in the eligibility criteria for the use of the EU guarantee (EFSI Regulation Article 6), EFSI's operational objectives are to mobilise, by July 2018, EUR 315bn of financing for operations that are economically and technically viable, consistent with Union policies (including the objective of smart, sustainable and inclusive growth), provide additionality, and maximise where possible, the mobilisation of private sector capital.⁴⁵

EFSI is expected to increase investment directly as well as indirectly, through knock-on effects, generating further investments and resulting in an overall expansion of aggregate demand in the EU. By supporting projects that enhance human capital and knowledge (e.g. through investments in RDI), as well as physical infrastructure, EFSI aims to increase productivity and hence strengthen EU competitiveness and longer-term growth and employment.⁴⁶

This Chapter assesses the extent to which EFSI has achieved its operational objectives and is organised as follows. First, it assesses where EFSI stands in terms of mobilising investment, including a review of the multiplier methodology. Second, it analyses the extent to which EFSI catalysed private financing. Third, it examines the geographical distribution of EFSI investments. Finally, it analyses the sector distribution of EFSI investments (in terms of the EFSI sectors defined in Article 9 of the EFSI Regulation).

The evaluation finds that EFSI is likely to mobilise EUR 315bn of (mostly private) investment (in terms of approvals) by July 2018, but in terms of signatures, the target is unlikely to be met before early 2019.⁴⁷ Overall, almost 80% of the financing crowded in by the EFSI-backed EIB Group financing has been private (as of 31 December 2017). The evaluation underlines that achieving (or missing) the precise target of EUR 315bn by mid-2018 will not make much difference in economic terms – bearing in mind that the economic impact of EFSI projects will only materialise once the actual investments occur and the financing hits the economy. Therefore, it is important that the focus on volume targets does not come at the expense of the additionality of operations, which is what matters most for the structural, longer-term impact of EFSI. Moreover, the evaluation points out that, *ex ante*, the volume of investment mobilised is only an estimate that is dependent on the multiplier assumptions used.

In terms of geographic concentration, by 31 December 2017 the first three MS (France, Italy and Spain) accounted for 47% of the volume signed under the IIW, slightly exceeding the concentration limit of 45%. Moreover, the five largest economies (France, Germany, Italy, Spain and the UK) accounted for almost 60% of volumes signed under EFSI overall. However, once the size of the economies is accounted for, 59% of volumes signed under EFSI overall were for operations in the EU-13. Moreover, Vulnerable Member States and Cohesion countries, which had the largest and most persistent cyclical investment gaps, make up over 80% of volumes signed under EFSI. Taking a closer look at the issue of access to finance, the evaluation finds that SMEW financing partly went to the countries in which access to loans or equity was most difficult. This is likely to be a reflection of the relatively low level of demand for loan or equity financing in these countries.⁴⁸

Finally, with regards to the sector distribution, indicative concentration limits for operations signed under the IIW have so far been respected. A greater share of investment was mobilised in sectors

⁴⁵ This operational target and associated deadline has by now been revised to EUR 500bn of approved projects by December 2020, and EUR 500bn of signed projects by December 2022.

⁴⁶ See Annex 1 for the EFSI Intervention Logic as reconstructed by EV.

⁴⁷ Projections are based on the rate of progress of EFSI before its extension.

⁴⁸ For example, the European venture capital market tends to be concentrated in a few European countries; e.g. Ireland and the UK receive by far the highest amount on average across all investment stages, considerably higher than the EU average, while Central and Eastern European firms lag behind – especially at the seed and start-up stages. Source: Assessing the Potential for EU Investments in Venture Capital and Other Risk Capital Fund of Funds, European Commission, 2015.

which suffered from relatively larger structural investment gaps; as of 31 December 2017, energy accounted for approximately 28% and RDI for 22% of the signed amounts under the IIW.

3.1 EFSI results in terms of mobilising investment

According to the original EFSI Regulation, EFSI should mobilise EUR 315bn of investments by July 2018. While the original version of the EFSI Regulation is not explicit on whether investment mobilised refers to signatures or approvals, Key Performance Indicator (KPI) 3 “Total EFSI Eligible Investment Mobilised” on which the EIB Group is required to report was originally expressed in terms of signatures.⁴⁹ However, the revised version of the Agreement between the EIB and the EU defined KPI 3 for investment mobilised both in terms of approvals and in terms of signatures.⁵⁰ Therefore this evaluation reports on progress towards the EUR 315bn target both in terms of approvals and signatures. Nevertheless, this evaluation considers that reporting on investment mobilised based on signed operations is more meaningful than based on approvals. Indeed, in order to have an impact on the investment gap, growth and employment, EFSI must stimulate investment in the real economy. To this end, the approval of operations is not sufficient; operations must be signed, funds must be disbursed and projects implemented – especially when considering the attrition of operations between these stages.

The increase in investment and resulting impacts on demand and the economy at large can only be measured once disbursements take place and investments are made in the real economy. The median and the average duration of the EFSI operations under the IIW is around 12 years. Given that the majority of EFSI operations have yet to be fully disbursed, impacts cannot be assessed at this stage. Only expected outcomes and impacts can be assessed, as has been done by the EIB Economics Department through macro-economic modelling (see Box 3).

Box 3: Expected impact of EFSI on growth and employment

While the actual impact of EFSI cannot be assessed, the expected impact on jobs and economic growth can be modelled.⁵¹ The Economics Department of the EIB estimated the impact of EFSI on growth and employment using the RHOMOLO macroeconomic model, originally developed by the EC.⁵² The results make no assumption on whether a specific project financed under EFSI would have taken place even in absence of EFSI. However, the setup integrates the fact that any EIB supported investment is financed borrowing funds on the market, from abroad or from the EU-28 domestic savings. The model takes into account the fact that, in absence of EFSI, some of these domestic savings would still have been used to finance investments in the EU-28. Thus, the results should be interpreted as the net macroeconomic effect of EFSI-supported investment versus a baseline in which EFSI operations do not take place.

RHOMOLO models the impact of total investment mobilised by the expected disbursements of EFSI backed operations approved in 2015-2016.

By 2020, EFSI operations are expected to create roughly 690 000 extra jobs and EU GDP is expected to increase by 0.67% compared to the scenario without EFSI-supported investment. This impact is produced mainly through the direct and knock-on effects on spending in the economy of the investment supported.

In the long run (by 2036), EFSI-supported investment is expected to generate about 340 000 extra jobs and EU GDP is expected to increase by 0.4% compared to what it would have been in a scenario without

⁴⁹ Agreement on the Management of the European Fund for Strategic Investments and on the Granting of the EU Guarantee, 22 July 2015

⁵⁰ Amendment and Restatement Agreement dated 21 July 2016 between the EU and the EIB relating to the Agreement on the Management of the European Fund for Strategic Investments and on the Granting of the EU Guarantee dated 22 July 2015

⁵¹ The impact for the IIW cannot be assessed due to the timeline of the projects implementation. For the SMEW, it could be assessed as the majority of operations have resulted in disbursements to SMEs, however this evaluation was not able to obtain access to SME level data that would allow for such an analysis.

⁵² The estimates are based on the RHOMOLO model, a recursively dynamic spatial general equilibrium model of the EC. It was developed and used by JRC in cooperation with DG REGIO for the impact assessment of cohesion policies, structural reforms and other policies.

this EFSI-supported investment. Here the impact is expected to result from the effects of investment in infrastructure, innovation and modernisation on productivity and competitiveness.

The results are presented only at an aggregate level – for the EU 28 mostly because a high level of spill-overs between regions and a degree of non-linearity of results make disaggregation difficult. Furthermore, the model simulation extends beyond an effective forecast horizon when a quantitative model can produce reliable results. Thus, the simulations of the impact of EFSI by 2036 bear a significant level of uncertainty.

3.1.1 Where EFSI stands

As of 31 December 2017, EFSI had reached 81% of the EUR 315bn target in terms of approvals and 66% in terms of signatures (see Table 4). While the IIW had reached 72% of the target in terms of approvals and 57% in terms of signatures, the SMEW had reached already 108% of the target in terms of approvals and 92% in terms of signatures.⁵³ By 31 December 2017, around EUR 10.2bn were disbursed under the IIW. Even though no target was defined in the EFSI Regulation with respect to disbursement, the pace of disbursements under EFSI IIW was in line with the pace of disbursement on the EIB Group non-EFSI operations.

	Target investment mobilised (signed, EUR bn)	Approved		Signed		% time elapsed
		EUR bn	% target	EUR bn	% target	
IIW	232.5	166.7	72%	131.4	57%	83%
SMEW	82.5	89.5	108%	75.9	92%	
TOTAL	315	256.3	81%	207.3	66%	

Source: EV, based on data from EIB services

As discussed in EV's Mid-Term Evaluation of EFSI, the swifter progress under the SMEW can be explained by the fact that while the EIB had to undergo transformational changes in terms of staffing, processes, products and clients in order to deliver EFSI, the EIF kick-started the SMEW delivery by deploying existing products and tools, albeit with a larger volume and faster pace which required a rapid increase in staff (see Chapter 6 for details) and a review of the processes (streamlining) to accelerate its delivery mode. In parallel, EIF worked on structuring a new product offering to the market.

This evaluation estimates that by July 2018, EFSI will have mobilised EUR 315bn of investment in terms of approvals, and roughly EUR 256bn in terms of signatures. Figure 9 provides the actual and forecasted levels of investment mobilised by EFSI. The forecast assumes that signatures will continue to follow the same trend as in the period July 2016-December 2017, and that signatures under the SMEW are "frozen" by July 2018, when the SMEW is expected to have reached its target. In terms of signatures, the target of EUR 315bn is expected to be reached by the beginning of 2019.

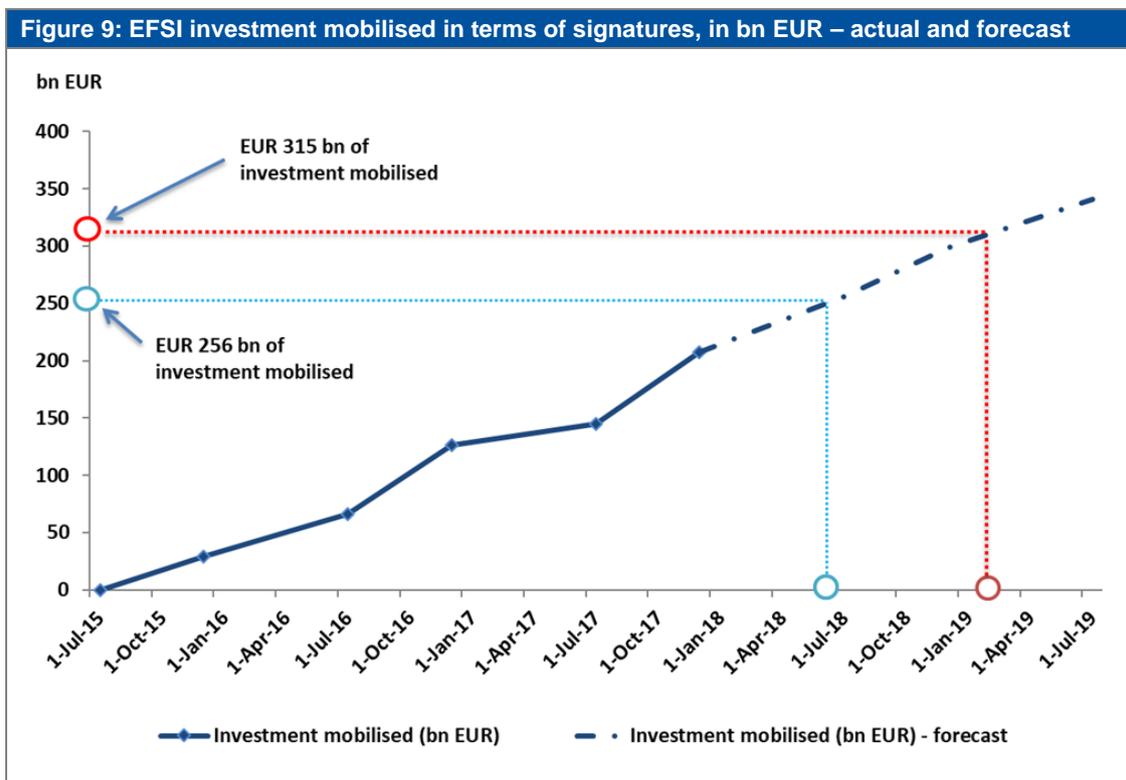
However, it is important to note that achieving (or missing) the precise target of mobilising EUR 315bn of investment by the specific date of July 2018 will not make much difference for the EU economy. Indeed, considering the disbursement pace of EFSI funding and the time necessary for investments to generate effects on the economy, whether EUR 315bn or EUR 256bn of investment is mobilised by July 2018 or February 2019, is of minor relevance.

Furthermore, interviews indicate that the focus on achieving the specific volume target by the associated deadline might be detracting from what matters most for the structural, longer-term

⁵³ The term "target" for each of the Investment Windows does not refer to any legal requirement. It has merely been computed in the context of the evaluation so as to assess the progress of the EFSI operations in terms of investment mobilised under each of the Windows.

⁵⁴ Total amounts presented may differ from sums due to rounding.

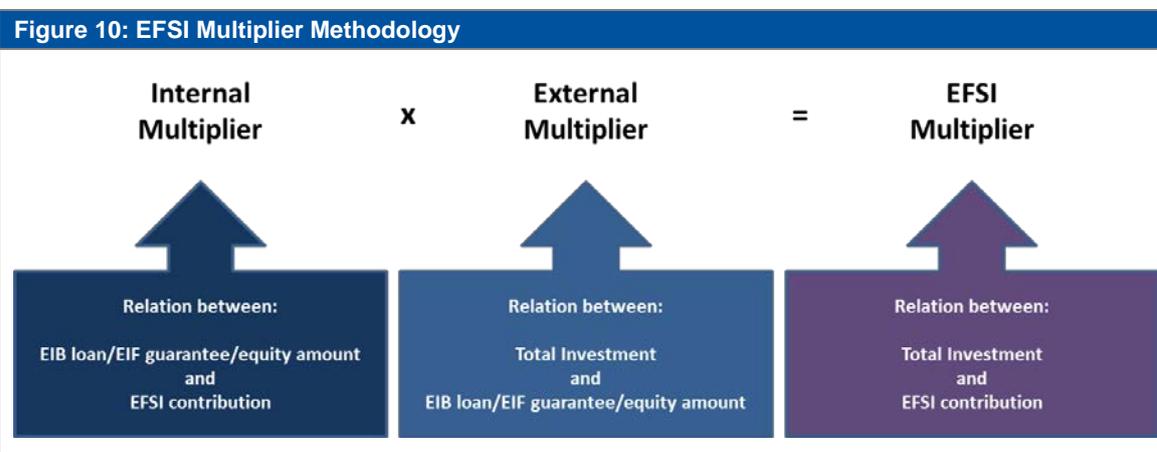
impact of EFSI, namely the additionality of operations. Finally, as discussed in the next Section, the volume of investment mobilised is only an estimate that is dependent on the multiplier assumptions used.



Source: based on data from EIB services; EV computations

3.1.2 Estimating total investment mobilised

The total investment mobilised by signed or approved EFSI operations is estimated using the EFSI multiplier methodology. The methodology, while largely developed by the EIB, is the result of a joint effort by the EIB and the EC and was subject to approval by the EFSI governing bodies (i.e. Investment Committee and Steering Board). The EFSI multiplier provides a framework linking the EFSI contribution with total investment mobilised and, as outlined in Figure 10, the EFSI multiplier is the product of internal and external multipliers.



Source: EV.

Total investment refers to the total amount covering the EFSI-eligible cost of a project provided by all financiers (EIB Group and other financiers, less EU co-financing);

EFSI contribution refers to the expected or actual amount committed by EFSI to the project;

EIB loan/EIF guarantee/equity amount refers to the volume of funds provided by the EIB or EIF in a project.

While the actual portfolio multiplier achieved under EFSI can only be measured at the end of the investment period (when the actual figures are known with certainty), the monitoring of investment targets requires an ex-ante estimate of the investment mobilised for each operation. Under the Agreement on the Management of EFSI between the EIB and the EU, the EIB Group is required to report on the “notional internal guarantee multiplier and the external investment multiplier” (Key Monitoring Indicator 3).

To measure the amount of investment mobilised, the EFSI Steering Board approved joint proposals made by the EC and the EIB for multiplier methodologies for both the IIW and the SMEW. The multiplier methodologies are similar in principle, and are set out in different documents. The evaluation reviewed, in particular, the IIW multiplier methodology.

First, the IIW multiplier methodology is based on an internal and external multiplier (similar to the structure presented in Figure 10). The Internal Multiplier (IM) is driven by the risk profile and hence the economic capital consumption of a particular investment. Consequently, a lower risk investment is associated with a higher IM (i.e. it requires less capital protection) and a higher risk investment is associated with a lower IM. The EU guarantee for the EFSI portfolio should leave the EIB with an acceptable residual portfolio risk that is commensurate with that of the rest of its risk portfolio (including SA). For the main types of EFSI financing, the multiplier methodology assumes the following IM in line with the estimated consumption of the EU guarantee by the EFSI portfolio, as foreseen in the EFSI Agreement:

- Equity and equity-type financing: IM = 1;
- Debt financing - standard: IM = 4;
- Debt financing - hybrid⁵⁵: IM = 3;

This evaluation carried out an analysis of the distribution of Loan Grades, defining the creditworthiness of a loan, of the actual EFSI portfolio (as of year-end 2017) in relation to the IM as per the multiplier methodology. The results show that the credit quality of the IIW portfolio has improved over time and that consequently, the EIB’s initial estimate of the IM for standard debt (IM=4) was conservative. The IM for standard debt, as inferred from the Loan Grade distribution, is in fact higher than the initial assumption (i.e. the portfolio requires less capital protection).

The External Multiplier (EM) captures the relationship between the volume of funds provided by the EIB or EIF and the EFSI-eligible total project investment cost. The value of the EM is expected to vary across different financial products; equity-type financing is expected to mobilise the most additional investment, followed by junior debt and senior debt. The benchmark EMs⁵⁶ for the three main EFSI product categories are as follows:

- Equity and equity-type financing (direct): EM = 15;
- Junior debt / credit enhancement: EM = 5;
- Senior debt: EM = 3

The review of IIW operations shows that the values of project EMs for equity-type operations is wide-ranging, from 1.4 to 55. For cases in which the EMs of operations are not sufficiently close⁵⁷ to the benchmark EMs, the EMs of projects should continue to be explained and justified in project documentation. Finally, it should be noted that the IM will be measured at portfolio level and applied to individual operations at the end of the investment period, while the EM will be revised at project completion.

The evaluation found that there is no standalone technical document that would allow an EIB Group staff member, or a qualified third party to have a clear and comprehensive understanding of the data, assumptions and processes by which the multiplier methodologies were designed (i.e. how the benchmark multipliers were derived) both in the case of the IM and the EM. The available information is presently spread across different EIB Directorates.

⁵⁵ This multiplier is expected to be integrated within the new iteration of the IIW’s multiplier methodology.

⁵⁶ The benchmark EMs are not applied by default; they are rather indicative. Hence, the EM calculated for a project prevails over the benchmark EM.

⁵⁷ According to the EFSI multiplier methodology, “sufficiently close” is interpreted as not deviating from the benchmark by more than one third.

Lastly, it should be recalled that the expected volume of investment mobilised depends on the methodology used and that if an alternative methodology was used, the volume of investment mobilised could be different.⁵⁸

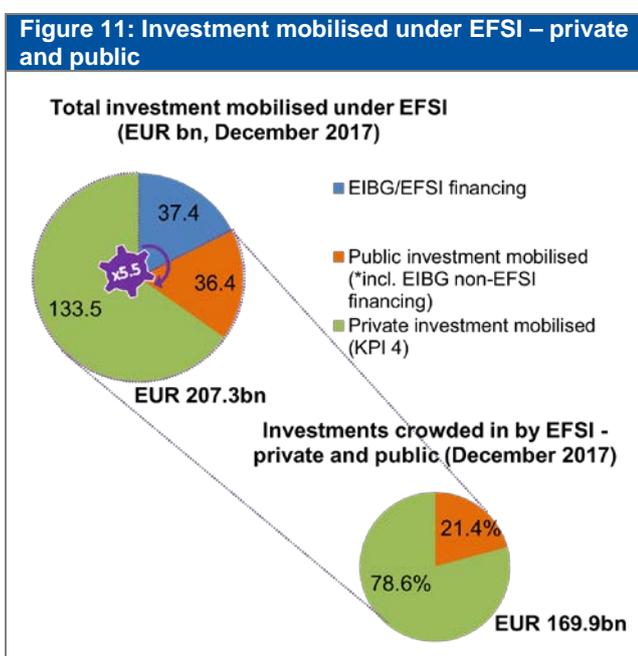
3.2 EFSI results in terms of catalysing private financing

According to the EFSI Regulation, EFSI should, where possible, maximise the mobilisation of private sector financing (Article 6.1 d and Recital 23). The underlying rationale was that, in the post-global financial and sovereign debt crises context, the private sector was reluctant to take risk and the public sector was over-indebted. By increasing the risk-bearing capacity of the EIB Group, EFSI would crowd in private sector investment and thereby relaunch the European economy without increasing public debt.

At the same time, the Regulation (Article 9.5 and Recital 34) calls for cooperation with NPBs and complementarity with other sources of EU funds or financial instruments, which might seem contradictory with the objective of maximising the mobilisation of private sector financing.

The EFSI Agreement and the associated methodology defining the EFSI KPIs and KMIs set no target for private finance mobilised (KPI 4). As a result, there is no benchmark to assess the performance of EFSI in terms of mobilising private sector financing.

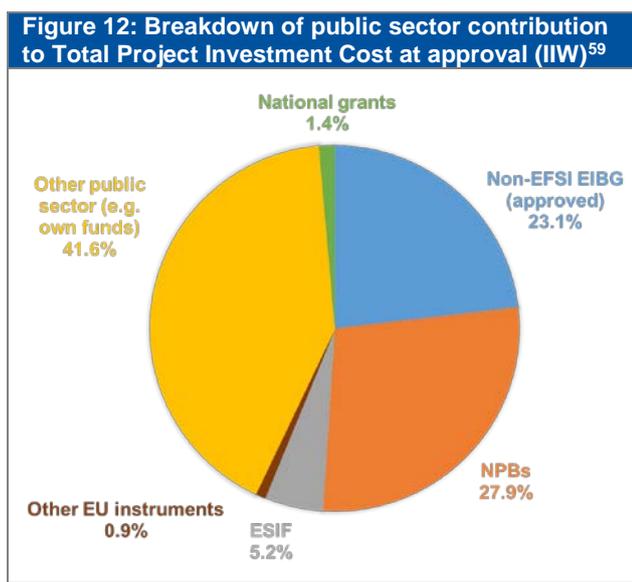
As shown in Figure 11, by 31 December 2017, EUR 37.4bn of EFSI financing (in terms of signed operations) mobilised a total investment of EUR 207.3bn, of which EUR 133.5bn came from the private sector. For every EUR 1 injected in the EU economy by EFSI, approximately EUR 4.5 were injected by other investors, of which approximately EUR 3.6 were provided by private investors and EUR 0.9 by the public sector. Thus the private sector provided 78.6% of the investments crowded in by EFSI and the public sector 21.4% (as shown in the smaller pie chart of Figure 11).



Source: EV, based on data from EIB services

⁵⁸ For example, in its Opinion No2/2016, the European Court of Auditors (ECA) proposed that the EFSI multiplier methodology aligns itself with the methodology of the Organisation for Economic Co-operation and Development (OECD), although EV did not analyse this methodology and therefore can make no judgement as to its applicability to EFSI.

Figure 12 shows the breakdown of public sector contribution to the Project Investment Cost (PIC) of EFSI operations under the IIW. Other public sector sources (e.g. public promoters such as local authorities own funds) provided the largest share (41.6%), followed by NPBs (27.9%), and EIB Group non-EFSI financing (23.1%). Other contributions, in particular combination with European Structural Investment Funds (ESIF) and other EU instruments, accounted for only 6.1% of public investment crowded in (in terms of PIC). As discussed in Chapter 5, this is partly explained by differences in the legal bases of different instruments and programmes, including different eligibility criteria.



Source: EV, based on data from EIB services

3.3 Geographical distribution of EFSI investments

The EFSI Regulation does not specify a target in terms of the geographical distribution, other than avoiding excessive geographical concentration (according to indicative concentration limits defined by the EFSI Steering Board) and covering all EU MS.⁶⁰ As discussed in Chapter 2, the scale of the cyclical and structural investment gaps differed across groups of MS and sectors. This Section first assesses the compliance with geographical concentration limits as set by the EFSI Steering Board. Second, it analyses the geographical distribution of EFSI investments relative to the size of the economies as well as by groups of MS (Core, Vulnerable and Cohesion). Finally, it assesses the geographical distribution of SMEW investments relative to proxy measures of ease of access to finance.

3.3.1 Investment guidelines indicative limits

The EFSI Strategic Orientation specifies that “At the end of the investment period, the share of investment in any three Member States together (measured by signed loan/investment amounts) should not exceed 45% of the total EFSI portfolio” for the IIW.

For the SMEW, the EFSI Strategic Orientation stipulates only the aim of “reaching all the EU Member States” and “achieving a satisfactory geographical diversification among them”.⁶¹ Key Monitoring Indicator (KMI) 1, provides a breakdown of volume signed by MS and number of MS reached at the aggregate level and by window (SMEW and IIW).

⁵⁹ This Figure is based on total Project Investment Cost (PIC) for IIW operations (estimated at approval), which differs from total investment mobilised in that it may include financing which, according to the EFSI Regulation, is not eligible to be accounted for under investment mobilised by EFSI (e.g. land purchase). The PIC at approval as reported in the EFSI internal reporting document was used as a proxy, as it is the only source of information on specific categories of financing used (private or public). As such Figure 12 is not entirely comparable to the public sector investment crowded in Figure 11.

⁶⁰ And expanding the use of SA operations in Member States where they have not been used or have been used only exceptionally before (Article 5).

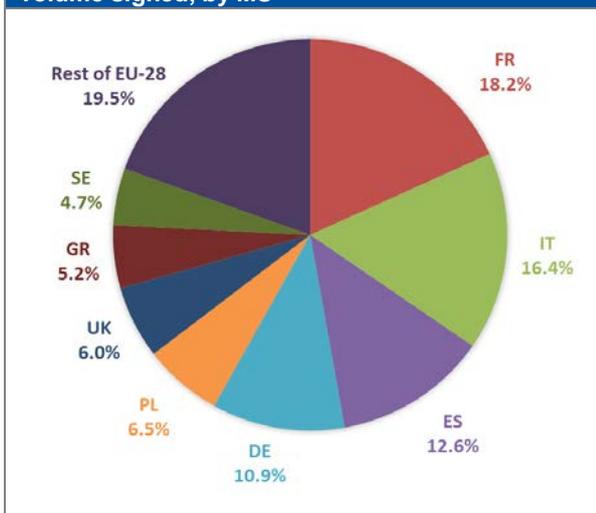
⁶¹ EFSI Strategic Orientation, SB/07/15, 15 December 2015

As of 31 December 2017, all EU-28 MS were covered by the EFSI aggregate portfolio in terms of signatures (SMEW and IIW). The first three MS (France, Italy and Spain) accounted for 47% of the volume signed under the IIW, slightly exceeding the concentration limit of 45% (see Figure 13).

As regards the SMEW, although there is no indicative geographical concentration limit, concentration is somewhat lower than for the IIW, with the top three MS (France, Germany and Italy) accounting for roughly 38% of the volume signed.⁶²

For the IIW and the SMEW taken together, the five largest economies (France, Germany, Italy, Spain and the UK) still account for most of the EFSI funding (about 60%). This is not surprising considering that the volume of investment and of investment demand in the economy is positively related to the size of the economy.

Figure 13: EFSI IIW geographical distribution, volume signed, by MS

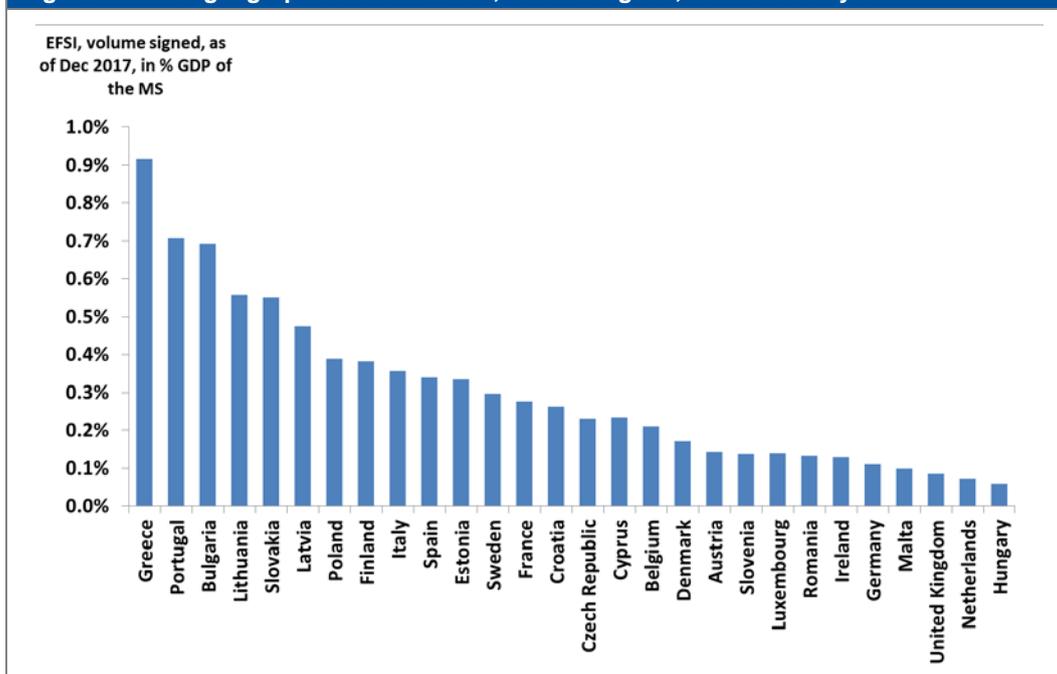


Source: EV, based on data from EIB services

3.3.2 Matching investment needs across EU Member States

Beyond the issue of sheer compliance with legal and strategic requirements, this evaluation examined the extent to which the distribution of EFSI funding in terms of signatures and investment mobilised matched the distribution of the cyclical and structural investment needs.

Figure 14: EFSI geographical distribution, volume signed, normalised by GDP



Source: EV, based on data from EIB services

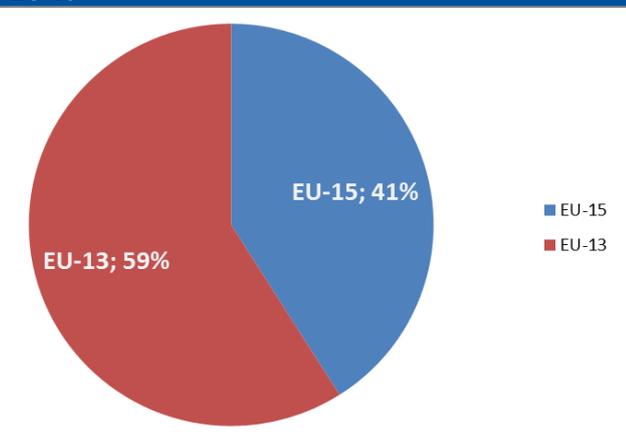
As stated above, investment demand is related to the size of the economy. It is not surprising that a higher proportion of projects would arise in MS with a higher economic output. Thus, in order to account for the relative size of the economy, investment mobilised was normalised by the size of

⁶² Without taking into account multi-country operations under the SMEW (which accounted for approximately 25% of the SMEW signed operations as of 31 December 2017).

GDP. Figure 14 presents the geographical distribution of EFSI operations (in terms of signatures as of 31 December 2017) normalised by GDP. It shows that, once the size of the economy is accounted for, the MS with the largest shares of relative investment mobilised were Greece, Portugal, Bulgaria, Lithuania and Slovakia, which, as discussed in Chapter 2, were either Vulnerable Member States or Cohesion countries.

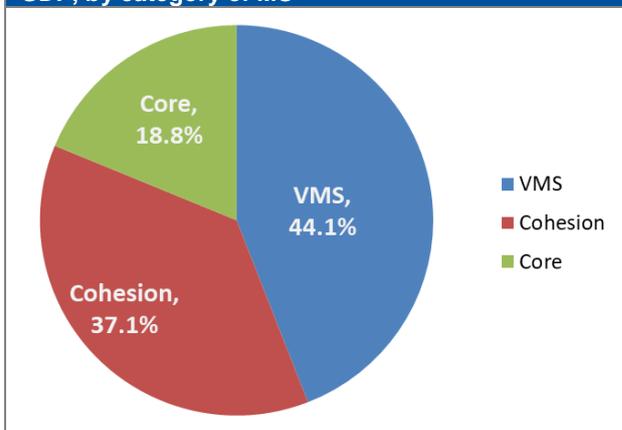
The EV Mid-Term Evaluation of EFSI had noted a strong concentration of signatures in the EU-15 for the IIW.⁶³ It recommended that the EIB should identify the main causes for this concentration and address them, wherever possible, jointly with the EC. As of 31 December 2017, 88% of signed amounts were for operations in the EU-15, while 12% were in the EU-13. However, in 2017 the EU-13 MS represented only 8.6% of the EU-28 GDP. After normalising for GDP, the picture is much more balanced with 41% of signed amounts in the EU-15 and 59% in the EU-13 (see Figure 15).⁶⁴ Therefore, considering the relative economic weights of the EU-15 and the EU-13, the distribution of EFSI-IIW funding appears adequate.

Figure 15: EFSI IIW geographical distribution, volume signed, normalised by the share of EU GDP, EU-15 vs EU-13



Source: EV, based on data from EIB services

Figure 16: EFSI, IIW and SMEW, geographical distribution, volume signed, normalised by share of GDP, by category of MS



Source: EV, based on data from EIB services

Notes: Core countries: Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Sweden and the UK; Vulnerable Member States: Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain; Cohesion countries: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

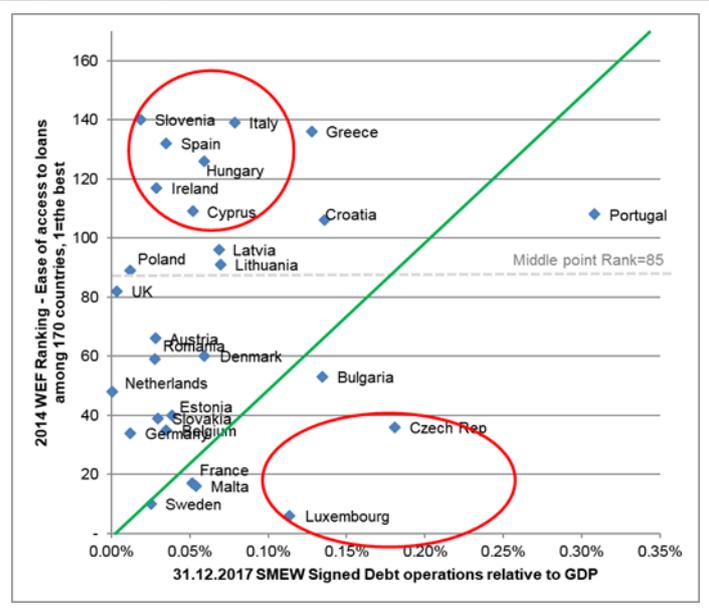
Similarly, considering the three groups of MS defined in the EIB Investment Report (see Chapter 2), the group of “Core countries” account for 49% of volumes signed under EFSI, while “Vulnerable Member States” and “Cohesion countries” make up 40% and 12% respectively. However, once GDP is accounted for, Core countries account for 19% of EFSI signatures, while more than 80% are for Vulnerable Member States and Cohesion countries (44% and 37% respectively) as illustrated in Figure 16. These were the countries that faced the largest and most persistent investment gaps, from a cyclical perspective. Overall, considering the relative economic weights of the different categories of MS, the distribution of total EFSI funding appears adequate.

⁶³ The EU-15 Member States are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. The EU-13 Member States are: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

⁶⁴ The revised Strategic Orientation suggests normalisation by GDP per capita. In this case, the geographical concentration of signed amounts is 83% in EU-15 MS, and 17% in EU-13 MS. However, it is more appropriate to normalise for GDP (a measure of economic output) than to normalise for GDP per capita (a measure of the standard of living).

As one of the objectives of EFSI is to increase access to finance, the evaluation also took a closer look at the geographical distribution of SMEW operations by ease of access to finance (measured as availability of supply of funds). Figure 17 plots the volume of EFSI-SMEW signatures (as of 31 December 2017) as a share of GDP (2017) against the World Economic Forum (WEF) index measuring ease of access to finance in 2014, at the time EFSI was launched. It should be noted that the WEF Index here is used as a proxy as it provides an aggregate picture and is not specifically focused on SMEs and Mid-caps, which can have a different level of ease of access than the aggregated index would suggest. Figure 17 shows that some MS, namely Slovenia, Spain, Hungary, Ireland and Cyprus, where access to loans is relatively more difficult, benefit relatively less than others, while other MS, namely Luxembourg and the Czech Republic, benefit relatively more. These findings should be interpreted with caution as ease of access to finance indicates only the availability of the supply of funds, but is silent regarding the demand. Thus, the fact that some MS benefited relatively less from EFSI loans might also indicate the relatively lower demand emanating from local firms.

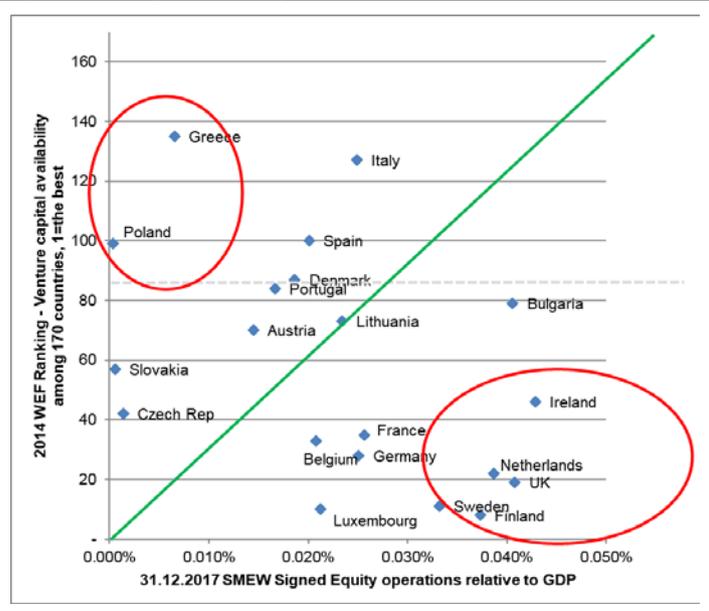
Figure 17: Ease of access to loans vs SMEW debt operation signatures, by MS



Source: EV, based on World Economic Forum (2014); and the data from EIB services

Similarly, Figure 18 plots the distribution of equity transactions under the SMEW (as of 31 December 2017, relative to 2017 GDP) against the availability of venture capital across the EU-28 MS. In some MS, namely Greece and Poland, the volume of equity investments under EFSI appears limited given the relative scarcity of venture capital. Other MS – Ireland, Netherlands, UK, Sweden and Finland – benefit from equity investments disproportionately with respect to the availability of venture capital.

Figure 18: Venture capital availability vs SMEW equity operation signatures, by MS



Source: EV, based on World Economic Forum (2014); and data from EIB services

However, once again, the allocation of EFSI funding under the SMEW is demand-driven. Hence, the relatively low (high) equity investments in some MS may simply indicate relatively low (high) demand for equity financing in the given MS. The above finding may also be explained by the fact that other EU resources entrusted to EIF (e.g. under ESIF) are serving equity investments in certain countries (e.g. Greece).

3.4 Sector distribution of EFSI investments

The EFSI Regulation does not assign sector targets to EFSI, apart from the requirement to avoid sector concentration (according to indicative concentration limits set by the EFSI Steering Board). However, it is important to assess whether the sectors where EFSI mobilised investments had been – or remain – in a sub-optimal investment situation. This sub-optimal investment situation might result from market failures as discussed in Chapter 2. This Section assesses the compliance of EFSI (IIW) with the sector concentration limit and then analyses the extent to which EFSI investments have taken place in sectors characterised by structural under-investment induced by market failures.

3.4.1 Investment guidelines indicative limits

The EFSI Regulation (Annex II) stipulates that EFSI financing should avoid sector concentration. The EFSI Strategic Orientation specifies that, under the IIW, the volume of signatures in any sector should not exceed 30% of the total volume of signatures at the end of the investment period. As of 31 December 2017, the energy and RDI sectors accounted for approximately 28% and 22% of total IIW signatures respectively. In the June 2017 update of EFSI's Strategic Orientation, it is acknowledged that the energy sector would be the pre-eminent sector under the IIW; nevertheless, the Steering Board has encouraged the EIB to respect the indicative concentration limits.

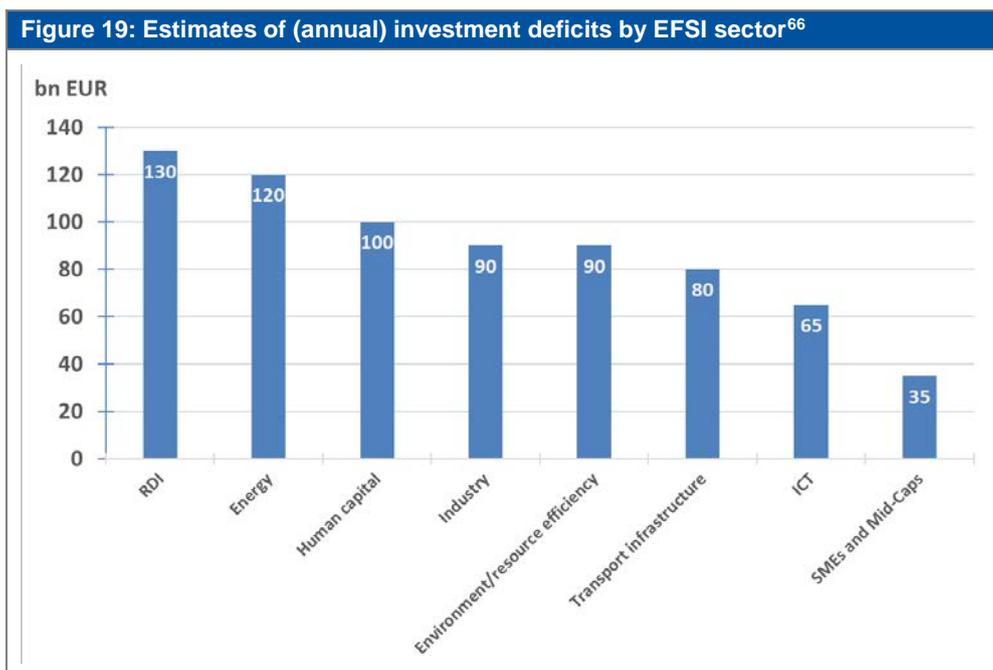
3.4.2 Targeting sectors with sub-optimal investment situations

As discussed in Chapter 2, beyond the objectives of addressing the cyclical investment gap and increasing access to finance for SMEs and Mid-caps, EFSI has a role to play in addressing structural issues. More specifically, EFSI can address sub-optimal investment situations arising from market failures in key sectors. Indeed, the existence of market failures can lead to a systematic under-investment in these sectors by the market which in the long run penalises the competitiveness of the EU-28 economies. This Section assesses the extent to which EFSI-financed projects in sectors where there is significant under-investment.

The EIB “Restoring EU Competitiveness” report (2016) identified investment gaps or investment deficits with respect to EU objectives and/or in comparison to world competitors. Table 2 in Chapter 2 identified investment needs for EFSI sectors and estimates of the size of the deficits. Figure 19 shows the estimates of annual investment deficits or “investment gaps” by EFSI sector (as per Article 9 of the EFSI Regulation).⁶⁵

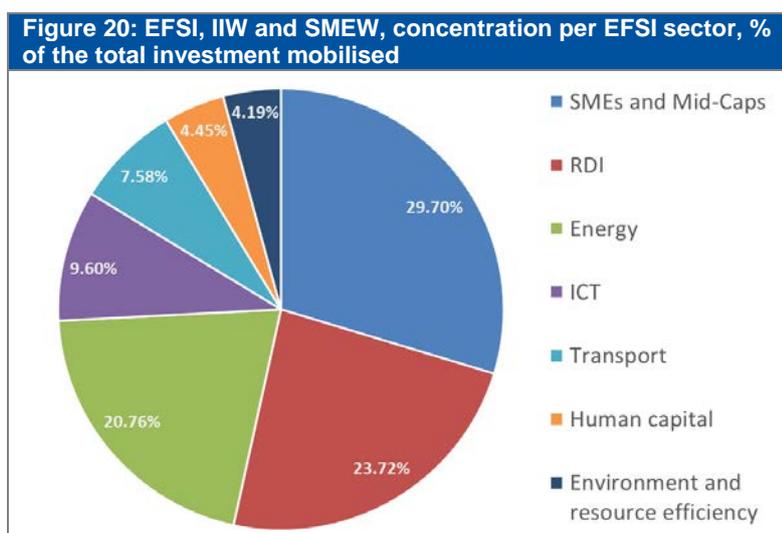
Figure 19 shows that all EFSI sectors suffer from significant investment gaps, particularly RDI and energy. The size of these gaps should be interpreted with caution as it is indicative and, in some cases, only partial. As outlined in Table 2, the deficits measure the difference between current investment and investment required in order to either achieve an EU policy target (e.g. 3% of GDP invested in R&D) or to match global or US benchmarks (e.g. ICT for broadband services, investment in cyber security etc.). In particular, the investment gap for SMEs and Mid-caps measures only the financing needed to match US levels of venture capital financing, whereas investment needs for SMEs are much wider than access to venture capital.

⁶⁵ While the sectors in the EIB “Restoring EU Competitiveness” report are not the same as the EFSI sectors, they have been regrouped into the EFSI sectors to facilitate the analysis.



Source: EV based on EIB: “Restoring EU Competitiveness” report (2016)

Figure 20 shows the distribution of total investment mobilised by EFSI sectors (based on signed operations). We see that the distribution of total investment mobilised largely mirrors the distribution of investment gaps; the sectors with the largest investment gaps (e.g. RDI, energy) are also the sectors with the biggest shares of EFSI investments (24% and 21% respectively). Therefore EFSI investments went to sectors where investment gaps existed and were, more or less, proportional to the relative size of the investment gap. It should be noted that this analysis did not cover all sectors where investment gaps exist.



Source: EV, based on data from EIB services

Some sectors have been supported through both the IIW and SMEW, for instance RDI, smaller companies, digital, and social infrastructure. Other sectors have been supported only through the IIW (for example energy, transport, and environment and resource efficiency), as these sectors are typically characterised by big ticket infrastructure projects, engaging larger companies.

In terms of total (both IIW and SMEW) signed amounts, energy, RDI and smaller companies are the leading sectors. However, in terms of investment mobilised, smaller companies represent the

⁶⁶ Estimates of the annual investment deficits are based on the figures for “Current” and “Required” investment needs as presented in the EIB “Restoring EU Competitiveness” report 2016 and Table 2.

largest sector as the external multiplier for this sector is extremely high under the SMEW (x46.47).⁶⁷

Looking ahead, and with a view to ensuring a wider sectoral coverage of EFSI, the revised EFSI Regulation expands eligible sectors to include other sectors, namely sustainable agriculture, forestry, fishery, aquaculture, and other elements of the wider bio-economy. The revised EFSI Regulation also places emphasis on the importance of cross-border projects, as projects consisting of physical infrastructure linking two or more MS (including e-infrastructure), infrastructure extension or relevant services are considered to provide strong indication of additionality.

Box 4: Cross-border financing and market failures

EFSI can play an especially important role in the financing of cross-border projects. By their nature, cross-border projects oftentimes face specific issues in attracting financing, both private and public. For institutional and business reasons, banks in the EU-28 focus largely on the national markets. The same holds true for credit guarantee institutes, which are generally funded with national public funds. Public financing also mainly focuses on the infrastructure situated on the national territory. This is further aggravated by the fact that many cross-border projects are large infrastructure projects, requiring large financial commitment while generating revenue only in a relatively distant future and therefore often suffering from market failures due to their public goods nature. This dual difficulty creates a scope for public financing at the European level, namely through EFSI. An example of such projects is provided by Trans-European Networks (TENs). The latter suffer from market failures due to their public good nature and (positive & negative) externalities. TEN-Transport affect accessibility, labour supply & trade, leading to expanding production, stimulating structural change, altering TFP and GDP growth. However private firms do not factor in social benefits and private returns are small and long-term. This creates a clear scope for EFSI involvement. Thus, 1.1% of the total financing under EFSI is devolved to the TEN-Energy programme, while 9.4% serves TEN-Transport. Overall, more than 10% of EFSI financing targets the TENs where considerable market failures exist.

⁶⁷ The next highest external multiplier for an EFSI sector under the SMEW is x6.51 for the digital sector, and the highest external multiplier for an EFSI sector under the IIW is x6.35 for the social infrastructure sector.

4. RESULTS ACHIEVED – PROVIDING ADDITIONALITY

Summary

As outlined above, one of the eligibility criteria for the use of the EU guarantee is operations' additionality. According to the original (as well as the amended) EFSI Regulation (Article 5) operations provide additionality when: (a) they address market failures or sub-optimal investment situations, and (b) they could not have been carried out in the period during which the EU guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments without EFSI support. In the context of the original EFSI Regulation, operations were considered to provide additionality if they carried a risk corresponding to EIB Special Activities (SA), as defined in Article 16 of the EIB Statute and by the EIB internal credit risk guidelines (although other additionality aspects were also analysed and documented). In the context of the amended EFSI Regulation, SA status provides a strong indication of additionality but no longer a direct link with it.

This Chapter addresses the dimensions of additionality described above. The first part presents the additionality of EFSI operations in comparison to “traditional” EIB activities. It examines the extent to which EFSI operations provided additionality by virtue of being SA and assesses whether the EIB could have financed the entire portfolio of EFSI operations in the absence of the EU guarantee. This is complemented by an analysis of EFSI operations' risk profile to assess to what extent EFSI operations entail a risk corresponding to that of EIB SA. The second part presents the additionality of EFSI operations in terms of addressing market failures or sub-optimal investment situations.

This evaluation finds that, as of 31 December 2017, 98.8% of EFSI operations (by number) were classified by the EIB as SA at signature and hence, according to the original EFSI Regulation, were additional by definition. The 1.2% of EFSI operations that were not SA were also considered by the EFSI Investment Committee (as foreseen in the Regulation) to meet the additionality requirements. Moreover, the EIB Group could not have financed the portfolio of EFSI operations in the absence of the EU guarantee without potentially impacting its lending capacity, risk profile and, ultimately, the sustainability of its business model. The evaluation finds that EFSI and non-EFSI SA operations have similar risk profiles. However, the credit quality of the EFSI portfolio improved post-signature, with roughly one quarter of operations seeing an upgrade (reflecting the decrease in risk).⁶⁸ This can be explained by the decreasing effective maturity of the operations as well as by the EIB's annual updates of the probability of default risk parameter.

As regards the requirement that EFSI operations should address market failures or sub-optimal investment situations, it is worth noting that although the concept of market failures is a basic concept of economics (see Box 6 for the main sources of market failures), its operationalisation – i.e. the ways in which public banks and financial institutions assess on the one hand the existence of market failures, and on the other hand the extent to which and how their operations address them – is subject to different interpretations. In line with Multilateral Development Banks (MDBs) and other International Financial Institutions (IFIs), the EIB has traditionally operationalised the concept of “addressing market failures” and additionality as “providing inputs that go beyond what could be provided by the market”. The EIB Statute stipulates that “support for investments shall be provided to the extent that funds are not available from other sources on reasonable terms” – *as a result of market failures* one might add. This criterion has traditionally been assessed for all EIB operations through Pillar 3 of the Three Pillar Assessment (3PA) for operations inside the EU and through the Results Measurement Framework (ReM) for operations outside the EU (see Section 6.2.2 for more detail). The Evaluation Cooperation Group (ECG) Good Practice Standards for Private sector operations suggest that assessing additionality should be based on “a counterfactual assessment of how the project would have (or would not have) proceeded without IFI support”, considering both financial and non-financial support.⁶⁹ Finally, one can ask not only whether the project could have obtained comparable inputs from the market

⁶⁸ This analysis applies up to end-December 2017.

⁶⁹ Evaluation Cooperation Group (2012): Big Book on Evaluation Good Practice Standards.

but also what would have happened to the project in the absence of EIB/IFI support, as suggested by the Donor Committee for Enterprise Development (DCED).⁷⁰

Therefore, this evaluation adopts two approaches to operationalising the concept of “addressing market failures”. The first looks at the (financial and non-financial) inputs that the EIB Group provided that go beyond what the market could have provided. The second, more restrictive, assesses not only what “extra” inputs were provided by the EIB Group, but also what would have happened to the operations (in terms of scope and timing) in the absence of such support. This evaluation used survey data both from an original EV survey of final beneficiaries under the IIW, as well as from an EC survey of a subset of final beneficiaries under the COSME LGF (SMEW), following the approaches to operationalising additionality described above. The analysis was complemented by in-depth case studies and review of the information on additionality presented in project appraisal documents (including the Scoreboard) for a sub-set of IIW and SMEW operations (see Section 6.2.2 on appraisal tools and Annex 1 for more detail).

The survey of final beneficiaries conducted by EV showed that, according to the traditional EIB/MDB definition, 98% of debt operations under the IIW addressed market failures; EFSI-backed EIB financing provided inputs beyond what the market could have provided. Case studies provided examples of unique financial inputs compared to what would be available on the market (as well as to what the EIB could provide in the absence of EFSI): innovative products such as quasi-equity, hybrid loans, risk-sharing arrangements, and debt instruments with very long tenors. Valuable non-financial inputs were mainly positive signalling effects that resulted in the crowding in of other investors and, in some cases, the acceleration of investments, or, in other cases, the maintenance of investment levels through time. Using the more restrictive definition, the surveys showed that 67% of IIW operations and 76% of SMEW operations addressed market failures as the projects supported would have had to stop or be scaled down or developed at a slower pace without the EFSI-backed, EIB Group financing.

Similarly, almost all project documents examined (99%) provided information in support of additionality (in line with the five dimensions of additionality outlined in internal EIB Guidance): a) 95% claimed operations addressed market failures, b) 96% claimed operations carried a high risk profile, c) 99% claimed there was a catalytic effect for other sources of financing, d) 74% claimed operations expanded EIB activities in new areas, and e) 16% claimed operations benefitted from advisory support. For the SMEW equity transactions, 99% of operations claimed they addressed market gaps in the provision of financing, 98% asserted that EIF contribution had a positive influence on the terms and conditions of the fund, and 93% claimed that EIF contribution had a catalytic effect and facilitated the financial viability of the beneficiary fund.

4.1 Additionality to traditional EIB operations

While additionality in terms of addressing market failures and sub-optimal investment situations is in fact a typical requirement for public institutions, the requirement that under EFSI the EIB Group's scope of financing is expanded beyond that of “traditional” EIB and EIF operations, as well as beyond that of other EU instruments, is specific to EFSI. This expansion can happen across various dimensions: For example in the case of EIB operations, it happens in relation to increased risk-bearing capacity (increased volumes of higher risk operations compared to traditional EIB lending activities) as well as through the development of new and higher-risk products, the expansion of activities to new counterparts or markets, and the undertaking of smaller and more complex operations, as well as new forms of cooperation with NPBs and other financial intermediaries. These changes in the EIB's activities are presented in more detail in Chapter 6 (particularly Sections 6.1 and 6.4). In the case of EIF operations, the expansion happened initially in relation to time: existing instruments were front-loaded so as to have the capacity to support more operations in a shorter amount of time, while new products have been developed and are being rolled out. The extent to which EFSI is complementary to (i.e. does not duplicate) existing Union instruments is examined in Chapter 5.

⁷⁰ Donor Committee on Enterprise Development (DCED) (2014): Demonstrating Additionality in Private Sector Development Initiatives.

4.1.1 EIB Special Activities

According to Article 5 of the original EFSI Regulation, SA are considered additional by definition:

“The projects supported by the EFSI, while striving to create employment and sustainable growth, shall be considered to provide additionality if they carry a risk corresponding to EIB special activities, as defined in Article 16 of the EIB Statute and by the credit risk policy guidelines of the EIB.” From the standpoint of the EFSI Regulation, as of December 2017, 98.8% of the EFSI operations (by number) are additional by definition by the mere fact that these are Special Activities.⁷¹ The 1.2% of EFSI operations that were not SA were also considered by the EFSI Investment Committee (as foreseen in the Regulation) to meet the additionality requirements.

It can, however, be argued that SA (i.e. high risk operations) do not necessarily address market failures. The lack of market support for some high risk projects may be not due to market failure, but rather to an efficient risk/reward considerations of the investors that may not be aligned with the interests of the borrowers. Indeed, in the amended EFSI Regulation, SA are no longer considered additional by definition but SA status provides a strong indication of additionality.

Box 5: What are Special Activities?

Special Activities (SA) is the collective denomination for those activities that entail risk greater than the risk generally accepted by the EIB and defined as:

- Lending/guarantee operations with a lifetime expected loss equal to or greater than 2%;
- Infrastructure funds and other funds participations, venture capital activities, equity operations and other operations with an equivalent risk profile.

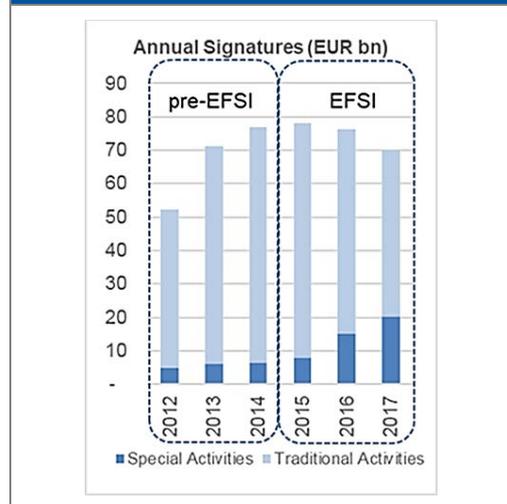
The EIB Statute (Article 16) requires the Bank to have a special allocation of reserve (‘Special Activities Reserve’) to protect the Bank from unexpected losses of SA.

Figure 21 illustrates the evolution of the volume of annual signatures of the EIB Group between 2012 and 2017. While the total volume of annual lending remained more or less stable from 2014 to 2017, the share of SA increased sharply with the implementation of EFSI. SA increased from EUR 7bn, representing 9% of the total amount by signatures in 2014, to EUR 20bn representing 29% of the total amount by signatures in 2017.

While some individual operations could have been financed by the EIB Group as SA without the EU guarantee, interviews with relevant internal staff indicate that it would not have been possible for the EIB Group to finance the whole EFSI portfolio without having a negative impact on its overall lending capacity, risk profile, and reserves, and potentially on its credit rating.

The eligibility of individual operations for the EU Guarantee under the IIW is assessed in project appraisal documents, including the Scoreboard that is reviewed by the EFSI Investment Committee.⁷² Among others, the Scoreboard describes in what way the proposed operations carry a higher risk than that generally accepted by the EIB.

Figure 21: Volume of annual signatures (in bn EUR) and share of SA, EIB, 2012-2017

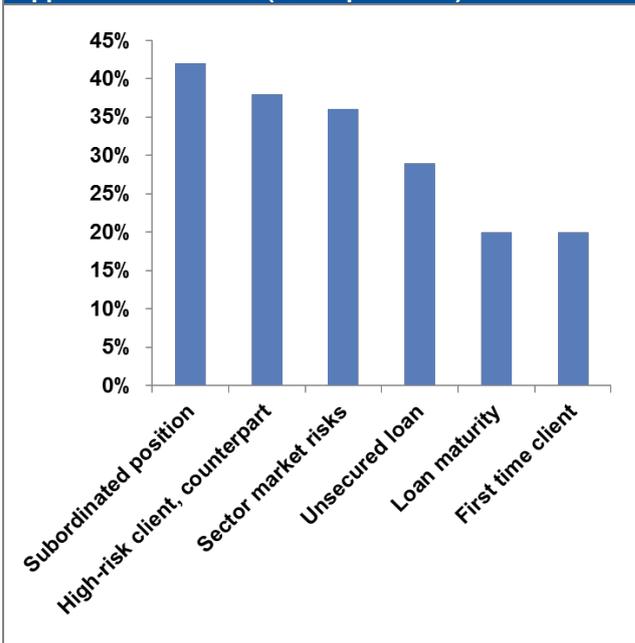


Source: EV

⁷¹ The 1.2% of EFSI operations that were not SA were also considered by the EFSI Investment Committee (as foreseen in the Regulation) to meet the additionality requirements.

⁷² Chapter 6 provides more information on project appraisal tools.

Figure 22: Types of risk reported in EFSI-IIW project appraisal documents (% of operations)

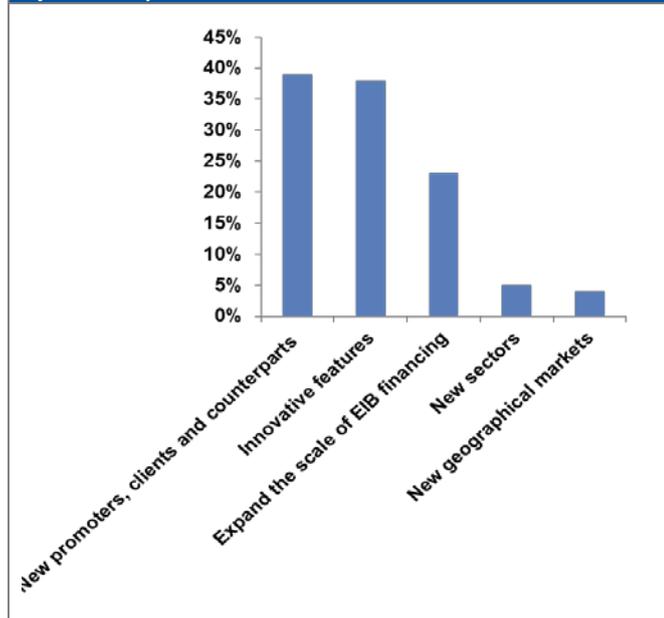


Source: EFSI-IIW project appraisal documents. Sample size: 137 (2015-2017).

An analysis of the full population of project appraisal documents available (as of August 2017), carried out for this evaluation, shows that the higher risk of EFSI operations is due to a number of reasons. Figure 22 shows that in 42% of cases analysed, the higher-than-normal risk was explained by the subordinated position taken by the EIB, in 38% of cases it was due to the high risk profile of the client/counterpart, while in 36% of cases the higher risk was justified by specific sector market risks.

Moreover, the expansion of EIB activities to new clients, products and sectors without the EU guarantee, would have also increased the EIB's risk profile. Figure 23 shows the main areas of activities expansion resulting from EFSI financing, as reported in EFSI-IIW project appraisal documents. The two main expansion activities are the exposure to new promoters/clients/counterparts and the innovative features of the operations financed under EFSI.

Figure 23: Evidence of expansion of EIB activities (% of operations)



Source: EFSI-IIW project appraisal documents. Sample size: 137 (2015-2017)

Finally, with respect to the SMEW, the EIF could not have financed EFSI operations to the same extent and within the same time frame without the EU guarantee. The combination of the high demand for equity participation, intermediated lending and guarantees for SMEs on the one hand and the EU guarantee on the other hand, allowed for large volumes of financing to be delivered 'front-loaded' at the start of EFSI. This allowed the EIF to work in parallel on the development and subsequent deployment of new products in favour of SMEs and Mid-caps. The operations under SMEW are by their nature high-risk and by definition SA.

4.1.2 Analysis of Risk Rating of EFSI Operations

The original EFSI regulation designates EIB operations rated as SA as additional and hence eligible for the EU guarantee. The evaluation assessed to what extent EFSI operations entailed a risk corresponding to that of SA. In particular, it analysed the recovery rates, one of the most important inputs for the calculation of a loan's (or other product) expected loss, and hence its risk

rating. It also analysed the loan grading at signature and the evolution of the credit quality of the EFSI portfolio over time up to end-December 2017.

Analysis of Recovery Rates

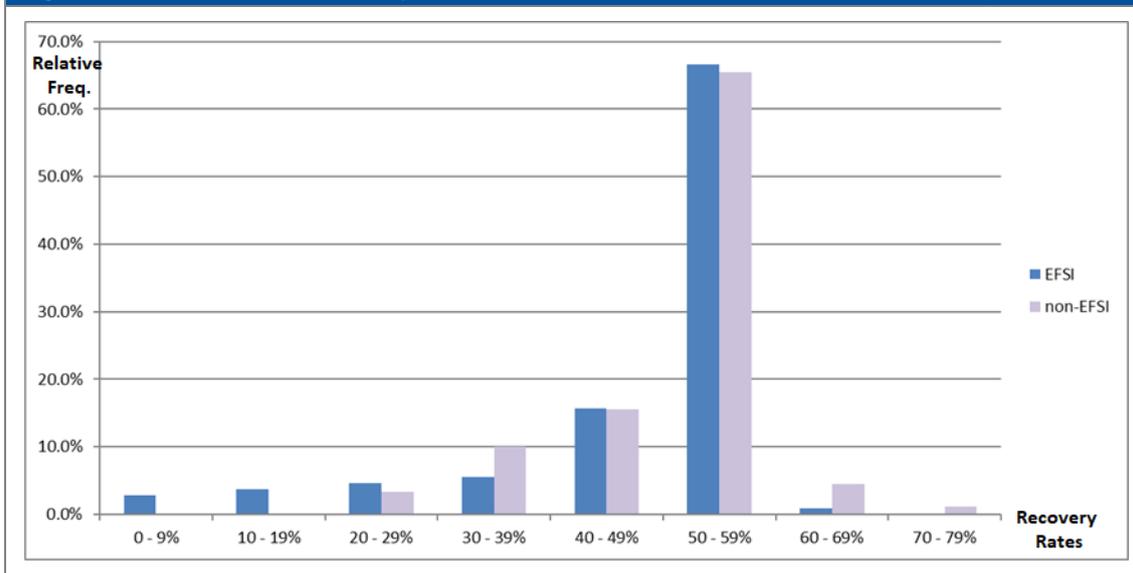
The borrower's recovery rate is used to estimate the fraction of exposure that will be recovered in case of borrower's default. In the EIB's application used for calculating the risk of loans, the recovery rate for a particular borrower and asset class is pre-assigned based on the output of corresponding internal risk models. These models are currently available only for senior unsecured exposures; however for loans to corporates, the EIB has an adjustment framework that addresses issues of structural and effective subordination or those related to the tangibility of borrowers' assets. A different than pre-assigned recovery rate can be applied to a borrower, by manually modifying the pre-assigned value either up or down, if deemed more representative of a particular borrower or contractual arrangement. Due to the lack of data on the recovery rates achieved in case of EIB's borrower default, such modification is carried out using expert judgment with the help of available credit analysis tools, such as the above-mentioned adjustment framework for corporates.

The evaluation carried out a comparative analysis of the senior unsecured recovery rates using two samples:

- a) Sample of EFSI operations during the time period 2015-2017; and,
- b) Sample of EIB's non-EFSI SA operations during the time period 2012-2014.⁷³

The sample of EFSI operations comprised 108 corporates with unsecured loans and excluded project finance, guarantees, hybrid bonds and MBIL; this was done in order to make the two samples more comparable. The non-EFSI sample comprised 90 corporate loans rated as SA (see Annex 1 for details).

Figure 24: Distribution of recovery rate values for EIB EFSI and EIB non-EFSI SA corporate loans



Source: EV

Figure 24 presents the distribution of recovery rates in the EFSI and non-EFSI SA samples. The figure shows that EFSI recovery rates are in line with non-EFSI SA. While both distributions are skewed towards the lower recovery rate values, the skew is somewhat more significant in the EFSI sample. This suggests, other factors equal, that EFSI operations are on average somewhat more risky than EIB's non-EFSI SA.

⁷³ The same time period could not be used as the vast majority of SA, during the EFSI period, are financed under EFSI.

The evaluation also carried out a comparative analysis of the volume, direction and size of the manual modifications of the senior unsecured recovery rates using the two samples described above. The results of the comparison show that approximately the same percentage of pre-assigned recovery rates was modified in both EFSI and non-EFSI SA operation samples (34% vs 37%, respectively). For the EFSI sample, 95% of the modified recovery rates were in a direction of higher risk and 5% were in the direction of lower risk. For the non-EFSI sample the percentage was 79% and 21%, respectively. A detailed analysis of those EFSI operations for which lower than pre-assigned recovery rate values were used, suggests that the main reason for modification of the values was the presence of structural or effective subordination to other lenders.

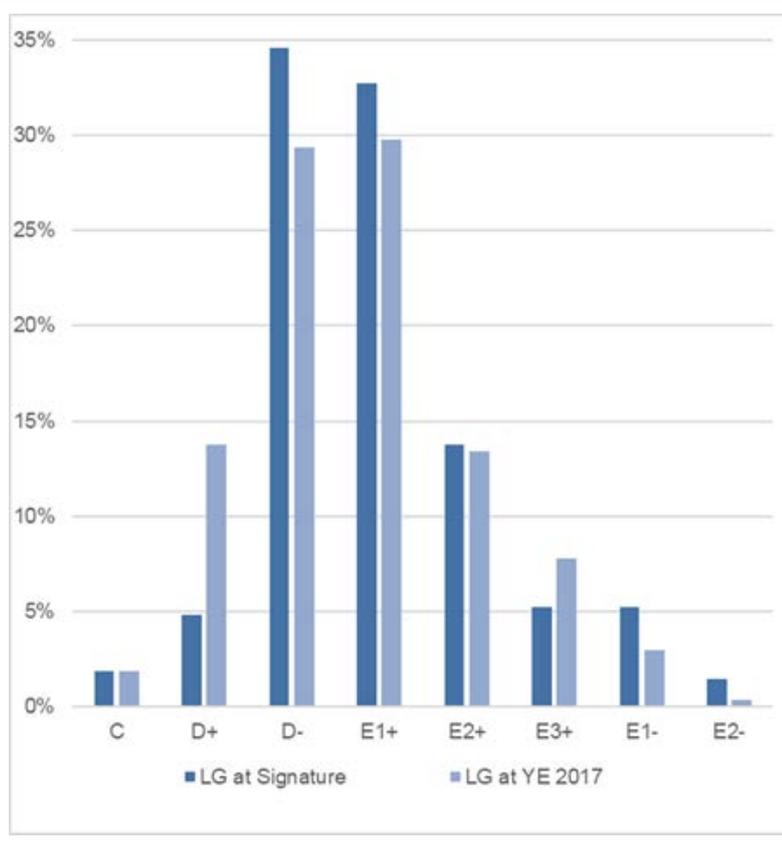
Analysis of EFSI portfolio Loan Grades

In order to understand the extent to which EFSI operations entail a risk corresponding to EIB SA, the evaluation examined not only the Loan Grades at signature, but also their evolution over time. Loan grades at signature were compared with Loan Grades as of end-2017. In total 279 EFSI contracts with Loan Grades at both reference points were obtained from EIB's internal data system.

The distributions of Loan Grades are displayed in Figure 25. It shows that, at signature, 93% of Loan Grades for this sample were D- or lower, and therefore classified as SA. It also shows that EFSI operations' Loan Grades were concentrated in mainly two grades; 'D-' and 'E1+'. These two grades encompass 67% of signed contracts at the time of signature and 58% of signed contracts as of end-2017.

A comparison of Loan Grades at signature to Loan Grades as of end-2017, shows that 66% of the Loan Grades remained unchanged since signature. Of the 34% of Loan Grades that have changed, 72% were upgraded (reflecting the decrease of risk) and 28% were downgraded (increase of risk).

Figure 25: EFSI Portfolio Loan Grading at signature and as of 31/12/2017



Source: EV

The evaluation carried out an analysis of internal factors driving the Loan Grade changes of EFSI operations. It found that the improvement of credit quality and associated migration of operations out of SA status, is mainly due to the fact that, other factors being equal, risk decreases as the time of exposure decreases. It is also due to the (annual) updates in the probability of default (PDs) used by the EIB for calculation of expected loss (and associated Loan Grades).

4.2 Addressing market failures

This Section examines to what extent EFSI operations are additional in terms of addressing market failures or sub-optimal investment situations (as per Article 5 of the EFSI Regulation). The main sources of information are the surveys of final beneficiaries (under both the IIW and the SMEW), in-depth case studies, and review of the information on additionality presented in project appraisal tools (presented in more detail in Section 6.2.2).⁷⁴

Market failures refer to situations where the market, if left alone, fails to generate a socially optimal outcome. Box 6 outlines the main sources of market failures. While the concept of market failures is a basic concept of economics, which has a clear text book definition, the concept of sub-optimal investment situations lacks a clear definition. Interviews revealed that the most common understanding is that of situations where the market fails to provide sufficient financing towards the achievement of public policy goals (e.g. research and development, or renewable energy). It could be argued that these public policy goals are defined based on an analysis of market failures and hence these two concepts are one and the same thing. However, to the extent that public policy goals may be defined based on other criteria, then the two concepts can be kept distinct. Nevertheless, in both cases, the EIB Group, as a public operator, is expected to step in and provide inputs (financing or other forms of support) that create incentives for the private sector to also invest (e.g. by resolving information asymmetries or assuming a portion of the risk). EFSI can thus address market failures or sub-optimal investment situations by providing financial and non-financial inputs that go beyond what the market could have provided during the same timeframe.

Box 6: What are the main sources of market failures?

The economic literature identifies various sources of market failures, which lead to inefficient allocation of goods and services. The main ones are the following:

- **Public goods:** this refers to goods and services that are non-rival (consumption by one agent does not preclude consumption by another) and non-excludable (it is impossible to prevent people from consuming it). By nature, it is difficult to charge agents for benefitting from a public good once it has been provided. Agents have no incentive to invest in these goods, however, their use without financial compensation leads to their gradual depletion, making the agents collectively worse off.
- **Market structure / imperfect competition:** in a perfectly competitive market, firms behave as price-takers and therefore produce the most efficient level of output. However, markets are oftentimes imperfectly competitive: monopolies or oligopolies typically reduce output below competitive levels and create entry barriers; market fragmentation can result in uncoordinated and inefficient outcomes; nascent industries fail to organise well enough to produce the socially optimal outcomes due to market rigidities.
- **Externalities:** positive or negative externalities occur when agents fail to internalise the social benefit (or cost) of their actions and indirectly impose them on third parties external to the transaction. Even if all markets were perfectly competitive, the presence of externalities would lead to allocative inefficiency as firms fail to weigh social benefits against social costs. One example of a negative externality is the pollution produced by firms that ends up in rivers or in the air. Firms fail to internalise the full social cost of their production. Merit goods are a form of positive externalities. These types of goods generate a market failure simply because individual consumption of the good has a positive spill-over effect on others. An example of such good is education, where the educated can share their knowledge with others. Positive externalities often lead to free-rider problems where individual economic actors who benefit from the resource do not pay for it, expecting others to do it.
- **Information asymmetries:** information asymmetries refer to situations where at least one of the agents involved in a transaction has incomplete or unreliable information. The two most common types of asymmetric information are adverse selection and moral hazard. Adverse selection arises

⁷⁴ Detailed information on survey design is provided in Annex 1. The survey of IIW beneficiaries contacted 156 operations (out of 184 signed operations identified as of end-August 2017), and received 94 responses, hence achieving a response rate of approximately 60%. The analysis for the SMEW was based on an online survey carried out as part of the interim evaluation of COSME that contacted 3,870 COSME beneficiary SMEs. The survey received 359 responses, hence achieving a response rate of approximately 9%.

when one of the economic agents has more accurate information prior to a transaction. Moral hazard is a situation in which the party with more information exploits it to their advantage by changing their behaviour after a deal has been struck (e.g. undertaking riskier behaviour after purchasing life insurance). This report focuses on credit rationing as a typical example of a market failure arising from an information asymmetry. Under certain circumstances, credit market information asymmetry can lead to a situation of credit rationing, in which demand from borrowers exceeds the supply of credit provided by lenders. In the case of adverse selection, for example, lenders are faced with two types of borrowers on the market: safe borrowers with a low probability of default, who are only willing to tolerate up to a certain interest rate because the payback would otherwise become too large; and, risky borrowers, who would accept a higher interest rate because they have a higher probability of default but a typically higher potential return if the project is successful. The lender does not hold enough information to know the type of borrower and therefore chooses the optimal interest rate which maximizes the expected return while rationing the supply of credit to minimize losses. In other words, at prevailing market interest rate, demand exceeds credit supply even though borrowers are able and willing to borrow at higher interest rates to access these funds because of the asymmetric information between lenders and borrowers. After the financial crisis, the risk absorption capacity of the financial sector became more constrained and the extent of credit rationing presumably larger. In the context of EFSI, the SMEW mainly addresses credit rationing, while the IIW is more diverse in the sources of market failure it tackles as it encompasses several EFSI sectors.

As discussed in Section 3.4.2, EFSI operations are in sectors where considerable market failures and under-investment exist. However, the case studies undertaken as part of this evaluation highlight that not all operations that take place in sectors where market failures exist actually address market failures as some projects in these sectors get financing from the market. As shown by the case study in Box 7, in order to address market failures, operations must finance projects that indeed lack sufficient financing on reasonable terms *because* of market failures.

Box 7: Case study example: The importance of addressing the causes of market failures

The evaluation conducted a case study of a project in the ICT sector, which is known to exhibit important market failures caused by (a) positive externalities, since firms do not account for the social benefits generated by expanding e.g. the broadband network to less populated (rural) areas that do not generate profits and (b) market concentration and monopoly-type structures leading to high entry costs. As a result of market failures, the private sector investment levels in the ICT sector, and especially for network expansion, are sub-optimal, providing a rationale for public intervention.

Part of the EFSI operation studied (approximately 30%) addressed market failures by supporting the expansion of the broadband network to less populated areas, together with co-financing from ESIF funds. However, the bulk of the operation consisted of supporting the main market player in upgrading the high-speed internet nationwide network with latest technology, which could have been financed by the market. This example illustrates that it is not sufficient for a project to be in a sector where there are market failures to provide additionality, but rather that it should address the known causes of the market failures – e.g. the issue of positive externalities not being considered in private operators' cost/return calculations. In this case, only 30% of the operation addressed market failures.

The IIW and SMEW surveys assessed whether operations addressed market failures in two ways. First, in line with the MDB/IFI/EIB general approach to assessing additionality (as reflected in the 3PA and REM), the evaluation assessed the extent to which the EIB, under EFSI, provided financial and non-financial inputs that go beyond what the market could have provided. This was only done through the EV survey for IIW operations as for the SMEW, the analysis relied on the COSME survey which did not ask these questions. Second, it assessed additionality against a counterfactual of what would have happened in the absence of EFSI; i.e. to what extent the projects would have had to stop or have been taken forward on a reduced scale or a within a

longer time frame.⁷⁵ This approach was applied to for both IIW and SMEW operations as the COSME survey included such questions (see Annex 1 for more details).

4.2.1 To what extent could the market have provided comparable financial and non-financial inputs?

The survey of IIW-debt final beneficiaries conducted specifically in the framework of this evaluation asked respondents what financial and non-financial inputs were provided by the EIB with EFSI support, and whether they could have received comparable support from market sources. Overall, 98% of EFSI final beneficiaries (of IIW debt operations) responded that the market could not have provided comparable support for at least one financial or non-financial input received from the EIB.⁷⁶

Figure 26 shows the share of respondents who thought that the market could not have provided comparable financial (light blue) or non-financial (dark blue) inputs. The distinction between financial and non-financial inputs is merely theoretical: financial inputs refer to terms associated with the lending and investment activities of the EIB Group, which are concretely defined in contractual documents, and are generally easily quantifiable and comparable between operations (e.g. maturity), while non-financial inputs refer to more abstract forms of support, which are generally not quantifiable (sometimes referred to as “soft enhancement” e.g. signalling effects to markets about the viability of an investment).⁷⁷

As shown in Figure 26, non-financial aspects seem to prevail for the IIW. The positive reputational effect of having received funding from the EIB, the adoption of social, environmental or other standards, and the opportunity to attract other financiers thanks to EIB participation in the project were most often quoted by final beneficiaries as important inputs that went beyond what the market could have provided (mentioned by 83%, 77% and 76% respectively). This result reflects the fact that the EIB Group financing can not only address market failures directly, but also by alleviating some of their causes (e.g. information asymmetries, financial market fragmentation and others) by providing a positive signal on the value of the project. Indeed, positive reputational effects were also mentioned as an important input in approximately half of the case studies analysed, particularly for innovative companies (see Box 7), as well as for investment funds (see Box 8).

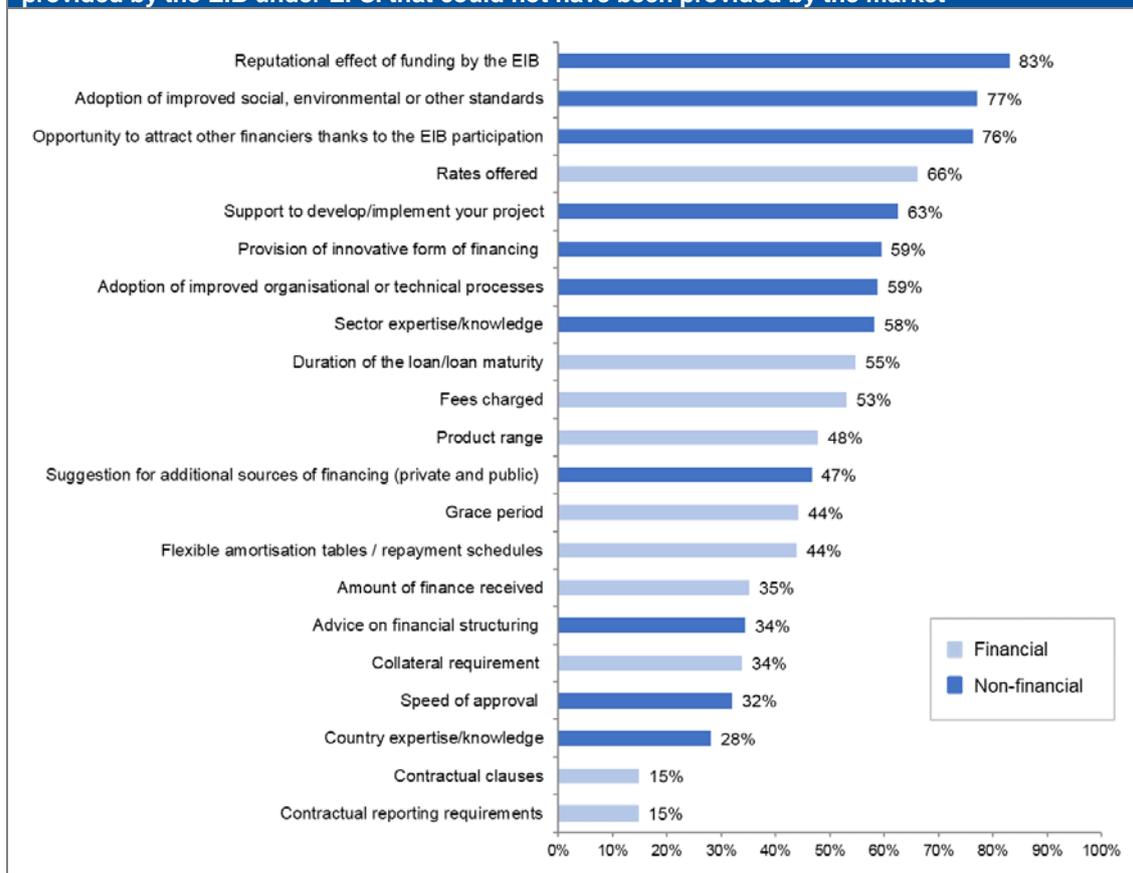
The importance of positive reputational effects is consistent with the evidence in support of additionality provided in project appraisal documents for EFSI IIW operations: 99% indicated catalytic effect and complementarity with other sources as evidence for additionality. More specifically, 74% indicated that EFSI financing and EIB participation would have a positive signalling effect with regards to the soundness of the investment and the creditworthiness of the clients, thereby providing market risk comfort and a stamp of approval, and building confidence and crowding in other private (mentioned in almost all cases) and public (mentioned in 16% of cases) investors.

⁷⁵ This counterfactual approach has been identified in the literature. For example, the Donor Committee for Enterprise Development (DCED) defines additionality as “the net positive difference that is expected to result from a donor-business partnership. The extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention” (Demonstrating Additionality in Private Sector Development Initiatives, 2014). Finally, the International Finance Corporation (IFC), in its “Additionality Primer” (2013) proposes a number of questions to assess additionality including the following: “Why is the private sector not doing this project on its own and why is there a need for IFC? What would happen without IFC’s involvement? Would the project still proceed? If yes, how? How are the expected results likely to be better with IFC involved?”

⁷⁶ The EV survey of IIW equity operations also asked whether the market could have provided comparable non-financial inputs but since the question was not asked regarding financial inputs, the results were not aggregated with the IIW debt results. Indeed, there are no specific financial conditions that can be compared to the market for equity products. Either equity can be provided by the market or it cannot.

⁷⁷ Receiving support from the EIB can send positive signals in local and international financial markets on the viability of the project, the company or the technological solution developed e.g. in the context of research activities, and thus motivate other investors (who may not dispose of the means to assess the operation, financial or technological risks) to also participate.

Figure 26: Share of IIV respondents who claim they received financial and non-financial inputs provided by the EIB under EFSI that could not have been provided by the market



Source: EV.

As regards financial inputs, the survey results show that 66% of respondents felt that they could not have received comparable terms with regards to cost of funding on the market, while 55% of respondents felt they could not have obtained the same loan maturity on the market. Similarly, 48% of respondents felt that they could not have received a comparable product range, while only one third felt that they could not have had comparable collateral requirements on the market.

The results on the unavailability of appropriate financing are generally consistent with the evidence in support of additionality provided in project appraisal documents. As mentioned above, 95% of the documents reviewed provided claims that operations addressed market failures and sub-optimal investment situations. The evidence provided most often referred to the following market failures: limited availability or access to finance on local markets (64% of operations), limitations in the solutions and conditions offered by the market (47%), limited risk appetite of commercial lenders (29%), and limited access to finance for SMEs and Mid-caps (29%). It should, however, be noted that the extent to which the existence of market failures was substantiated varied significantly, with some operations merely referring to the presence of market failures or sub-optimal investment situations without elaborating on their causes or explaining how they affect the specific borrower requesting EFSI financing.

Box 8: Case study example: Achieving positive reputational effects

The sector of Research, Development and Innovation (RDI) suffers from information failures (imperfect and asymmetric information). Inherent risk (due to uncertainty of outcomes) and high transaction costs (due to lack of capacity to analyse complex innovative projects) often deter investors from providing adequate levels of financial resources. Debt financing from commercial banks can be a challenge as growth-stage companies are usually loss-making and perceived as very risky. Raising equity is hampered by information asymmetries (investors not being able to appraise investment opportunities)

and market fragmentation, and might not always be the shareholders' preferred option as it leads to dilution. This in turn restricts firms' investment capacity, especially that of innovative SMEs or Mid-cap companies trying to raise "small tickets" (between EUR 0.5 and 2.5m) of growth capital to expand their operations.

The European Growth Finance Facility (EGFF) under EFSI aims to address the issues described above by providing quasi-equity loans to innovative SMEs and Mid-cap companies. Quasi-equity investments are similar to equity as they de facto expose the investor to the performance of the investee business (e.g. by having variable returns depending on the performance of the business), but different as they do not dilute ownership structures. EIB quasi-equity instruments are highly innovative (there is currently very limited to zero offering on the EU market) and complex.

One of the case studies consisted of an EGFF quasi-equity loan to a highly innovative firm providing cutting edge solutions in its sector of activity. Having raised early-stage funds from research grants, incubators, angel investors, and a successfully completed IPO, this firm later faced difficulties in raising sufficient funds in appropriate terms to cover their long-term operational and RDI investment costs. On the one hand, it was reluctant to raise more equity as it would dilute existing investors, and the structures discussed with potential investors were considered too aggressive (especially as potential investors did not have the capacity to aptly appraise risk). On the other hand, commercial banks provided credit lines that were insufficient compared to its financing needs, in terms of volume and maturity (as some of the funds would be used to finance further RDI activities with uncertain and/or long-term returns). The quasi-equity support provided under EFSI addressed the company's needs in terms of amount, maturity and specific terms (avoiding dilution), and was additional to what could have been provided by the market.

EIB support also contributed to resolving information failures: EIB experts were aware of current opportunities and challenges in the specific sector, and could understand the company's potential – unlike other generalist/commercial funds that lack the capacity to appraise highly specialised/innovative investment opportunities. EIB support not only increased the investee company's capacity to attract other private investors (through positive signalling effects and increased valuation), but also improved their position when negotiating contracts with large clients.

This example illustrates how EFSI operations can provide additionality by addressing the causes (e.g. information asymmetries) or the results of market failures (i.e. resolving financing constraints) by providing financial and non-financial inputs.

The above-described findings on the importance of the signalling effects of EFSI support are consistent with the findings of the review of appraisal documents of SMEW equity transactions. 89% of transactions reviewed asserted that the transaction provided a signalling effect, thereby attracting other investors to the beneficiary fund or the related market. In addition, 74% of transactions reviewed argued that the transaction supported an emerging management team, or stabilised an experienced one (see Box 9).

Box 9: Case study example: Achieving positive reputational effects and building better-functioning capital markets

In the private equity sector, reputation is essential, as investors need to be confident about the teams managing their asset portfolios. The lack of track record for "first-time teams" in early rounds of fundraising can be seen as a form of information failure, whereby potential investors lack sufficient information on their investment capacity and so refrain from investing in their funds. It is also especially relevant in the context of European financial markets, which are considered under-developed compared, for example, to US markets. Information gaps are an issue not only for first-time investment teams, but also for small or inexperienced potential fund investors, who might lack the capacity or resources to appraise funds.

Through their investments in funds, both the EIB and the EIF can have positive reputational effects, especially for first-time teams, and thus improve their ability to attract other investors, both in the short-run (contributing to the closing of existing funds), but also on the long-run (for subsequent funds). These reputational effects are closely linked with their highly demanding Due Diligence standards; EIB or EIF participation in a fund is used as an "information shortcut" for other investors.

In addition to thorough Due Diligence, the EIB and the EIF are considered as "demanding" investors because they often require investee funds to adopt improved environmental, social and governance

(ESG) standards. During interviews, investee fund managers mentioned that with encouragement and support from the EIB (IIW) or the EIF (SMEW), they improved their governance structures (in line with best practices), put in place enhanced monitoring systems (which although initially only meant for the EIB Group were then used for other investors), or adopted higher ESG standards. With reference to the latter, this was especially useful not only for the functioning but also for the marketing of funds, as investors are increasingly looking not only for profitable but also responsible investments.

In addition to addressing incomplete information, fund investments under EFSI can also partially address the fragmentation of European financial markets. The venture capital ecosystem in the EU is still characterised by high fragmentation across national borders, and the EIB Group, as an international investor who can also attract co-financiers across borders, can play an essential role. This was the case for two of the investment funds visited, where EIB Group support was essential in attracting other international co-financiers. In one case in particular, the first-time team had already completed a first closing which was, however, below the target fund size, and had only secured investments from the country where the team was based. This was an issue as it decreased the fund's credibility as a pan-European fund. EIB Group support internationalised the investor base, and attracted institutional investors from other MS.

EFSI support from the EIB Group can play a significant catalytic role for investment funds, as rigorous Due Diligence and Environmental, Social and Governance (ESG) standards can address issues of incomplete information in financial markets – especially for first-time teams. Receiving EFSI support creates strong positive signalling effects, and crowds in other financiers (large and small, as well as cross-border), thus contributing to the development of better functioning capital markets.

4.2.2 To what extent would the projects supported by EFSI have had to stop, be scaled down, or developed at a slower pace, without EIB financing?

To assess what would have happened in the absence of EFSI-backed financing, the evaluation used the survey of IIW final beneficiaries, together with the 2017 EC survey of final beneficiaries of the COSME LGF. Given that (at the time) COSME LGF beneficiaries constituted 94% of EFSI-SMEW beneficiaries for debt instruments, and that the questions were reasonably comparable, the evaluation used the COSME data as a proxy for the SMEW overall (see Annex 1 for details).

Table 5 shows the results of the two surveys for each window.

Table 5: EFSI beneficiaries that would have to end, scale down, or slow down their projects in the absence of EFSI, by Window		
	Share of final beneficiaries	
	IIW	SMEW
Final beneficiaries that would have to end their projects in the absence of EFSI financing	16.0%	33.7%
- final beneficiaries applied for external financing for their project but were unable to get it OR		
- final beneficiaries applied for EIB finance because market finance was not available OR		
- final beneficiaries would have to cancel their projects if the EIB/COSME had refused to provide financing.		
Final beneficiaries that would have to scale down their projects or develop it at a slower pace in the absence of EFSI financing	51.1%	41.8%
- final beneficiaries would have to scale their projects down had the EIB not provided financing OR		
- final beneficiaries would have unlikely or highly unlikely found private investors for the same volume of funding within the same timeframe.		
TOTAL	67.1%	75.5%
<i>Source: IIW results based on survey carried out for this evaluation (94 respondents in total, 73 debt and 21 equity operations); SMEW results based on EU-COSME LGF survey carried out as part of the Interim Evaluation of COSME by the EC (359 respondents in total).</i>		

The survey results show that, for both windows, the majority of EFSI-supported projects would have had to stop, be scaled down or developed at a slower pace in the absence of EFSI-backed EIB financing. Roughly 76% of SMEW projects and 67% of IIW projects, would have had to stop,

reduce their scope or be carried out at a slower pace if the EFSI financing had not been available. Approximately 34% of SMEW beneficiaries believe that they would have had to end their projects in the absence of EFSI financing. The share is much lower under the IIW (16%) as these are typically larger companies with a wider access to finance (see case study in Box 10 for example). At the same time, more than 50% of IIW respondents believe they would have had to reduce the scope of their project or carry it out at a slower pace had EFSI financing not been available. The flip side of the coin is that, according to the survey results, roughly 33% of IIW operations and 24% of SMEW operations could have gone ahead, unchanged and within the same timeframe without the EFSI-backed EIB participation. It is however important to note, that products under the SMEW aim to not only expand financing, but also offer improved credit conditions (e.g. through reduced collateral requirements and reduced interest rates) compared to the conditions available to SMEs without such products.

It is important to highlight that even though in some cases final beneficiaries might have been able to carry out their project without EFSI financing, this might have affected other future investment decisions. This was for example the case for some of the IIW operations visited, where, when asked about what would have happened in the absence of EFSI support, final beneficiaries responded that they might have used alternative sources (including own resources or market alternatives) but that might have limited other investment activities or forced them to postpone or spread them through time (see Box 10).

Box 10: Case study example: Supporting the scope and timeliness of investments

One of the cases studied was a hybrid bond in support of a company's large-scale capital expenditure (CAPEX) programme.⁷⁸ Despite having access to a range of public and private sources of finance, this company required hybrid rather than simple debt financing which, due to its deeply subordinated structure, would receive partial equity recognition from rating agencies, and would thus not put pressure on the company's leverage.

Under EFSI, the EIB is now able to provide hybrid debt financing, which not only caters to investors' needs, but also functions as a "pilot" for local and international hybrid transactions.

Regarding the counterfactual scenario in the absence of EFSI financing, the company would have looked for other sources of financing to carry out this project. In the context of such large capital expenditure (CAPEX) programmes, it is impossible to conclude that the programme would have been entirely cancelled. At the same time, however, the company would have had difficulties in finding similar terms on the market, and to avoid issues with their leverage, would have had to re-structure their investment activities, e.g. through reducing or delaying spending in other areas.

In addition to the added value provided to the company, this highly innovative transaction was an important learning experience. Finalising complex financial and legal aspects for partial equity recognition required significant effort from the client and EIB Services, but also set standards for future hybrid debt operations.

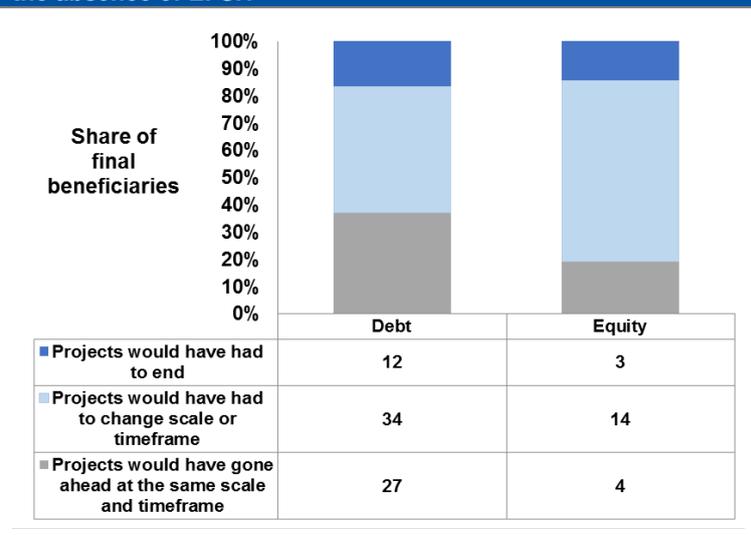
Bearing in mind the range of clients that can be supported, from micro and small enterprises struggling to receive debt financing from commercial banks, to large companies, it is important to remember that present investment decisions can affect future decisions. Especially in the context of large CAPEX programmes, EFSI financing is likely to be one piece of a complex financing puzzle.

EFSI can not only support the volume, scope and timing of such large CAPEX programmes, but also provide value added in other dimensions, such as the provision of innovative forms of financing, which also contributes to the development of more sophisticated financial markets.

⁷⁸ Hybrid debt is a mix between traditional debt and equity instruments; it is a deeply subordinated loan (due to long maturity and being junior to other lenders), has a long non-callable period, and receives partial equity recognition from rating agencies upon satisfaction of certain conditions, thus allowing the borrower to maintain strong credit metrics and to borrow further from other sources (expected catalytic effect).

The evaluation also assessed whether the extent to which the projects would have gone ahead without EFSI depended on the type of product received.⁷⁹ Figure 27 shows that equity operations under the IIW were the least likely to go ahead without EFSI (only 19%) while investment loans were the most likely (37% of the projects would have been undertaken even without EFSI).⁸⁰ These findings are consistent with evidence collected from discussions with final beneficiaries and co-investors (Financial Intermediaries) in the context of the case studies. Interviews indicated a need

Figure 27: What would happen to EFSI IIW financed projects in the absence of EFSI?



Source: EV; Numbers indicate the number of respondents.

for innovative financing, such as quasi-equity instruments, especially for innovative SMEs, in order to provide non-diluting long-term financing, which is complementary to more short-term financing offered by commercial banks. The analysis could not be refined for the product categories within the debt category (framework loans, guarantees and Multi-Beneficiary Intermediated Loans) given the small number of respondents.

⁷⁹ This analysis was only carried out for the IIW as the COSME LGF survey was only for debt operations.

⁸⁰ It should be noted that equity operations are more capital-consuming than debt (see Chapter 6).

5. EFSI COMPLEMENTARITY AND COORDINATION

Summary

In order to maximise its impact on the EU economy, EFSI has to avoid overlapping with existing financial instruments, and instead “complement, be combined with, or strengthen or enhance existing Union programmes or other sources of Union funds or joint instruments” (EFSI Regulation Annex II Article 3). Furthermore, it has to leverage on the involvement of NPBs/NPIs – rather than duplicate or crowd out their effort – considering their competitive advantage in terms of knowledge of national markets. In addition, the IPE envisaged its three Pillars as complementary; thus, the implementation of EFSI could be affected by the degree of progress on the other two Pillars.

This chapter is organised as follows. First, it analyses the complementarity between EFSI and the European Structural and Investment Funds (ESIF) as well as the Connecting Europe Facility (CEF). Second, it assesses the complementarity between EFSI and other EU financial instruments. Third, it examines the complementarity and coordination between EFSI and NPBs/NPIs. Fourth, it analyses the extent to which the two other IPE pillars affected the implementation of EFSI.

The evaluation finds that combination of EFSI with ESIF as well as CEF has been very limited, mainly due to differences in their legal bases. However, EFSI was complementary to other EU instruments, for example by catalysing the use of other EU funds through the frontloading of existing guarantee instruments. EFSI is generally complementary with NPBs, although there is some potential for overlaps and crowding out. Interviews revealed that by and large coordination between EFSI and NPBs is broadly adequate and could potentially improve the effectiveness of EFSI by building on the NPBs’ knowledge of the local markets, but there is scope for improving efficiency. Finally, no evidence was found that the other two Pillars of the IPE had an impact (positive or negative) on the implementation of EFSI.

5.1 Complementarity requirements in EFSI design

The importance of complementarity between EFSI and other EU interventions is evident in the legal framework of the former. As per its Regulation, EFSI is required to be complementary to other sources of public funding and to be coordinated with a variety of EU programmes so as to generate synergies (Article 9). Furthermore, the investment guidelines for EFSI set out the general principles for the complementarity of EFSI vis-à-vis other EU financial instruments to be observed in the implementation of EFSI (EFSI Regulation Annex II, Article 3):

- a. *in order to avoid duplication of existing financial instruments, the EU guarantee may complement, be combined with, or strengthen or enhance existing Union programmes or other sources of Union funds or joint instruments,*
- b. *over the course of the EFSI investment period, investment supported by the EFSI shall in principle not crowd out the use of other Union financial instruments,*
- c. *attention shall be paid to the complementarity of new infrastructure and innovation window products focusing on SMEs and small Mid-cap companies with existing EU financial instruments and EFSI financial instruments under the SME window so that the highest level of efficient use of financial resources is achieved. Nonetheless, a cumulative use of instruments shall be possible in particular in cases where the usual support is not sufficient to kick-start investments.*

With regards to cooperation with NPBs/NPIs, the Regulation (Article 9) also specifies that “The EIB shall use the EU guarantee for supporting investment platforms or funds and national promotional banks or institutions that invest in operations meeting the requirements of this Regulation (eligible vehicles), after approval by the Investment Committee”. Furthermore, Recital 34 of the EFSI Regulation specifies that “*In order to reach the initial target of EUR 315 000 000 000 within the shortest possible time, national promotional banks or institutions and investment platforms and funds, with the support of the EU guarantee, should play a prominent role in identifying viable projects, developing and, where appropriate, bundling projects, and attracting potential investors.*”

Finally, the design of the Investment Plan for Europe (IPE) assumed that its three Pillars were complementary parts “of a comprehensive strategy designed to address uncertainty surrounding public and private investments and to reduce the investment gaps in the Union” (Recital 11 of the EFSI Regulation): mobilising finance for investment (EFSI), making investment reach the real economy (Pillar 2) and lifting barriers to investment (Pillar 3).

5.2 Complementarity between EFSI, ESIF and CEF

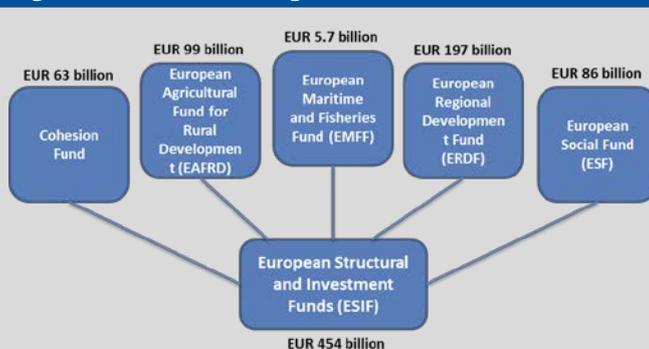
5.2.1 Combination between EFSI and ESIF

Among its horizontal and Fund-specific objectives, ESIF aim at mobilising investment, support structural reforms, encourage private sector financing, address market failures and improve the investment climate. Thus, EFSI and ESIF share similar objectives and both pursue the Europe 2020 strategy for smart, sustainable and inclusive growth. In regions where both ESIF and EFSI financing is available, they are expected to be used in a complementary manner and not duplicate or crowd each other out.

Box 11: Short overview of the European Structural and Investment Funds

ESIF are the European Union's main investment policy tool to reach the objectives of the European 2020 Strategy for smart, sustainable and inclusive growth. They comprise five EU funding instruments (European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Cohesion Fund). It has a budget of EUR 454bn in the period 2014-2020, delivered through more than 500 operational programmes throughout the EU. Once combined with national co-financing of EUR 183bn, the total investment amounts to a minimum of EUR 637bn.

Figure 28: ESIF and Budget Allocation 2014-2020



Source: EC 2015, *European Structural and Investment Funds 2014-2020: Official texts and commentaries*

As of 31 December 2017, out of all 606 signed operations, a total of 26 IIW⁸¹ and 2 SMEW⁸² operations involved a combination EFSI-ESIF. They represented 4.6% of all signed operations and approximately 9% of signed amount. As shown in Table 6, similar to the findings of EV's Mid-Term Evaluation of EFSI, the combination of EFSI and ESIF has been rather limited so far.

Table 6: EFSI operations co-financed with ESI Funds

	Number of operations (and share)	Signed amount (million EUR) (and share)
IIW	26 (9.4%)	3 286 (12.0%)
SMEW	2 (0.6%)	119 (1.2%)
TOTAL	28 (4.6%)	3 405 (9.1%)

Source: Data from EIB services; Signed amount refers to the volume of funds committed by the EIB Group

A limitation to the combination of EFSI and ESIF stems from the fact that the ESIF Common Provisions Regulation (CPR), adopted in 2013, had not foreseen potential blending with initiatives such as EFSI. For example, the use of ESIF as a first loss piece in some EFSI operations is not foreseen in the Common Provisions Regulation (CPR).⁸³ ESIF funding can play that role only with respect to private financing, whereas the EIB's intervention through EFSI is public financing.

⁸¹ Of those, 23 were debt-type and 3 were equity-type operations.

⁸² Both equity-type operations.

⁸³ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social

Another limitation to the combination of ESIF and EFSI resides in differences in eligibility and reporting requirements, and some differences in applicability of state aid and public procurement rules. For instance, while EFSI does not constitute state aid and is not subject to EU state aid rules, ESIF support provided to businesses, unless granted on market terms, may be considered state aid, which is subject to EU state aid rules. This was perceived as an obstacle to the use of both funding sources according to stakeholders consulted for this evaluation and those who provided feedback to the 2016 EFSI Stakeholder Consultation.

The EC indicates that the revision of the CPR, through the Omnibus Regulation, would address such obstacles, and make the complementary use of ESIF and EFSI more efficient. For instance, under the new rules, ESIF support of financial instruments would be made on the basis of the ex-ante assessment/due diligence by the EIB Group for its contribution to financial products under EFSI, removing the need for a new or updated ex-ante assessment by the EC or Managing Authorities. In addition, whenever Managing Authorities contribute ESIF resources to an existing instrument, they would be able to entrust implementation tasks to the fund manager selected by the EIB or EIF through the award of a direct contract.

Feedback from both EU and national stakeholders indicates that Managing Authorities do not always perceive the benefit of combining EFSI and ESIF. The EC and the EIB Group are working on initiatives to address this perceived limitation, for example by developing a guarantee instrument under the Smart Finance for Smart Buildings (SFSB) initiative.

There is also a potential risk of overlap between EFSI and ESIF. According to DG REGIO, there have been concerns about some EFSI project proposals crowding out financial instruments constructed under ESIF (since as mentioned above the policy sectors and objectives supported by EFSI and ESIF in the context of the Europe 2020 strategy for smart, sustainable and inclusive growth are very similar). Some NPBs/NPIs also mentioned this risk in case where financial intermediaries offer products under both funds and have the flexibility to choose between them for specific operations leading to ESIF-backed financial instruments being crowded out due to their more strenuous conditions (e.g. the requirement to comply with state aid rules). The NPBs/NPIs suggested that EFSI and ESIF be channelled through one system that would ensure better coverage of the products offered and prevent duplication.

5.2.2 Combination EFSI and CEF

The grants provided by the Connecting Europe Facility (CEF) may be also blended with EFSI. CEF was launched in January 2014 as a key funding programme of the Europe 2020 Strategy to promote growth, jobs and competitiveness through targeted infrastructure investments in Europe. The programme aims at developing high performing, sustainable and efficient infrastructure solutions in the fields of trans-European transport, energy and digital services.⁸⁴

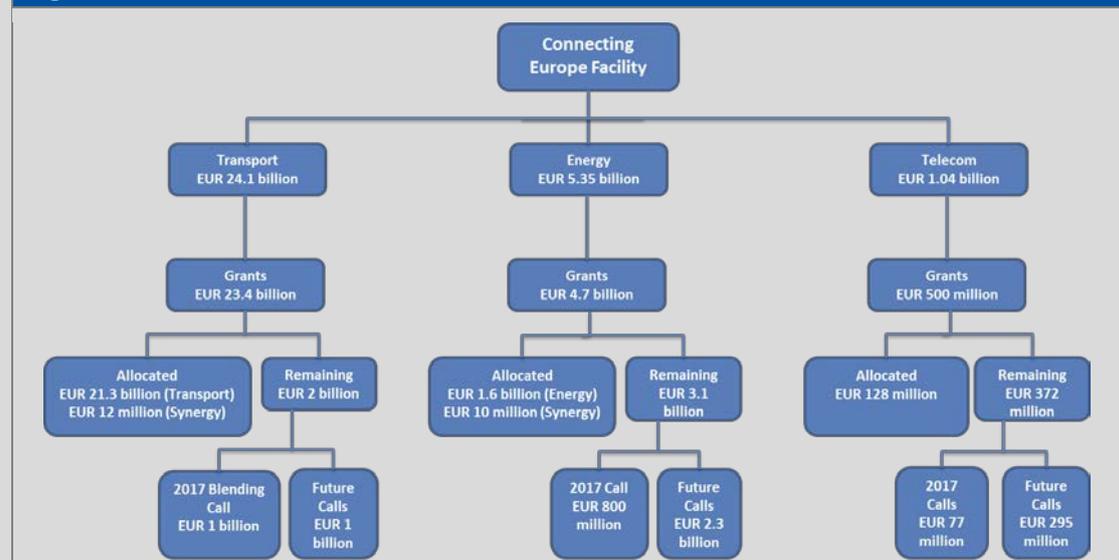
Box 12: Short overview of the Connecting Europe Facility

In the programming period 2014-2020 the CEF has a total budget of EUR 30.5bn, out of which EUR 28.6bn is available for grants, managed by the Innovation and Networks Executive Agency (INEA) and Programme Support Actions (PSAs), and the rest consists of CEF financial instruments, such as the CEF debt and equity instrument, managed by the EIB. The CEF debt instrument offers an alternative to conventional grants with a single multi-sector instrument (transport, energy and telecommunications), by providing an extension of the credit enhancement of project bonds; a new credit enhancement mechanism targeting loan financing by the banking sector; and loans, grants and equity-type debt financing support to corporates. The CEF equity instrument targets smaller and riskier projects in transport, energy and telecommunications by offering equity or quasi-equity financing.

Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJ L 347, 20.12.2013.

⁸⁴ Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010 Text with EEA relevance.

Figure 29: CEF Sector Allocation 2014-2017



Source: EC, *Investing in European networks – The Connecting Europe Facility – Mid-term results*, Brussels, 2017

The EC launched a CEF blending call in early 2017 to combine EUR 1bn grants with EFSI, NPBs and the private sector. However, combining CEF and EFSI is challenged by different project eligibility criteria and EFSI's mandate to prioritise high risk financing, not often found in public infrastructure projects. In addition, lack of readily available data identifying EFSI operations that involve CEF co-financing (and associated details) makes it difficult to have an overview of progress to date.

There is also evidence of EFSI financing duplicating and, instead of complementing, crowding-out the CEF debt instrument. The CEF debt instrument and EFSI IIW products have almost identical target groups, goals and conditions except the geographical coverage (EFSI is limited to projects in the EU) and broader eligibility criteria of EFSI. While the CEF debt instrument and EFSI were launched with an expectation that EFSI will complement CEF in terms of increasing the volume of financing available, the CEF debt instrument pipeline has been almost completely absorbed under EFSI. To address the issue of crowding out by EFSI, in June 2017 the CEF debt instrument Steering Committee revised the focus areas for the instrument and projects not eligible for EFSI due to the geographical criteria or risk profile requirements of the latter.⁸⁵ The instrument now focuses mainly on clean transport and explores three main areas of complementarity with EFSI:

- Support for projects in non-EU countries which EFSI cannot cover (especially relevant for operations in the field of energy, e.g. projects for trans-border interconnectors),
- Support for projects with risk lower than necessary for EIB SA but with high policy priority,
- Support for projects with risk higher than allowed under EIB SA where CEF debt can be subordinated to EFSI as a first loss piece.

In line with the requirements of the EFSI Regulation, the EC provided guidance documents on combining of EFSI with ESIF and CEF.⁸⁶ As these revisions are fairly recent, it is not possible to assess their effect on the complementarity between EFSI and the CEF debt instrument.

⁸⁵ Revised policy guidance regarding complementarity of CEF debt with EFSI and revised CEF debt pipeline of 12 July 2017.

⁸⁶ EC (2015) Brochure on ESIF/EFSI complementarities EGESIF_15-0032-00; EC (2016) European Structural and Investment FUNDS and European Fund for Strategic Investments complementarities - Ensuring coordination, synergies and complementarity

5.3 Complementarity between EFSI and other EU financial instruments

The analysis covered the following EU financial instruments that by virtue of their similar objectives could generate positive synergies, but also present the risk of overlap or crowding-out by EFSI:

- EU Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME);
- EU Research and Innovation programme Horizon 2020 / InnovFin;
- The Employment and Social Innovation (EaSI) programme.

As established by previous evaluations and reviews of EFSI, the timeframe for the set-up of EFSI did not include an ex-ante assessment of the instrument. Interviews with EIB and EC representatives further indicate that the high-level consultation with EC services managing existing financial instruments did not address in detail the issue of complementarity between EFSI and other sources of EU financing.

There is no evidence of a concerted effort to take into account the lessons learned or the gaps identified in other EU financial instruments during the setup of EFSI. However, the design of EFSI addressed financing limitations faced by existing instruments (COSME, InnovFin and EaSI), induced by yearly budgetary allocations for these funded instruments being lower than demand.

In order to live up to the complementarity expectations, there has been ongoing coordination between the EIB/EIF and the EC (DG BUDG, ECFIN, GROW, REGIO, RTD, EMPL) regarding the complementary implementation of EFSI with respect to all of the instruments in the scope of this analysis.

EFSI catalysed the use of other EU funds through the frontloading of existing guarantee instruments – the COSME Loan Guarantee Facility (LGF), the InnovFin SME Guarantee (SMEG) and the EaSI Guarantee – which would not have been possible without EFSI. The frontloading under EFSI strongly contributed to accelerating the take up of COSME and InnovFin by overcoming the limits presented by the annual budget allocations of the programmes. The contribution to the EaSI guarantee portfolio was limited in comparison, which has to do with the relatively advanced stage of budgetary absorption under the instrument at the point of frontloading.

EFSI was also complementary to equity instruments. The EFSI equity instrument is deployed in the form of two windows: the expansion and growth window, and the early stage window. The EFSI Equity social impact investment instruments are an example of a new product belonging to the latter window, and is meant to develop a market in the area of social entrepreneurship with a contribution from the EaSI programme and the Horizon 2020 Programme made possible by EFSI.

A side-effect to the complementarity between the considered instruments has been an increase in the share of non-EU portfolios within EU programmes, and the increased geographical outreach of financial intermediaries. As non-EU countries are not eligible for financing under EFSI, such operations are grouped in the non-EFSI sub-portfolios of the EU programmes, which expanded and diversified to new clients.

At individual instrument level, in some cases EFSI led to the crowding out of existing instruments. In relation to InnovFin, concerns about overlaps and competition with EFSI and InnovFin instruments for large projects and Mid-caps prompted action from the EIB and DG RTD to re-segment the sectors that InnovFin addresses through these products and focus it on more acute market failures and research and innovation. The revisions were carried out in 2017; the EIB and the EC expect that they will be sufficient to address the overlap. Potential crowding out was avoided in the case of COSME equity products through coordination between DG GROW, DG ECFIN and EIF; it was agreed to revise the original scope of COSME EFG and focus it only on projects not eligible for EFSI.

5.4 Complementarity and coordination between EFSI and NPBs/NPIs

This evaluation finds that EFSI is generally complementary with NPBs, although there is some potential for crowding out of NPBs. Interviews revealed that by and large coordination between EFSI and NPBs is broadly adequate and could potentially improve the effectiveness of EFSI by building on the NPBs' knowledge of the local markets. However, there is scope for improving efficiency as, in most cases, both the EIB and NPBs carry out separate due diligence, which is burdensome for the promoters and time consuming.

As shown in Table 7 below, by 31 December 2017 there were 140 EFSI operations co-financed with NPBs/NPIs, representing approximately 23% of all signed operations and 19.8% of signed amount.

	Number of operations (and share)	Signed amount (million EUR) (and share)
IIW	39 (14.0%)	4 711 (17.2%)
SMEW	101 (30.8%)	2 682 (26.8%)
TOTAL	140 (23.1%)	7 393 (19.8%)

Source: Data from EIB services; Signed amount refers to the volume of funds committed by the EIB Group

5.4.1 Complementarity between EFSI and NPBs/NPIs

This evaluation finds that EFSI is generally complementary to NPIs/NPBs on the product level. For instance, this was the case for operations where EFSI provided senior lending, while NPBs provided equity to optimise the financial structure of the project. Moreover, guarantees and counter-guarantees provided under EU instruments backed by EFSI (COSME, InnovFin, EaSI Guarantee) enable NPBs to increase access to finance for SMEs and Mid-caps on the national market.

NPBs/NPIs and EFSI are also complementary when co-investing in funds. The use of EFSI for fund underwriting through the Risk Capital Resources (RCR) mandate enabled NPBs/NPIs to participate in multilateral Funds-of-Funds (FoFs) backed by EFSI, while fulfilling their objectives of investing on the national market. Another source of complementarity comes from the capital relief provided to the NPBs by EFSI participation; it allows the NPBs to support more projects for the same volume of funds.

Some duplication and potential crowding out was perceived by a number of interview participants in terms of the provision of COSME LGF under EFSI. Since the COSME guarantee is provided for free, it can be more attractive for commercial banks compared to guarantees offered by NPBs, which even if backed by COSME are still provided against a fee and in line with state aid rules. The COSME LGF can therefore end up undercutting the offer by NPBs. Several NPBs/NPIs stated that before putting in place transactions with commercial intermediaries, the EIF does not coordinate with NPBs to assess the existence of financing instruments for SMEs on local markets, thus creating the risk of crowding out. However, COSME is provided under an open call for expression of interest by intermediaries, on the basis of which and following a due diligence process, the EIF selects the intermediaries. As part of the due diligence assessment the EIF takes account of existing guarantee mechanisms with respect to NPBs/NPIs, but generally finds that the market gap is big enough for both commercial intermediaries and NPBs/NPIs to make use of the guarantee. Furthermore, COSME is provided as a capped-guarantee facility (for the first loans that go into default, COSME will cover 50% of the loss, but only up to the cap), whereas NPBs tend to provide individual or uncapped guarantees with larger coverage, which should lead to a complementary co-existence of the two sources of financing. It is also noted that a large portion of the COSME counterparts are in fact NPBs and NPIs who find a benefit in participating in the scheme.

5.4.2 Coordination between EFSI and NPBs/NPIs

The interviewed stakeholders did not identify any design-level challenges to the coordination between EFSI and NPBs/NPIs. However, neither the Regulation nor any operational documents

specify how this coordination is to take place. Thus, coordination takes place via practical arrangements made bilaterally or in the context of broader coordination initiatives (e.g. EIF-NPI platform).

Unlike the SMEW, the IIW has no dedicated mechanism for systematic coordination with NPBs. However, there are examples of how an ad-hoc coordination can take place in the context of ongoing joint operations or via dedicated coordination arrangements. An example of this are investment platforms set up between the EIB and NPBs. According to one of the NPBs involved, coordination under the platforms (e.g. EIB and NPB representatives meeting once a month in the platform committee meetings) has improved the relationship with the local EIB team and the flow of information about the transactions that they are engaged in.

A different type of coordination takes place through the European Investment and Advisory Hub (EIAH), in the context of which experts from the EIB and NPBs/NPIs cooperate to identify projects eligible for EFSI.

Coordination between EFSI and NPBs/NPIs could increase the effectiveness of EFSI to the extent that EFSI uses NPBs'/NPIs' knowledge of the local market. On this account, several of the interviewed NPBs/NPIs offered a positive assessment, mainly in relation to successfully concluded operations. Although no causal links could be established, review of data on EFSI operations suggests that close cooperation between the EIB Group and well-established NPBs (e.g. NPBs that have strong experience and good knowledge of their local markets) might be one of the explanatory factors behind the success of EFSI in some Member States. For instance the fact that France, Spain and Italy have been among the Member States with the largest volume of EFSI signatures can be at least partially attributed to the active role played by local NPBs, the role attested by the importance of the volume of co-financing under EFSI.

Coordination, in the case of co-financing, could also produce efficiency gains by lowering the costs for public investors and the administrative burden for their private counterparts, for example through the mutual recognition of due diligence procedures. Under the IIW, several NPBs reported that they either already had fairly aligned procedures or that they had aligned them to the higher standards set by the EIB. However, there are no examples of mutual recognition of due diligence to date and interviewed NPBs and NPIs identified the insufficient use of full delegation arrangements as an obstacle to increased cooperation and efficiency. At present, in most cases when the EIB co-invests with an NPB/NPI, it retains control on the investment decisions, i.e. there is no full delegation to the other NPB/NPI partners, and both co-investors need to assess the risk individually which according to representatives of both the EIB and NPBs/NPIs is time-consuming. Nevertheless, it is worth noting that full delegation arrangements have a high degree of complexity as well as operational and reputational risks.

However, there are exceptions, namely in the context of risk sharing operations, where interviews indicated that EIB and NPBs usually have common due diligence procedures, coordinate on questions and information requests to the client, and have joint meetings with the client to avoid duplication, etc..

Under the SMEW, efforts for lowering the cost for public investors and the burden for private ones have been channelled through the EIF-NPI Equity Platform, which aims at facilitating the promotion and sharing of knowledge and best practices amongst the EIF and NPIs. The EIF-NPI Equity Platform's General Forum is dedicated to defining strategic opportunities for collaboration with the EIF or amongst NPIs, while the Consultative Forum focuses on specific topics related to specific operational and investment cooperation. Among the first results is cooperation in Funds-of-Funds investments, which avoids the duplication of investors' due diligence requirements and timelines, and potentially catalyses additional investments from other investors.

5.4.3 Cooperation with NPBs/NPIs in support of Investment Platforms

Article 2.4 of the EFSI Regulation defines Investment Platforms (IP) as "special purpose vehicles, managed accounts, contract-based co-financing or risk-sharing arrangements or arrangements established by any other means by which entities channel a financial contribution in order to finance a number of investment projects, and which may include:

- National or sub-national platforms that group together several investment projects on the territory of a given Member State;
- Multi-country or regional platforms that group together partners from several Member States or third countries interested in projects in a given geographic area;
- Thematic platforms that group together investment projects in a given sector."

By 31 December 2017, there were 29 approved (20 signed) EFSI operations involving IPs under the IIW and three under the SMEW.

One of the rationales of IPs is their potential for bundling together projects that due to their size and/or level of specialisation (or other factors that might impede their financing/implementation such as being cross-border projects), could not have been served by EFSI on their own. Interviews with NPBs/NPIs suggest that this is indeed one of the main benefits of IPs, particularly in smaller economies. However, review of project documentation shows that this argument was mentioned in only one of the 10 signed operations under the IIW.⁸⁷

IPs are also expected to present the opportunity for innovative solutions. This argument was mentioned for seven out of the 10 signed IIW IPs. Innovation materialised in different ways: innovative aspects related to the new sector for EIB investment, combining with ESIF funds, use of a new type of operation, or optimisation of co-investment opportunities with NPBs. The effect of IPs in terms of more efficient allocation of risk between the different investors is mentioned in four out of the 10 signed IIW IP operations and the effect occurs with respect to both public and private co-investors. The NPBs/NPIs interviewed confirmed that investment platforms have a crowding-in effect towards the private sector.

Obstacles to the establishment of IPs mainly relate to misalignment or lack of incentives for private co-investors. For example, the absence of "free" resources (such as those provided under COSME transactions under the SMEW) is perceived to lower the incentives of private co-investors to participate in risk-sharing platforms under the IIW. Financial intermediaries have no clear motivation to engage in risk-sharing arrangements which, on the one hand improve access to finance for companies that would not be granted a loan, but on the other entail time-consuming risk assessment processes (in the absence of full delegation) and increased monitoring and reporting requirements. Moreover, such risk-sharing arrangements split not only the risk, but also the margin, thus further decreasing incentives for participation.

5.5 Complementarity between the pillars of the Investment Plan for Europe

The three Pillars of the IPE were designed to be complementary parts "of a comprehensive strategy designed to address uncertainty surrounding public and private investments and to reduce the investment gaps in the Union" (Recital 11 of the EFSI Regulation). Pillar 1 was to mobilise financing for investment through the establishment of EFSI. Pillar 2 was to improve the way in which private investors and public authorities access information for the identification and preparation of projects. Pillar 3 was to remove barriers to investment by providing greater predictability and quality of regulation, EU-wide standards, and administrative procedures.

Although the evaluation of the second and third Pillars is out of scope for this evaluation, they were nevertheless reviewed to the extent that they could affect the implementation of EFSI.

5.5.1 Pillar 2 – European Investment Advisory Hub and the European Investment Project Portal

The European Investment Advisory Hub (EIAH) was launched on 1 September 2015 and the EIB is responsible for its management. As stated in the EFSI Regulation (Article 14), EIAH's objective has been "to build upon existing EIB and Commission advisory services in order to provide advisory support for the identification, preparation and development of investment projects and to act as a single technical advisory hub for project financing within the Union. Such support shall include providing targeted support on the use of technical assistance for project structuring, on the use of innovative financial instruments and on the use of public-private partnerships and

⁸⁷ The review of project documentation took place in September 2017, at which point there were 10 signed Investment Platform operations.

advice, as appropriate, on relevant issues relating to Union law, taking into account the specificities and needs of Member States with less-developed financial markets”.⁸⁸

The role of the EIAH in facilitating demand for investment in the EU is not limited to the provision of advisory services to projects seeking financing through EFSI products. The EIAH is meant to support project promoters through a wide variety of advisory needs mostly related to technical project preparation but can include access to finance advisory involving guidance on the most suitable EU funding sources as well as capacity building services for public sector promoters. Furthermore, the EIAH is not intended to be an additional source of EU advisory support to fill gaps in existing EU level advisory mandates and furthermore should not crowd out private sector advisory services. At the initial screening of proposals it is assessed whether they are eligible for the former (i.e. other EU level mandates) before EIAH support is considered.

Despite its relatively limited timeline of operation, the EIAH has made some progress. Even though visibility and local presence remains an issue (some representatives of NPBs/NPIs indicated low awareness or low level of interaction with the Hub), NPBs/NPIs that had already cooperated with the Hub were satisfied with the quality of cooperation. Similarly, interviewed representatives of the EIB Group that have been involved in EFSI operations reported a positive experience with the services provided by the EIAH. EIAH continues to focus on awareness raising activities such as targeted roadshows and the development of a strong local presence in order to stimulate appropriate and relevant demand for its advisory offer. However, the length of a project preparation cycle especially for large infrastructure projects (around ten years) makes it difficult for EIAH to have an immediate, significant impact on the IIW window.

Under the amended EFSI Regulation, several additions to the objectives of the EIAH have been made. First, the Hub will seek to prioritise the provision of targeted technical assistance for operations involving several MS, advise projects which contribute to the objectives of COP21 and support the combination of EFSI with other EU programmes (ESIF, Horizon 2020 or CEF). Second, there shall be a closer connection between EIAH and the EFSI guarantee for the sectoral and geographical diversification of the EFSI pipeline (Recital 31).

The purpose of the European Investment Project Portal (EIPP), which was launched in June 2016 and is managed by the EC, is to create a publicly accessible and user-friendly project database, providing relevant information for each investment project. After registration, investors can subscribe to project updates in their fields of interest to get notified for potential opportunities. Although the EIPP is not supposed to present an EFSI-specific pipeline, it could contribute to the identification of potential EFSI operations. So far, however, the evaluation found no evidence of projects from the EIPP ultimately becoming signed EFSI operations.

Interviews with NPBs/NPIs in the context of the evaluation indicated that while they are aware of the platform they do not monitor it. As of 31 December 2017, there were more than 200 projects listed in the EIPP, but the volume was only around EUR 0.5bn.

According to the interviews with the EC, the EIPP is currently not well linked to the EIB Group – and therefore to EFSI – and linking the two is subject to the work in progress.

5.5.2 Pillar 3 – Improved Investment Environment

The third Pillar of the IPE aims to provide greater regulatory predictability, removing barriers to investment across Europe and further reinforcing the Single Market. To achieve these objectives, Pillar 3 encompasses actions in a number of areas at both EU and national level.

At the end of 2015 the EC published the Single Market Strategy with 22 actions to unlock the full potential of the Single Market.⁸⁹ These initiatives shall enhance the four freedoms (i.e. free movement of goods, capital, services, and labour) and thus create a better business environment, enabling enterprises to operate across European MS. The EIB has a continuous dialogue with

⁸⁸ EFSI Regulation 2015/2017 Article 14(1).

⁸⁹ EC, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the committee of the regions – Upgrading the Single Market: More Opportunities for people and business, Brussels, 28.10.2015.

the Commission and provided technical input for the Capital Market Union (CMU) based on market experience. However, the main action in overcoming investment barriers is devolved to Member States. The European Semester provides a framework for the coordination of economic policies across MS. It outlines the economic and budget plans and monitors the progress of EU countries. The annual country reports include information on progress in reforms meant to improve investment, the business environment and the national regulatory framework. Few reports address Pillar 3 of the IPE as such, but all report on the use of EFSI under the discussion of the Contribution of the EU budget to structural change in the country. In the European Semester national level barriers that hamper investment are identified and recommendations to overcome them are made.

European institutions collaborate to reach the objectives of Pillar 3, for instance in the context of the Economic Policy Committee – EPC (Member States, the Commission, and the ECB). Following its meeting on 6 December 2016, the Council invited the EIB to complement the work of the EPC through its findings on barriers to investment identified when carrying out its market-based activities, notably under the IPE. The result of this was a preparation by the EIB Group of a report identifying investment barriers in Europe and suggesting solutions.⁹⁰ Following this, the EIB was requested to provide the assessment of the existing barriers to investment in the context of EFSI on a regular basis. The EIB is also working on developing a mechanism for regular contribution to the European Semester process. Finally, since September 2017, a working group exists within the EC to follow Pillar 3, co-chaired by DG ECFIN. It is now an obligation of the EIB Group to report to the EC on the obstacles that it encounters and which might fall under the scope of Pillar 3.

⁹⁰ EIB, “Breaking Down Investment Barriers at Ground Level. Case studies and other evidence related to investment barriers under the third pillar of the Investment Plan for Europe”, 2016.

6. ADEQUACY OF RESOURCES MOBILISED BY THE EIB GROUP TO DELIVER EFSI

Summary

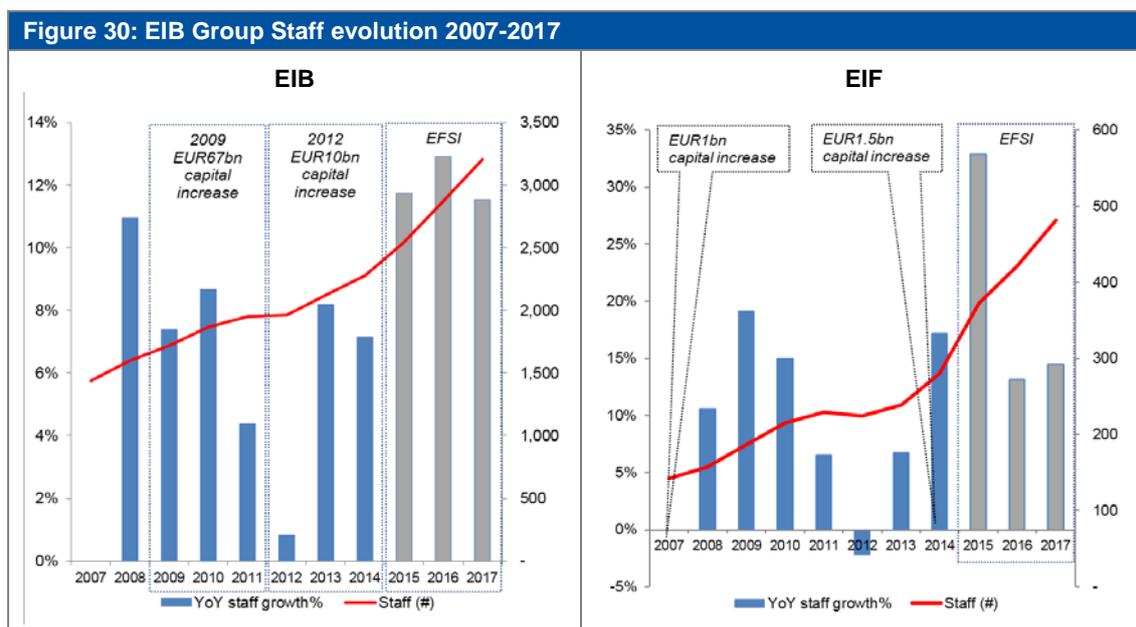
From the EIB Group perspective, EFSI is an unprecedented large-scale initiative, launched jointly with the EC, which required a significant mobilisation of adequate inputs to achieve its objectives. The evaluation finds that the EIB Group has tailored its inputs in terms of staff, organisational processes and procedures, and financial products to the needs required by EFSI. EFSI has induced a considerable change in the EIB as well as in the EIF, although to a lesser extent, with both having to rapidly increase their staff and streamline their processes to accelerate delivery through existing and newly developed products. In terms of project appraisal processes, tools were found to be overall adequate, albeit with room for further strengthening, in particular as regards of the tools used to assess additionality. The evaluation notes that useful improvements were already introduced in the context of the amended EFSI Regulation.

Although EFSI has been set-up as a temporary measure (initially three years and recently extended to five and a half years), some of the changes undertaken might have medium to long-term impacts. A maturity mismatch between the initiative and required inputs has significant consequences at human, organisational and operational levels. The evaluation finds that for the time being, the EU guarantee mitigates the additional risk exposure brought by EFSI operations for the EIB Group. Finally, EFSI's revenues do not cover the related costs at the EIB (IIW), but do so at the EIF (SMEW).

This chapter is organised as follows. First, it assesses whether the EIB Group has sufficient number of staff with appropriate mix of skills for delivering EFSI. Secondly, it assesses whether the EIB Group has put in place processes and procedures in a timely and sound manner to achieve EFSI's expected objectives. Thirdly, it assesses the adequateness of the EU guarantee in face of the additional risk exposure financing as well as the cost coverage of EFSI financing operations. Finally, it looks at the product offering under EFSI and whether the EIB Group was able to introduce new products and/or adapt existing products to achieve EFSI objectives.

6.1 Human resources

The EIB Group made unprecedented recruitment efforts to deliver EFSI. Figure 30 shows the evolution of EIB Group staff numbers over the last decade and evidences that the headcount has increased to an unprecedented level during the EFSI years.

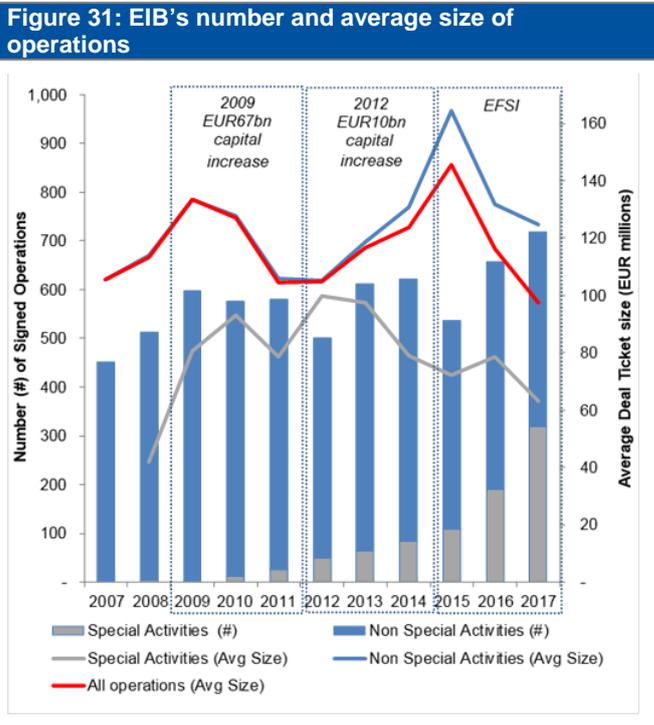


Source: EV based on EIB and EIF financial statements 2007-2017

During the EFSI years, the annual growth rates were between 12% and 13%; the highest over the last decade, surpassing periods of capital increases such as those executed in 2009 (EUR 67bn) and in 2012 (EUR 10bn). On the EIF side, 2016 recorded an exceptional annual headcount growth of 33%, nearly a double of the one recorded in 2014 (17%), which was the first year of the current Multiannual Financial Framework (MFF) and represented a significant amount of funding made available under mandates of the EC, EIB and MS. In that same year the EIF made a EUR 1.5bn (or +50%) capital increase in order to support the extension of its support to European SMEs and Mid-caps.

Although it is difficult to accurately estimate a number of the increased headcount in the EIB Group due to EFSI, it is likely that a significant share of the recorded growth is due to EFSI. On the EIB side, a specific EFSI recruitment plan was put in place. Between years ended 2014 (pre-EFSI) and 2017, staff headcount increased by more than 1 000 (47% growth over three years), of which 42% have been allocated to EFSI and EIAH posts. Moreover a substantial number of staff has been redeployed to EFSI tasks, with estimates varying between 150-200 staff. The EIF has not performed an EFSI-specific recruitment plan, but there is a very high correlation between the increased volumes and the staff headcount over the last decade.

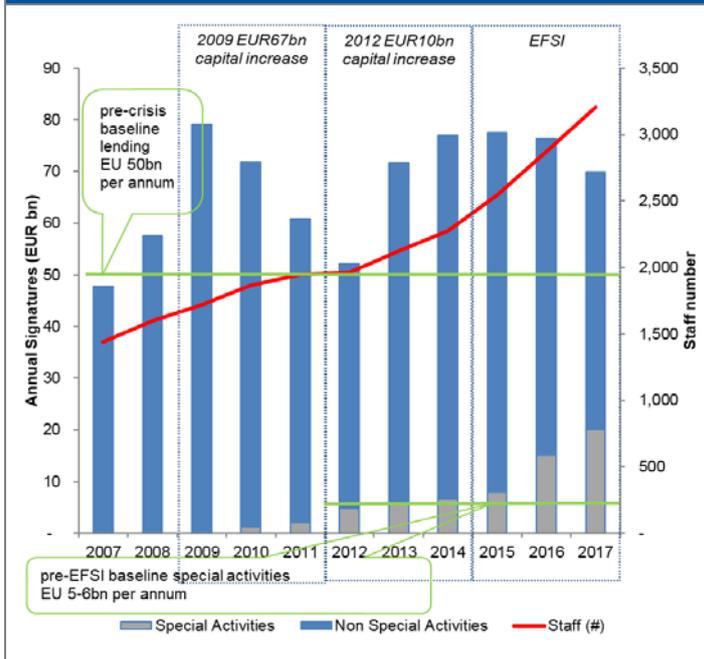
For the EIB, more staff with different skill sets was needed to deliver a larger number of smaller, more complex and diversified transactions. SA constitute the bulk of EFSI operations and consist



Source: EV based on EIB data

of projects that, compared to standard EIB operations, are more work intensive due to the complexity stemming from dealing with riskier counterparts and/or newer and more complex financial products. As shown in Figure 31, such projects have smaller ticket sizes, roughly half of the average size of the sizes of standard operations (blue line), over the last three years (2015-2017). This drove the Bank's overall average ticket size down. In 2017, 44% of all deals were SA compared to 13% in 2014. It should be also noted that SA have a higher attrition rate and to attain these number of deals, the Bank works on an even higher number of projects that for a number of reasons do not reach signature or disbursement. This has implications for efficiency metrics, as discussed later in this Chapter, given that the revenue per unit of costs absorbed is lower than for larger standard-type projects.

Figure 32: EIB's annual lending and staff evolution



Source: EV based on EIB data and financial statements 2007-2017

As shown in Figure 32, prior to the global financial crisis, the EIB's annual lending signatures were around EUR 50bn. The 2009 and 2012 share capital increases allowed, each for a period of roughly three years, the EIB to go beyond such baseline scenario. The inception of EFSI in mid-2015, allowed the Bank to maintain such exceptional lending levels for the years 2015-2018. Moreover, due to the EFSI guarantee, the EIB's new signatures include now a higher proportion of SA.

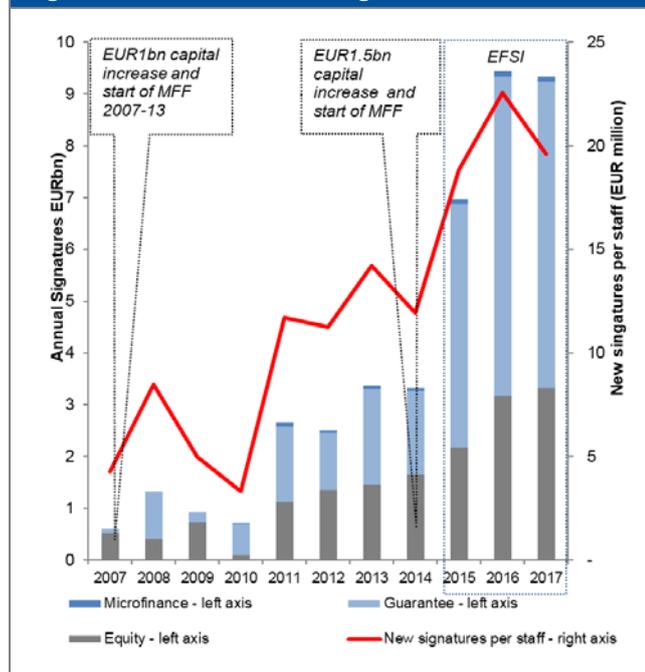
On the EIF side, more staff was also needed to deliver a threefold increase in annual signatures between the EUR 3bn signed in 2014 (pre-EFSI) and the EUR 9bn signed in 2016 (first full year of EFSI activity). However, contrary to the EIB, for the EIF the nature of the operations offered under EFSI

was not substantially different compared to the period prior to EFSI. This was because the EIF, in order to kick-start quickly the SMEW in view of reaching the EFSI investment mobilised objective over 2015-2018, initially relied on the boosting of existing mandates. In the first years of the SMEW, the EIF has been able to frontload, under COSME and InnovFin, the budget capacity of years to come and to increase RCR's firepower.

Figure 33 shows the evolution of EIF financing signatures in absolute and relative (to staff number) terms, over the last decade. The EIF's underlying types of operations have not significantly changed over the years with a predominance of guarantees, followed by equity operations and to a lesser extent inclusive finance (or microfinance).

Between years ended 2014 (pre-EFSI) and 2017, new signatures and staff headcount have increased 181% and 71%, respectively. The fact that the former has outgrown the latter over the years, has translated into efficiency gains, measured by a significant increase in the new signatures per EIF staff.

Figure 33: Evolution of EIF signatures



Source: EV based on EIF financial statements 2007-2017

6.2 Organisational resources

6.2.1 Processes and procedures

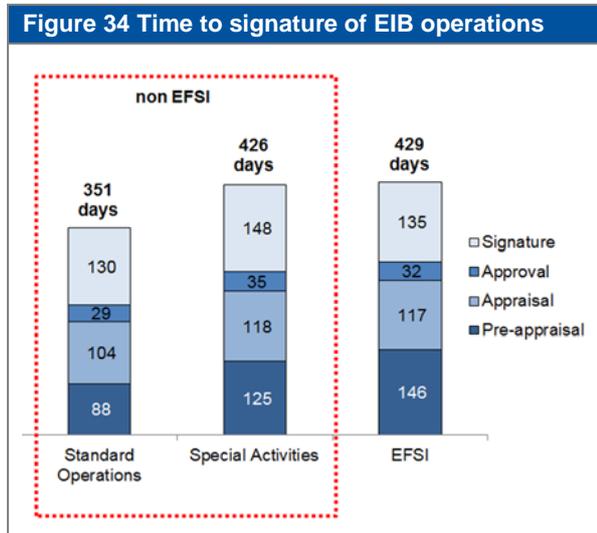
The EFSI Regulation added several steps in the approval process of IIW operations compared to standard EIB operations. These additional steps include, for example:

- EFSI validation steps during appraisal process;
- The preparation of the IC documentation (including the Scoreboard);
- The EFSI-specific macro-economic indicators and information on additionality (Pillar 4), which together with the standard Three Pillar Assessment (already produced for EIB standard operations) form the EFSI Scoreboard; and
- The EFSI Investment Committee (IC) meeting taking place between the standard EIB Management Committee (MC) and Board of Directors (BoD) approvals, in order to seek approval of the use of the EFSI guarantee.
- The disclosure of IC decisions and further to the amendment of the EFSI Regulation and its enhanced transparency requirements, disclosure of the rationale for IC decisions and Scoreboard.
- The role of the EFSI Steering Board (SB) which has to approve, after an IC decision, the inclusion in the EFSI portfolio of operations having higher amounts than EFSI risk limits.

Figure 34 shows that despite the additional approval steps, IIW operations take roughly the same time to signature as non-EFSI SA. However, both take longer than the EIB standard operations (non-SA). The bulk of EFSI operations are SA, and the fact that these are more complex, seems to explain the longer time needed to reach the signature stage. Moreover, compared to the analysis performed during the EV Mid-Term Evaluation of EFSI, this evaluation observed a convergence, on the time to signature, between EFSI and non-EFSI SA, with the former now taking longer than what had been observed before at the EV Mid-Term Evaluation. This is explained by the fact that the portfolio of signed operations at the EV Mid-Term Evaluation was composed by a higher proportion of warehoused operations. These operations were

identified as EFSI eligible and remained in the pipeline, pending signature of the EFSI Agreement. Once the EFSI Agreement was signed, the appraisal, approval and signature stages of these operations were rather fast.

The EFSI Regulation, stipulates different governance and approval requirements for the SMEW when compared to the IIW operations. For instance, EFSI Regulation stipulates that SMEW activities are to be governed by the EIF governing bodies⁹¹, whereas the IIW activities have a specific EFSI governance structure with the additional layer of the EFSI IC. For the SMEW, the mandates used by the EIF for carrying out EFSI operations have to be jointly approved by the EFSI Steering Board and the Managing Director, after consulting the IC, whilst the underlying investments follow the standard EIF operation lifecycle. Contrary to IIW operations, there is no need to justify and request, on an individual operation basis, the use of the EU guarantee.



Source: EV based on EIB data. Period: mid-2015 to 31 Dec 2017.

⁹¹ Art 4.3.a) of the EFSI regulation: "EFSI activities conducted by the EIF are to be governed by the EIF governing bodies.", without prejudice of Art.6.10 of the EFSI amendment and restatement agreement that states: "The Managing Director shall be responsible for approving the SMEW Products together with the Steering Board and after consultation of the Investment Committee.

Moreover, the SMEW operations are not subject to the Investment Guidelines⁹² as the IIW operations. Therefore the impact of EFSI on the EIF's operation lifecycle was rather limited.

The evaluation finds that the EIB had to adapt its existing procedures to a great extent in order to be compatible with the EFSI requirements. Figure 35 shows some of the major procedural changes at the EIB induced by EFSI. Whilst EFSI is temporary in nature, it might be difficult and un-desirable to instantaneously reverse some of the EFSI-driven changes undertaken by the EIB. For instance, the EIB now offers a wider product range to its clients, of which some were specifically designed and are only offered under EFSI. Several major procedural changes have been undertaken such as the revamping of the EIB internal credit risk guidelines, the setting up of a consolidated set of equity risk guidelines, the substantial updates of the financial monitoring guidelines. While on paper these can be reset rather quickly, in operational terms it would take longer to materialise.

Figure 35: Processes and procedural changes at EIB induced by EFSI

OPS	FI	TMR	PJ	JU
<ul style="list-style-type: none"> •EFSI processes and procedures; 	<ul style="list-style-type: none"> •Reflows waterfall; •EUR 2bn liquidity facility; •Calls for funding costs SMEW; •IIW Equity funding cost calculations; •Disb./alloc. of IIW equities deployed by EIF. 	<ul style="list-style-type: none"> •Management of guarantee calls; •Updates of the FMGs; •Additional KYC due to new clients. 	<ul style="list-style-type: none"> •EFSI guidance for PJ, incl. Multipliers (EM); •Pillar 4, etc. 	<ul style="list-style-type: none"> •Revision of the master finance contract to cater for EFSI
SG	CS-HR	RM	Control Functions	Inter-directorate
<ul style="list-style-type: none"> •EFSI governance & governing bodies; •AS procedures. 	<ul style="list-style-type: none"> •Revamped recruitment; •Onboarding; •Visibility of Bank. 	<ul style="list-style-type: none"> •CRGs revision •ERGs 	<ul style="list-style-type: none"> •EV and IA: additional evaluation and audit requirements 	<ul style="list-style-type: none"> •Ongoing revamp of New Product Committee process

Source: EV

EIF processes and procedures have been streamlined to cater for EFSI with, for instance, some dedicated EFSI reporting process being created. EFSI has introduced some novelty within the EIF in terms of mandate engineering, with some of EFSI mandates being composed of multiple loss protection tranches provided by different budgets and/or different donors. Claims of losses on underlying operations have to be paid out following a waterfall structure. For that purpose EIF services have developed a waterfall tool that tracks the usage of the different budgets and identifies from which budget payments are due. Moreover, in the context of EFSI, the EIF is not a direct beneficiary of the EU guarantee. Any claim under the EU guarantee for losses covered would have to be channelled through the EIB.

6.2.2 Project appraisal tools

As regards project selection tools, the evaluation deems them to be adequate overall, albeit with room for further strengthening of the tools used to assess additionality. As mentioned below, useful improvements have already taken place in the context of the amended EFSI Regulation. The eligibility criteria for the use of the EU guarantee (outlined in Article 6 of the EFSI Regulation) were very close to those applied to non-EFSI EIB operations (as reflected in the Three Pillar Assessment described below), with extra requirements in the following respects:

⁹² Schedule VII SME Window 2.5: "The SMEW Products and any EFSI Operations thereunder are not subject to the Investment Guidelines".

- Explicit justification of operations' additionality according to the following two conditions (Article 5 of the EFSI Regulation):
 - providing support to operations that address market failures, which in the context of this evaluation is operationalised as providing (financial and non-financial) inputs that could not have been provided by the market ("additionality with respect to the market" on the one hand), and
 - providing support to operations that could not have been carried out in the absence of EFSI (additionality with respect to what could have been provided by the EIB, the EIF and other EU Instruments in the absence of EFSI on the other hand, and why it is needed).
- The requirement that private sector capital is not only mobilised, but also maximised where possible.

Thus the assessment of operations' eligibility under the IIW was largely based on existing EIB tools used for non-EFSI projects (the Three Pillar Assessment, 3PA), with the addition of a Fourth Pillar of complementary indicators, as outlined in the Delegated Regulation (EU) 2015/1558. The 3PA and Fourth Pillar together comprise the Scoreboard, which, along with information on the project and relevant macroeconomic and market context, project objectives, and financial information, is the main decision-making tool for the IC:

- Pillar 1 assesses the eligibility of projects with respect to policy objectives and hence addresses the eligibility criterion that projects should be consistent with Union policies (EFSI Regulation Article 6(b)).
- Pillar 2 assesses the quality and soundness of projects (including the economic rate of return where possible, and aspects of technical viability), which addresses the criteria of economic and technical viability as set out in Article 6(a) and 6(e) respectively.
- Pillar 3 assesses the financial and non-financial contribution of the EIB to the project; in terms of financial benefit or improved terms (e.g. longer maturity), provision of innovative financing, attraction of other financiers, and provision of advisory or technical advice. Within the EIB, Pillar 3 was the main tool to assess additionality in terms of providing inputs that would not have been provided by the market before EFSI. However, it only partially addressed the eligibility criterion of additionality (EFSI Regulation Article 6(c)), since it did not include an explicit narrative of how the provision of such inputs addresses market failures or sub-optimal investment situations. Hence the criterion of additionality is also addressed under Pillar 4, which was introduced "to capture the cross-cutting aspects of EIB operations under EFSI" (Delegated Regulation (EU) 2015/1558).
- Pillar 4 includes information on additionality, as well as on key project indicators (e.g. total project investment cost, amount of private or public finance mobilised, associated external and internal multipliers, sector-specific project results⁹³), macroeconomic and sector context (e.g. GDP, GDP per capita, GFCF and others). Interviews with the IC indicated that Pillar 4 macroeconomic indicators are relevant for identifying countries with severe financing issues (e.g. Greece), but is not as clear how it is used for other groups of countries.

To facilitate the assessment of additionality, and in response to the recommendations of the EV Mid-Term Evaluation of EFSI, the Deputy Managing Director (DMD) of EFSI, in consultation with EIB Services, developed internal guidance on how to present EFSI additionality in EFSI-IIW project appraisal documents. A set of five main dimensions/aspects of additionality were identified: (a) addressing a market failure or sub-optimal investment situation; (b) high risk profile; (c) producing catalytic effect and being complementary with other sources of financing; (d) expanding EIB activities to new clients or markets; and (e) providing advisory support (financial or technical). This guidance systematised and improved the presentation of information already provided by EIB Services, based more on a bottom-up rather than top-down approach. Dimensions identified were relevant, but to some extent overlapped with aspects addressed under Pillar 3 (e.g. provision of longer maturity or innovative financing). It was also not entirely clear which of the two conditions for additionality outlined in the Regulation they addressed.

⁹³ Project results were reflected in "monitoring indicators", previously part of the 3PA for non-EFSI operations.

Both interviews and qualitative analysis of project appraisal documents show that the quality of the information presented has improved over time, and is in line with operational guidelines. The qualitative analysis of project appraisal documents concluded that the majority contained information that was relevant, i.e. in line with one of the five dimensions of additionality as described in the original version of internal guidelines; 93% of the sample analysed was rated “Excellent” and 6% was rated “Satisfactory” in terms of the relevance of information provided. Furthermore, the qualitative analysis assessed the depth of argumentation in project appraisal documents, i.e. the degree to which claims in favour of operations’ additionality were substantiated, and found it “Excellent” in 15% and “Satisfactory” in 81% of the cases analysed.

Regarding dimension (a) addressing market failures or sub-optimal investment situations, the evaluation found that common understanding of key terms, especially “sub-optimal investment situations” was lacking among EFSI stakeholders, and there was room for further conceptual clarification. The evaluation found that the tool used to assess the additionality of EFSI operations could be further strengthened in order to ensure a better delineation between (i) addressing market failures or sub-optimal investment situations (i.e. the “standard additionality” of a public institution), and (ii) supporting operations that could not have been carried out during the period in which the EU guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments, without EFSI support (i.e. the EFSI-specific “supplementary additionality”). The evaluation suggested that this should include a comprehensive definition of “market failures” and “sub-optimal investment situations”. In addition, the analysis of market failures could be strengthened by assessing the outcomes of market failures (lack of financing with appropriate terms) as well as the factors causing them (e.g. positive externalities, public goods, incomplete information).

In addition, interviews with the IC indicated that it would be useful to have background assessments of the existence of market failures in different EFSI sectors, including the financial sector, instead of relying exclusively on individual project documentation.

Regarding dimension (c) catalytic effect, although project appraisal documents included information on the financing package of individual operations, other financing sources and the associated multiplier, they lacked an explicit assessment of whether the mobilisation of private sector capital was maximised and a discussion of the use of alternative sources of public sector capital.

Following the extension of EFSI and the ensuing changes in the definition of additionality, EIB Services introduced updated internal guidelines on the articulation of additionality for EFSI operations, which already address most of the above findings. In particular, the revised tool delineates between the standard additionality of a public institution and the supplementary EFSI-specific additionality. Moreover, the revised tool provides a (basic) definition of market failures and sub-optimal investment situations. The evaluation understands that EIB Services are in the process of developing sector-specific analyses of market failures, to be included in the tool used to assess the additionality of EFSI operations. Updated appraisal guidelines and tools also require EIB Services to summarize relevant facts about alternative sources of finance in the country or specific recipient group, and compare them to the EIB’s terms.

The evaluation invites the EIB to further develop the definitions of market failures and sub-optimal investment situations, and to continue strengthening the substantiation of the factors resulting in market failures in the tools used to assess the additionality of EFSI operations.

Under the SMEW, operations’ eligibility is not approved at the individual project level by the IC, but rather at the level of entire mandates or instruments by the Steering Board and the EFSI Managing Director, after consulting the IC, as stipulated in the EFSI Regulation. Thus, the degree to which additionality is assessed differs significantly between the two Investment Windows, even for practically identical operations (e.g. IIW equity investments in funds and SMEW RCR transactions). The main tool used for the assessment of the value added of EIF operations is the Value Added Methodology (VAM), which assesses the EIF’s contribution in financial terms (e.g. expansion of access to finance for SMEs) as well as in non-financial terms (e.g. contribution to the development of well-functioning financial markets, and improvement of the terms, conditions and practices of investee funds). The difficulties for SMEs and Mid-cap companies across the Union to access market financing are recognised in the EFSI Regulation (Preamble 21), as well

as in the legal bases of the instruments through which EFSI is implemented under the SMEW (e.g. COSME), and the VAM describes how the EIF contribution addresses country- and/or sector-specific market gaps. With regards to the second dimension of additionality – additionality to the EIB Group non-EFSI operations – this is addressed through the temporal dimension: through frontloading, EFSI allowed the EIF to implement more operations than would have been possible in the same time-frame without EFSI.

6.3 The EU guarantee and fees

6.3.1 The EU guarantee

The EU guarantee has enabled the EIB Group to deploy, during EFSI years, a significant additional volume of high risk financing, which could not have been done at its own risk and to the same extent, without potentially affecting its overall lending capacity, risk profile and, ultimately, the sustainability of its business model (see Section 4.1). With regards to the EIB, the impact of EFSI was also embedded in the Bank's 2015 Internal Capital Adequacy Assessment Process (ICAAP). The EIB assessed that the higher risk profile of EFSI operations would be significantly mitigated by the EU guarantee and that the impact of EFSI on the Bank's Capital Adequacy Ratio (CAD) is lower than a similar volume of high risk operations supported fully at EIB's own risk. After the first year of EFSI implementation, in the EIB's 2016 annual update of the ICAAP, several projected scenarios after 2018 are considered and it is concluded that if the same level of SA as during EFSI years were to be maintained and in order to retain the same level of CAD, the EIB needs either an extension of EFSI or a significant reduction (approximately EUR 25bn per annum) in standard lending.

The latest credit rating agencies reports, issued on the basis of exposures as of mid-2017, express no worry with regards to the increasing IIW risk exposures. At the time of the reports, on the IIW debt side the EIB still did not retain any residual risk tranche and moreover the EU's first lost piece consists of a first demand guarantee, whilst on the IIW equity side the ramp up of operations was still slow and exposure to losses is covered on a *pari-passu* basis between EC and EIB.

The EIF acts mainly as a *mandatee* for the EC, the EIB and some MS. Its shareholder structure is composed mainly by the EIB and the EU (represented by the EC). Its previous share capital increases normally coincided with the beginning of the MFF programming period, with the last of EUR 1.5bn being executed in 2014. However such capital increase did not cater for the unprecedented increase in EIF's business volume which tripled due to EFSI. Since 2015, S&P Global provided the EIF with AA+ rating on a standalone basis, which is uplifted by one notch to equate the EIB's AAA rating, in face of its strong shareholder support. S&P Global stated on their latest EIF credit rating report that the risk-adjusted capital ratio decreased owing primarily to a significant increase of EFSI exposures, but remains very high. Nevertheless, all three major credit rating agencies insist on the key role the EIF plays in EFSI, by delivering its SMEW, which is taken into account when measuring the EIF's business profile (one component of the credit rating), and continue to assess the EIF's financial profile as extremely strong.

Calls under the EU guarantee concerning funding costs⁹⁴ already occur on a regular basis since December 2015. It should be noted that thus far, calls in relation to operations⁹⁵ have only occurred once – the first call for equity value adjustment took place as of end March 2018.

The handling of the guarantee calling is a complex process due to the broad range of calling triggers in place. During interviews with relevant Services, it was pointed out that, as the volume of guarantee calls increases, an update of the Information Technology (IT) application managing the guarantee calls is deemed critical to underpin the management of the EFSI guarantee going forward.

⁹⁴ As defined in the EFSI Regulation (2015/1017), Article 11, paragraph 6 (b) and (c), the EU guarantee shall cover for the associated funding costs of EFSI equity investments.

⁹⁵ As defined in the EFSI Regulation (2015/1017), Article 11, paragraph 6, the EU guarantee shall cover for defaults on debt instruments and loss of value in equity investments made under EFSI, within the limits stipulated in paragraphs 1 and 3 of the same article.

The approval of the amended EFSI Regulation, its extension until 2020 and the increase of the EU guarantee, provides the EIB Group with more capacity to deploy further higher risk financing in line with the objective of mobilising EUR 500bn of additional investment.

6.3.2 Fees

Both the EIB and the EIF, by virtue of Articles 17 and 24 of their Statutes, respectively, require adequate remuneration for any activity undertaken. Remuneration will be deemed adequate if it covers operating expenses, risk undertaken and the building up of a reserve. The EIF Statute goes beyond that of the EIB in the requirement to *generate an appropriate return on its resources*.

Cost coverage measures the extent to which operating revenues cover operating costs. As regards cost coverage, the IIW is loss making for the EIB, while this is not the case for the EIF (the parameters of the SMEW are in line with the statutory requirement of the EIF). The EIB Group measures its cost-efficiency with two different metrics. The EIB uses more predominantly the cost coverage (CC) ratio, whilst the EIF uses the cost-to-income (CTI) ratio. The difference and similarities between the two methodologies are explained further in Box 13.

Box 13: Two efficiency metrics at the EIB Group

The EIB Group uses two metrics to measure its efficiency: the cost coverage (CC) and the cost-to-income (CTI) ratios. The CC ratio is applicable only to the EIB and stems from the interpretation of an EIB Statutes' provision⁹⁶. The CTI ratio is a key performance indicator, particularly important in the financial sector, which provides investors with a view of how efficiently an entity is being run. In its triennial Corporate Operational Plans (COPs), the EIF sets a target range for the CTI ratio⁹⁷. The EIB does not report explicitly on its CTI ratio, but within its financial reports, it provides all the elements for its computation, which is closely looked at, for instance, by credit rating agencies. Moreover, the EIB internally computes and monitors the CTI ratio as one of its key performance indicators. The ratios' formulae are the following:

- CTI ratio = operating costs/operating income;
- CC ratio = operating revenues/operating costs.

Operating costs correspond to staff and other operating expenses. Operating revenues and income differ when computed for the whole EIB or EIF⁹⁸, as the former does not include streams of income meant to cover funding costs and risk costs, which the latter does. When such ratios are computed at a more granular level – i.e., at mandate level, there are no funding costs nor risk costs allocated at such level. At this level both ratios only take in consideration operating revenues, which are composed of administrative fees and intermediation revenues in the case of the EIB and only the former for the EIF.

Therefore, if the ratios are analysed at mandate level, one can assume they are the inverse of each other. Moreover, the ratios are computed on a cash basis and not on an accruals basis.

From inception until December 2017, the IIW operating revenues only cover less than a quarter of its corresponding operating costs. The main reasons for this lack of cost coverage are that unlike for other mandates entrusted to the EIB by the EC or MS, for EFSI there are no administrative fees. The main streams of revenues which the EIB will be able to retain under EFSI are the so-called intermediation revenues. A significant portion of start-up costs (hiring, on boarding, training, developing and marketing new products) is incurred while the mandate is in its

⁹⁶ EIB Statute Art. 17 §1: "Interest rates on loans to be granted by the Bank and commission and other charges shall be adjusted to conditions prevailing on the capital market and shall be calculated in such a way that the income therefrom shall enable the Bank to meet its obligations, to cover its expenses and risks and to build up a reserve fund as provided for in Article 22."

⁹⁷ EIF: COP 2017-2019: "EIF will (...) monitor its cost basis and operate with a cost to income ratio in the range of 55-60%". The range has not always been this one and is set at each COP

⁹⁸ Operating Revenues are composed of intermediation revenues; amortised appraisal and similar fees; administrative revenues and commitment fees. Operating Income is composed of net banking income (interest income on loans + cost on borrowings + income from Treasury) and Other operating income (administrative revenues – accrued interest on pension plans + result on venture capital operations + result on investment Fund + other operating revenues)

investment phase, while the (intermediation) revenues will only kick-in as disbursements are made and the EFSI portfolio fully ramps-up. Therefore, as the EFSI portfolio of operations ramps-up, the situation is expected to improve. The time-lag between costs and revenues is intrinsic to EFSI's business model.

Nevertheless, even the initial projection for the 2015-2037 EFSI lifetime cost coverage pointed towards the direction of a CC ratio well below 100%, which in other words means the recognition upfront by EIB Management that the acceptance of this mandate would lead to a potential deficit compared to the level ensuring full cost coverage, as set forth in its Statute (Article 17.1)⁹⁹. Moreover, such projections were built on the assumptions that:

- The portfolio would be fully ramped-up by the end of the investment period;
- Outstanding disbursements would have reached a peak in 2019; and
- Operating costs would decline significantly in 2019 (more than halved compared to 2018), marking the shift of the mandate from its investment phase into a monitoring phase, where less staff would be expected to work on EFSI.

So far overall, due to its significant size, the IIW performance in terms of CC has put a downward pressure on EIB Mandates and the EIB's whole CC performance. It should be borne in mind, though, that the above projection was based on an "EFSI 1" scenario and that EFSI has been extended in terms of length and objectives.

During 2016, the operating revenues of the SMEW mandates exceeded its operating costs, with 2016 operating revenues and costs weighted by EFSI's current share in the respective EFSI mandates total funding. These rather exceptional revenues have been driven in 2016 by a high level of performance fees which have been received by the EIF as a high number of milestones agreed with the EC have been reached (such performance fees will not be payable in the years after 2016). Most of the EIF-EFSI mandates existed prior to EFSI, with the exception of the SMEW Equity Product. Moreover such mandates blend funding from different sources, hence the need to weigh the cost and revenues by the share of EFSI funding, to approximatively estimate the actual size of the SMEW mandates, excluding the sources of funding other than EFSI. EFSI represents approximately 12% and 20% of EIF's total mandates operating costs and revenues, respectively. One year is not representative of the full life of the mandate and this ratio is expected to gradually decrease over the full life of the SMEW mandates. A lifetime forecasted cost coverage exercise for the SMEW shows that the expected future operating revenues will slightly more than cover the expected future operating costs, in line with the EIF statutory requirement.

Contrary to the IIW, under the SMEW the EIF receives administrative fees for managing these mandates on behalf of its *mandators*. The SMEW administrative fees are composed of two categories:

- Fees to cover EIF internal costs, and
- Performance fees, which are triggered based on agreed milestones.

Moreover, it should be noted that the SMEW cost coverage figures exclude the revenues that the EIF receives from the EIB for the portion of the IIW that it implements. These are not included as costs for the EIB and hence the scope for cost efficiency under the IIW is in fact further reduced. There might however be an offset against EIB's expectation of a faster, more efficient and effective implementation which will ultimately yield a very positive return on the underlying investments.

Furthermore, the current EIB cost coverage and EIF cost to income methodologies do not account for the equivalent of the lending intermediation revenues for equity and guarantee operations, thus leading to an understatement of the operational revenues which are recognised under the efficiency ratios mentioned above. Given the relatively high weight of equity and guarantee operations in EFSI portfolio it would be important to properly account for these.

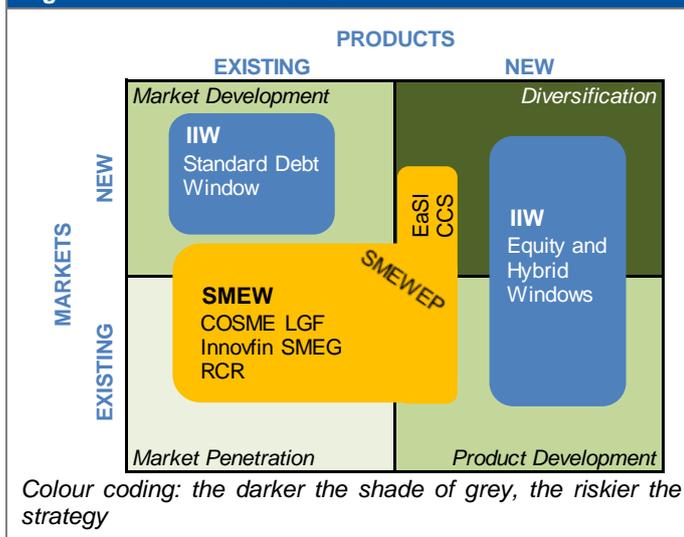
⁹⁹ EIB Statute Art. 17 §1: "Interest rates on loans to be granted by the Bank and commission and other charges shall be adjusted to conditions prevailing on the capital market and shall be calculated in such a way that the income therefrom shall enable the Bank to meet its obligations, to cover its expenses and risks and to build up a reserve fund as provided for in Article 22." Therefore a benchmark for CC ratio would be higher or equal than 100%.

6.4 Financial products

The evaluation finds that while the EIB had to undertake riskier market/product development strategies, the EIF could initially rely on the frontloading and top-up of its existing mandates. The Ansoff matrix provides a framework for analysing market development strategies that the EIB Group is pursuing under EFSI. The different strategies under each Investment Window are summarised in Figure 36. Its analysis suggests that on the one hand, the EIF, under the SMEW, followed to a greater extent a market penetration strategy, which primarily relied on existing markets targeted with existing products. On the other hand, the EIB, under the IIW, drew on EFSI support to develop new markets, new products or both simultaneously.

Stimulated by EFSI, the EIB Group now offers a wider range of financial products that is constantly evolving to meet market needs. The IIW is characterized to a great extent by the development of new products and new markets. On one hand, under the IIW, the EIB developed new products (notably equity and risk-sharing) that would allow it to target new clients, seeking alternative sources of funding. On the other hand, the EIB deployed the traditional plain vanilla long term lending for infrastructure projects, but with transaction structures displaying a higher risk, due to either subordination, longer tenors or higher underlying project/counterpart risk.

Figure 36: Ansoff Matrix – EFSI



Source: EV after Ansoff

Further to the acceptance of EFSI implementation, the EFSI IIW operational strategy delineated the IIW's product mix and the respective indicative targets. Since then there have been a number of developments, notably the transfer of EUR 500m from the IIW to the SMEW and the split of the IIW debt window into two: the standard and the hybrid debt window. The split stemmed from the need to ring fence some higher risk debt investments, from the standard debt window. These two changes culminated in the amendment of the EFSI Agreement on 22 July 2015.

The EIF has demonstrated strong mandate financial engineering skills. The EIF's mandates, approved under EFSI, often pool resources from different counterparts that have different risk appetites. The EIF's mandate services had to negotiate the optimal risk tranching, as well as manage expectations in terms of operational targets set for the portfolio of underlying investments. The EIF's underlying product offer preceding EFSI (intermediated guarantees and equity operations), which targeted SMEs and small Mid-caps financing constraints, was deemed compatible with EFSI's objectives and approved by EC inter-service and EFSI governance. Therefore the nature of such offer did not substantially change with EFSI. Under the SMEW Phase I, the EIF was allowed to: deploy more intermediated equity under RCR (which was an existing EIB-EIF mandate) with recourse to EUR 2.5bn of EIB own resources dedicated to EFSI that have allowed it to increase the mandate size to EUR 9.5bn; and to frontload in 2015, the 2016-2020 original EC budgets for intermediated guarantees under its EC-EIF mandates: InnovFin SMEG (EUR 0.75bn) and COSME LGF (EUR 0.5bn).

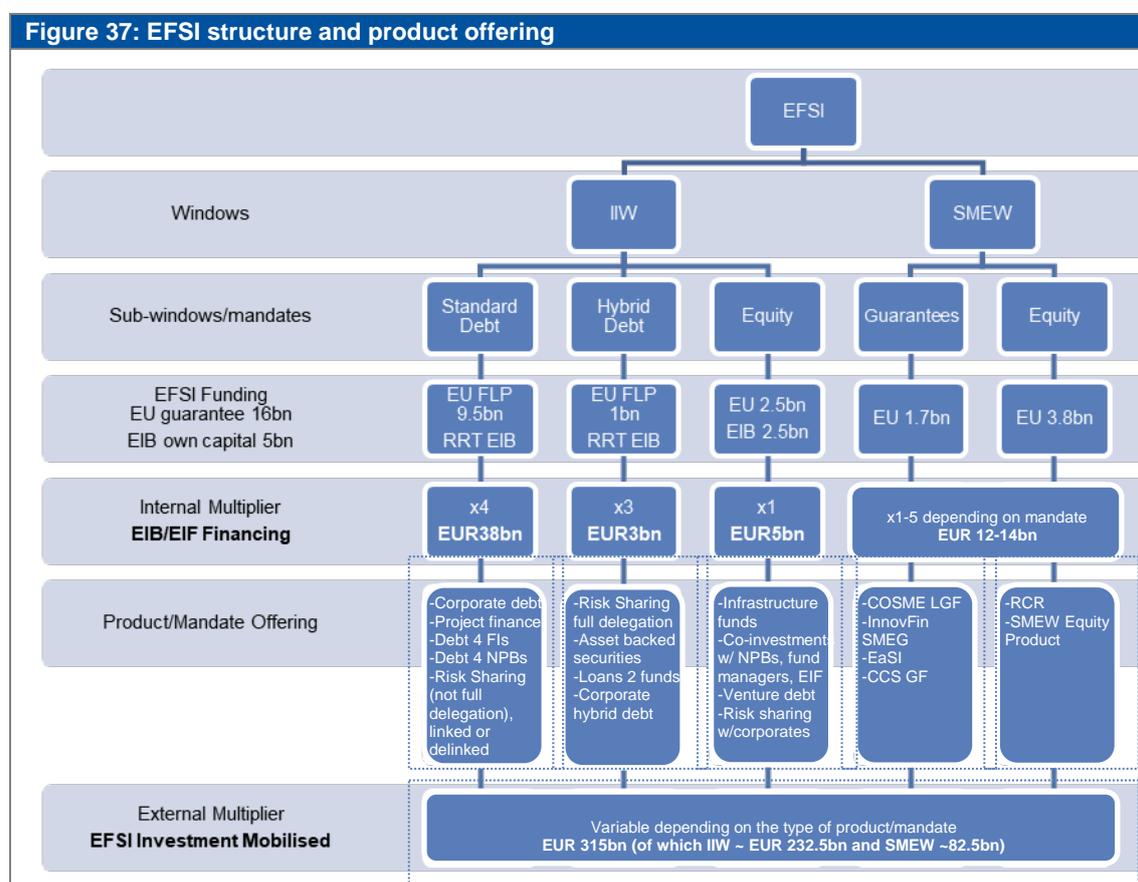
Given that the EFSI EU Guarantee, provided to the two EC guarantee mandates cited previously, would amortize along with the budget received annually from H2020 and COSME and other products were being developed by EIF in the context of EFSI, there was a justification to the increase by EUR 500m of the SMEW.¹⁰⁰ Under SMEW Phase II, the EUR 2.5bn increase of the EU guarantee is scheduled to be used as follows:

¹⁰⁰ EFSI SB/16/16, 7 September 2016, Document 22-2016, EIF – EUR 500m increase of the SME Window.

- InnovFin SMEG (EUR 0.88-0.9bn) and COSME LGF (EUR 0.5-0.55bn) top-up, with no annual release of the EU guarantee.
- EUR 1.27bn into the recently launched SMEW Equity Product.
- EUR 0.1bn EaSI and EUR 0.06bn Culture and Creative Sectors (CCS) Guarantee Facility top ups.
- Other products such as securitisation as well as other innovative products remain a possibility depending upon their design and approval by the EIF and EFSI governing bodies.

In summary, Figure 37 displays the EFSI structure, the allocation of EFSI's EUR 21bn funding by sub-windows, financial product offering, the catalytic effect and targeted investment mobilised.

EFSI has brought the EIB and the EIF to operate in very similar market segments, which reinforced the need to better coordinate the product offer in order to ensure complementarity. The most sensible areas where this is evident are the equity and risk-sharing instruments offered by the EIB under the IIW, which could potentially compete with the equity and guarantee instruments offered by the EIF under the SMEW. The EIB Group is working more closely, holding joint management meetings in order to find synergies, to ensure complementarity of the EIB Group's product offering (Figure 37) and to address common issues.



Source: EFSI, Amendment and Restatement agreement dated 21 July 2016, SB/06/15, adapted by EV

Box 14: EIB Group Product complementarity

Equities

The EIB EFSI strategy delineated the segregation of responsibilities for equity type financing, between the two EIB Group entities: the EIB is responsible for direct quasi-equity loans and some indirect equity financing operations, such infrastructure fund investments but also investments in infrastructure, large Mid-caps and corporates alongside private fund managers and NPBs, building on the EIB's longstanding infrastructure expertise; the EIF is responsible for all other indirect equity investments targeting SMEs and small Mid-caps within EU.

A major decision and sign of the EIB Group cooperation is that approximately 20% out of the total EUR 5bn IIW equity targets are to be deployed in cooperation with the EIF. The equity market needs assessment relied on two market studies commissioned to Deloitte and Roland Berger, as well as other existing studies. One year after its approval the EIB took stock on the implementation progress under the EFSI Equity Window and decided to revise the individual envelopes in view of the market receptivity thus far. Moreover, the services also requested the introduction of flexibility in the final amounts of the individual envelopes, which should be looked at indicative and allow for a certain degree of flexibility, always ensuring the total cap of EUR 5bn equity-type signatures.

Guarantees

The EIB and the EIF have recently prepared a practical guide to EIB Group products for intermediated debt finance for SMEs and Mid-caps. The EIB Group product offering cover both funding and risk-sharing or guarantee schemes that aim at risk cover and/or capital relief. The segregation of responsibilities between the EIB and the EIF has been defined with the EIB focusing on funded and non-granular products and the EIF expertise in guarantees for granular SME loan portfolios and as fund-of-fund manager for SME and Mid-cap funds. For coordination of the EIB Group product offer, the EIF regularly provides its transaction pipeline.

7. CONCLUSIONS

- 1. At the time EFSI was launched, cyclical and structural needs in terms of investment and access to finance varied across EU MS. The evaluation finds that EFSI was adequate to address structural issues, while less adequate to address cyclical issues; most of the projects it is designed to support have disbursements that are too spread over time to have a significant impact on aggregate demand and pull economies that have a large and persistent cyclical investment gap out of stagnation. Moreover, by the time EFSI was launched, in some MS, investment to GDP had already recovered its pre-crisis levels.**

EFSI was launched in the aftermath of the global financial and sovereign debt crises to stimulate investment and increase access to finance for SMEs and Mid-caps in order to reduce investment gaps and thereby boost growth, employment and competitiveness in the EU. At the time EFSI was launched, the EU-28 suffered from both cyclical and structural investment gaps, although in terms of cyclical gaps, there were differences across MS. For “Core countries” investment to GDP had largely already recovered its pre-crisis levels, while “Vulnerable Member States” and “Cohesion countries” still faced significant investment needs.¹⁰¹ Access to finance for SMEs and Mid-caps had also already started to improve overall but structural issues remained, particularly in the periphery and cohesion regions, and for small, young, and innovative firms.

The evaluation finds that EFSI was adequately designed to address structural investment gaps as it was designed to address market failures (e.g. credit rationing, public goods, externalities). Its design was less adequate to address cyclical investment gaps as most of the projects it is designed to support (e.g. innovation or large infrastructure projects) have long implementation periods (similar to all EIB projects in these sectors) and disbursements are too spread over time to have a significant impact on aggregate demand and pull economies with a large and persistent cyclical investment gap out of stagnation. As part of the IPE, EFSI is designed to address the supply of financing, by increasing the risk-bearing capacity of the EIB Group and allowing it to provide financing beyond what the market could provide. At the same time, cyclical investment gaps are caused both by factors that affect the supply of financing and factors that affect the demand for financing. Demand for financing is to be addressed by the other two pillars of the IPE, which deal with legal and regulatory barriers constraining demand as well as those related to weak capacity and lack of access to information. As regards increasing access to finance for SMEs and Mid-caps, EFSI was adequately designed as it was set up to leverage the experience and networks of the EIF in order to quickly address the existing demand for higher risk financing.

- 2. The evaluation estimates that by July 2018, EFSI will have mobilised EUR 315bn in terms of approvals and roughly EUR 256bn in terms of signatures, which is in line with the target set by the Regulation. Investment has been mobilised for projects in sectors that suffer from market failures and sub-optimal investment situations, and across all EU-28 MS. As of 31 December 2017, “Vulnerable Member States” and “Cohesion countries” accounted for over 80% of volumes signed, normalised by the share of EU GDP. As it will take time for investments to have an impact on the economy and since the volume of investment mobilised is merely an estimate, the evaluation cautions against the risk of focusing on volume targets at the expense of additionality, which is what matters to achieve a structural, long-term impact on growth and employment.**

EFSI has succeeded in mobilising a large volume of mainly private investment. The evaluation estimates that by July 2018, EFSI is likely to have mobilised EUR 315bn of investment (in terms of approvals). The target of EUR 315bn of investment mobilised (in terms of signatures) is expected to be reached by early 2019. The vast majority (almost 80%) of financing crowded in by the EFSI-backed EIB financing was private as of 31 December 2017.

¹⁰¹ The country categorization used in this Report is that of the EIB Investment Report (2015,2016).

While recognising the success of EFSI in meeting pre-defined investment goals, the evaluation underlines that achieving (or missing) the precise target of EUR 315bn by mid-2018 will not make much difference in economic terms as the economic impact of EFSI projects will only materialise once the actual investments occur and the financing hits the economy. To this end, the evaluation considers that reporting on investment mobilised based on signatures is more meaningful than based on approvals and, in fact, reporting on disbursements would be most meaningful.

Moreover, it is noted that the volume of investment mobilised is only an estimate, which is dependent on the multiplier assumptions used. The actual investment mobilised can only be measured at the end of the investment period. The evaluation found that information on how benchmark multipliers were derived is presently spread across EIB Services and it would be desirable to collect it all into a standalone document.

The evaluation therefore cautions that, while investment volumes are important, the focus on reaching the volume targets should not come at the expense of the additionality of operations, which is what matters most for the structural long-term impact.

In terms of sectoral and geographical distribution, EFSI has been successful in mobilising financing in sectors that suffer from market failures and sub-optimal investment situations, namely RDI, smaller companies, digital and social infrastructure (IIW and SMEW), as well as energy, transport, and environment and resource efficiency (IIW). Operations have been signed in all EU-28 MS and, accounting for the relative size of the economies, signed amounts are well distributed between the EU-15 and EU-13. Using the EIB Investment Report (2015, 2016) categorisation of EU Member States, the evaluation finds that “Vulnerable Member States” and “Cohesion countries” made up over 80% of volumes signed, normalised by the share of EU GDP, as of 31 December 2017.

3. EFSI operations provided additionality in accordance with the EFSI Regulation. As of 31 December 2017, 98.8% of operations (by number) were reported as SA and hence, according to the original EFSI Regulation, were additional by definition. The 1.2% of EFSI operations that were not SA were also considered by the EFSI Investment Committee (as foreseen in the Regulation) to meet the additionality requirements. Moreover, the evaluation finds that: (a) the vast majority of EFSI operations addressed market failures; and (b) in the absence of the EU guarantee, the EIB could not have financed the portfolio of EFSI operations under its own risk without a potential negative impact on its overall lending capacity and risk profile.

According to the EFSI regulation, operations provide additionality when: (a) they address market failures or sub-optimal investment situations and (b) they could not have been carried out in the period during which the EU guarantee can be used, or not to the same extent and within the same time frame, by the EIB, the EIF or under existing Union financial instruments without EFSI support. In the original EFSI Regulation, operations were considered to provide additionality by definition if they carried a risk corresponding to EIB SA, although other additionality aspects were also analysed and documented.

As of 31 December 2017, 98.8% of signed operations (by number) were reported as SA and hence according to the original EFSI Regulation, were additional by definition. The 1.2% of EFSI operations that were not SA were also considered to meet the additionality requirements of the Regulation by the EFSI Investment Committee, an eventuality provided by the Regulation. As regards condition (b): the evaluation finds that the EIB could not have financed the portfolio of EFSI operations under its own risk without a potential negative impact on its overall lending capacity, risk profile and ultimately the sustainability of its business model. The evaluation finds that EFSI and non-EFSI SA operations have similar risk profiles.

As regards condition (a): EFSI operations were found to address market failures according to the IFI/MDB/EIB approach, as 98% of final beneficiaries of EFSI IIW debt operations (for which survey data was available) reported that they could not have found comparable inputs on the market. Using a more restrictive approach of what would have happened to projects in the absence of EFSI support, in the majority of cases (76% for the SMEW and 67% for the IIW), EFSI provided additionality because the projects would have had to stop or be scaled down or developed at a

slower pace without EFSI-backed financing. The findings of the survey were supported by those of the case studies and the qualitative analysis of project selection tools, which show that the EIB Group provided valuable financial and non-financial inputs that the market could not have provided on comparable terms/scale.

- 4. Complementarity and coordination of EFSI with other EU instruments is mixed. In some cases, EFSI has been complementary, catalysing the use of other EU funds through the frontloading of existing guarantee instruments. In other cases, the potential overlap with other EU instruments led to the revision of their implementation strategies. Moreover, combination of EFSI with ESIF and CEF grants has been limited so far. EFSI is generally complementary with NPBs, although there is also potential for overlap.**

In order to increase effectiveness and efficiency, EFSI should be complementary to and coordinated with other EU instruments as well as NPBs/NPIs. EFSI catalysed the use of other EU funds through the frontloading of the implementation of existing guarantee instruments, which would not have been able to meet the demand for financing in 2016-2018 without EFSI. It was also complementary to other EU programmes through common equity instruments under InnovFin and the EaSI Programme, which will reach out to new types of operations/beneficiaries.

At the same time, examples of combination of EFSI with ESIF and CEF grants remain limited. The obstacles to the combination of ESIF grants and EFSI relate to the different legal bases of the two instruments. Combining CEF grants and EFSI is challenged by different project eligibility criteria and the EIB's mandate to prioritise high risk financing, not often found in public infrastructure projects. Moreover, InnovFin and CEF debt instruments and COSME equity instruments had to re-adjust their scope and focus in order to reduce overlap with EFSI. A risk of crowding out was also identified with relation to financial instruments under ESIF.

EFSI is generally complementary to NPBs/NPIs; for example where lending under EFSI IIW has complemented equity investment by NPBs/NPIs or in cases of co-investment in funds (e.g. under EIB Risk Capital Resources mandate). However, the evaluation also identified some evidence of (potential) duplication of NPBs'/NPIs' activities in terms of the provision of COSME LGF under EFSI to both public and private intermediaries within the same market. NPBs/NPI's need to comply with the EU state aid rules puts them in a less favourable position with respect to commercial intermediaries of the LGF which, however, is not an effect of EFSI/COSME but rather due to the applicability of EU's state aid rules. Finally cooperation with NPBs was broadly adequate and can improve the effectiveness of EFSI by building on the NPBs knowledge of the local markets. It can also lower the administrative burden and standardisation in cases of co-investment (e.g. through the EIF-NPI equity platform). Cooperation with NPBs is expected to be further strengthened under the extension of EFSI.

- 5. The EIB Group has tailored its inputs to EFSI needs. This has induced considerable change in the EIB as well as in the EIF, although to a lesser extent, and some of these changes may have longer-term impacts. Project appraisal tools are adequate, with room for further strengthening of the tools used to assess additionality. For the time being the EU guarantee mitigates significantly the additional risk exposure brought by EFSI operations. However, the initiative's revenues do not cover the related costs at the EIB (IIW), but do so at the EIF (SMEW).**

The EIB Group made unprecedented recruitment efforts in order to be appropriately staffed, in quantitative and qualitative terms, to deliver EFSI. For the EIB, more staff with different skill sets was needed to deliver a larger number of smaller and more innovative complex transactions (i.e. SA), while for the EIF more staff with similar skills was needed to deliver a threefold increase in annual business activity.

The EIB had to adapt its processes and procedures to a great extent, mainly (but not exclusively) driven by the need to comply with certain requirements of the EFSI regulation. The EIF processes and procedures have also been streamlined to cater for EFSI, although to a much lesser extent

as the EIF could rely more on existing processes and procedures. Project selection tools, both at the EIB and the EIF, are deemed to be adequate overall, with room for further strengthening as regards the tools used to assess additionality. By design, SMEW operations are subject to bespoke governance compared to IIW operations.

EFSI allowed the EIF initially to frontload the forthcoming years' budget for COSME LGF and InnovFin SMEG and to top-up RCR; all of which were mandates existing prior to EFSI targeting deep market gaps and which had a strong pipeline of operations ready to be served. More recently, the EIF has developed new products, targeting under-served counterparts, by pooling resources from different counterparts having different risk appetites, which allows for optimal risk tranching. From the inception of EFSI, the EIB had to undertake riskier market/product development strategies as the regulation had clear requirements in terms of the types of products to offer and the level of risk that had to be undertaken. The evaluation finds that, boosted by EFSI, the EIB Group now offers a wider range of financial products that is constantly evolving to meet market needs and pursue EFSI objectives. The EIB and EIF now operate in very similar market segments (intermediated equity and guarantees), which reinforced the need to better coordinate the Group product offer in order to ensure complementarity.

The EU guarantee has enabled the EIB Group to deploy, during EFSI years, a significant additional volume of high risk financing. So far, EFSI is loss making for the EIB, while this is not the case for the EIF. Unlike the EIB, the EIF receives administrative fees from the EC for managing the SMEW mandates.

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Annex 1 - Methodology

This Evaluation used a combination of qualitative and quantitative methods, drawing on both primary and secondary data. Primary data were collected through interviews with internal and external stakeholders, surveys of EFSI beneficiaries, as well as review of the portfolio of EFSI operations and relevant project documentation. Secondary data comprised legal, strategic, operational, academic and policy documents, completed evaluations and audits of EFSI.

The Evaluation Questions and corresponding Evaluation Criteria are presented in Table 8. The Evaluation Questions and Criteria were formulated drawing on EFSI's Intervention Logic, as recreated in the context of this evaluation, and presented in Figure 38.

As shown in Figure 39, multiple sources and methods were used to address each Evaluation Question, in order to mitigate the limitations of different methodologies, facilitate the triangulation of evidence collected, and maximise the robustness of the findings.

Table 8: Evaluation Questions		
#	Evaluation Question	Criterion
1	To what extent has EFSI been, and remains, an adequate response to the investment gap(s) and a means to boost growth and employment in the EU?	Relevance
2	To what extent has EFSI achieved its objectives?	Effectiveness
3	To what extent has EFSI financing provided additionality?	Effectiveness
4	To what extent is EFSI complementary with other EU interventions and coordinated with NPBs, Investment Platforms and the other Pillars of the IPE?	Complementarity/ Effectiveness
5	To what extent has the EIB Group mobilised adequate inputs to achieve EFSI's objectives?	Efficiency

Figure 38: EFSI Intervention Logic

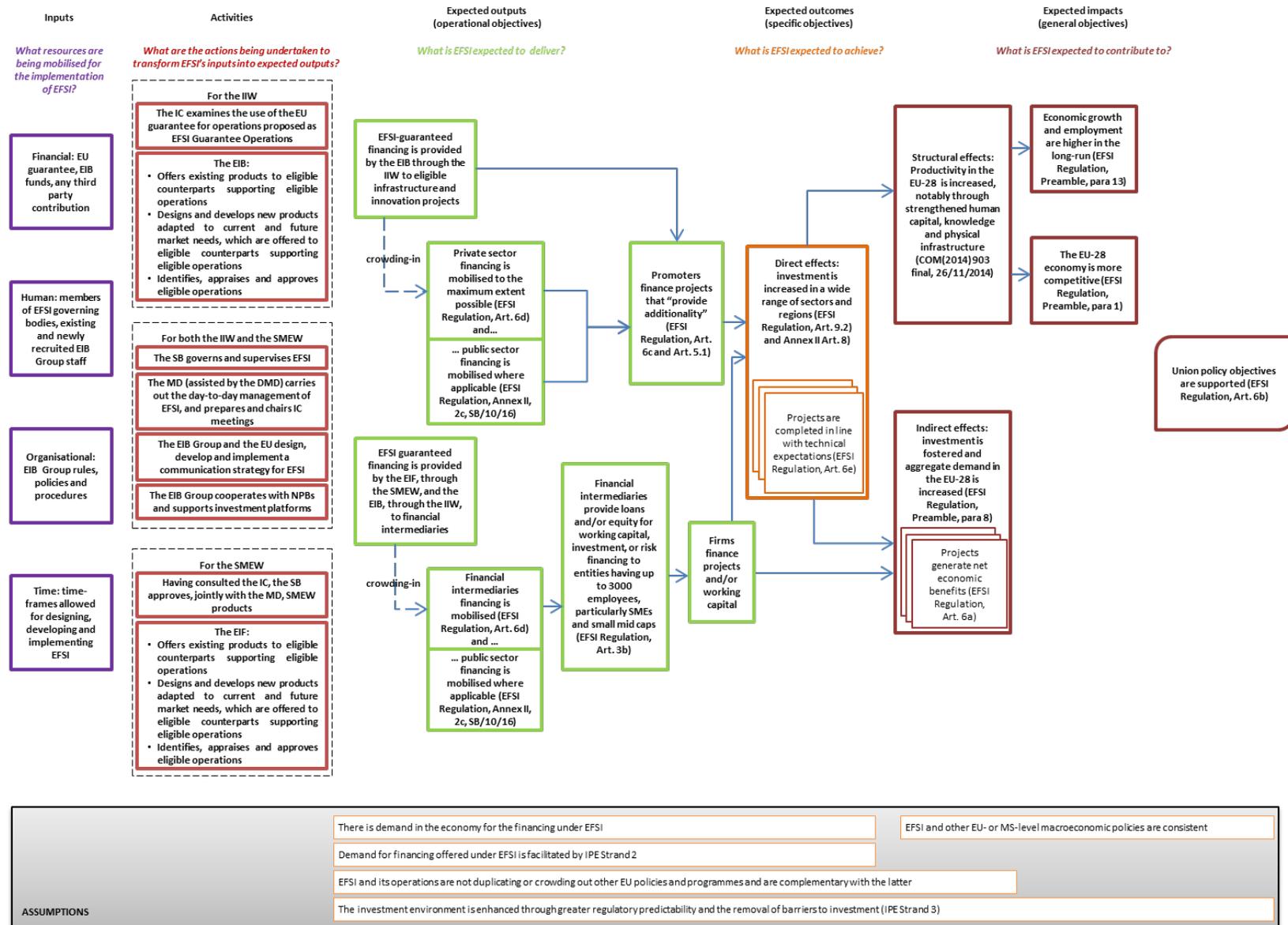
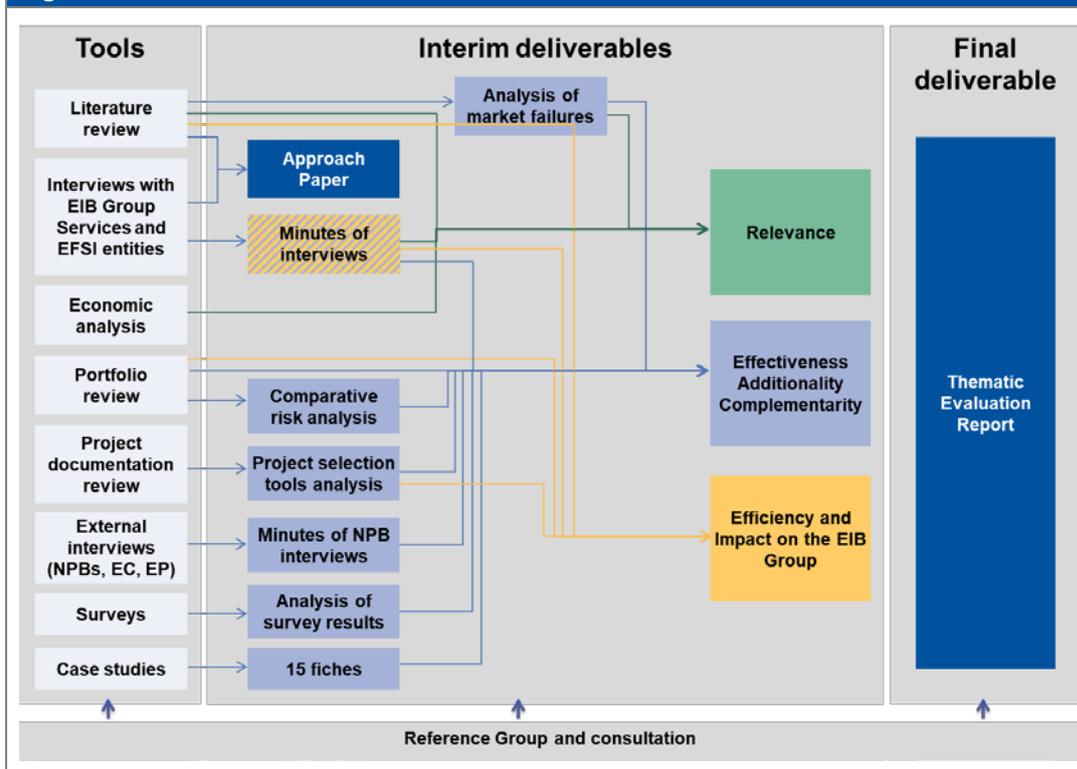


Figure 39: Overview of the Evaluation's Methods and Deliverables



Source: EV

Literature review

Literature review of diverse documents was used extensively throughout this Evaluation. Most importantly, at the early stages, the review of legal (EFSI Regulation¹⁰², EFSI Agreement¹⁰³, Delegated Regulation establishing the scoreboard of indicators¹⁰⁴) and strategic documents (Communication on an Investment Plan for Europe¹⁰⁵, EFSI Strategic Orientation¹⁰⁶, EFSI Key Performance and Key Monitoring Indicator Methodology) was used to carry out a thorough policy review of EFSI, identify the main objectives, elaborate the intervention logic, and develop the Evaluation Framework (as presented in the Approach Paper). This process was complemented with preliminary interviews with internal stakeholders (e.g. EIB Group Services and EFSI Managing Director) to build a comprehensive understanding of not only legal but also operational aspects of EFSI.

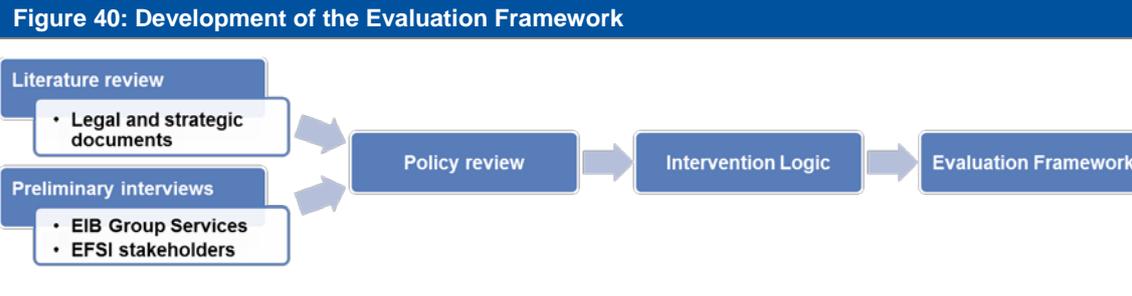
¹⁰² Regulation (EU) 2015/1017 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments, 25 June 2015. In addition to the original Regulation, in order to ensure that the analysis remained relevant and up-to-date with ongoing policy developments, the Evaluation also reviewed the updated Regulation (EU) 2017/2396 amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub, December 2017.

¹⁰³ Amendment and Restatement Agreement dated 21 July 2016 between the EU and the EIB relating to the Agreement on the Management of the European Fund for Strategic Investments and on the Granting of the EU Guarantee dated 22 July 2015.

¹⁰⁴ Commission Delegated Regulation (EU) 2015/1558 supplementing Regulation (EU) 2015/1017 on the establishment of a scoreboard of indicators for the application of the EU guarantee, 22 July 2015.

¹⁰⁵ COM (2014) 903 final, Communication from the EC on An Investment Plan for Europe, 26 November 2014.

¹⁰⁶ EFSI Strategic Orientation, SB/07/2015, and Updated EFSI Strategic Orientation, SB/22/2017.



Source: EV

The review of strategic and operational documents (e.g. internal EIB Group reports) was the basis for the analysis of EFSI's effectiveness (results achieved so far), complementarity with other EU interventions, efficiency and impact on the EIB Group. The analysis of EFSI's complementarity and coordination with other EU interventions was also based on desk review of legislation, working programmes, implementation reports and evaluations of relevant interventions (e.g. ESIF, CEF, COSME, InnovFin). Information collected through the desk review was triangulated with evidence collected through interviews (more information on interviews is provided below). Finally, the review of academic literature on market failures and of policy papers on key EU policy objectives and associated sectors suffering from investment gaps (e.g. 2016 EIB "Restoring EU Competitiveness" report) was a major input into the analysis of EFSI's additionality (the extent to which EFSI operations provide additionality by addressing market failures). The list of sources to be analysed was continuously updated as new internal and external documents, reports, papers etc. were made available, especially with reference to the amended EFSI Regulation.

Although literature review was an essential tool to build a thorough understanding of EFSI, and its theoretical, policy and operational context, it also had some limitations in terms of the immense and constantly expanding volume of information, and the sometimes diverging interpretation of key concepts (e.g. sub-optimal investment situations).

Interviews

To address the limitations discussed above, this Evaluation also used semi-structured interviews with internal and external stakeholders to clarify key concepts and collect expert opinions. Internal stakeholders comprised EFSI governing bodies and EIB Group Services directly involved in all phases of EFSI operations. External stakeholders comprised EU institutions (European Commission, European Parliament), *mandators* of EFSI but also managers of other EU interventions (e.g. ESIF), and National Promotional Banks (NPBs). Interviews with external stakeholders were a major input into the analysis of EFSI's complementarity and coordination with other EU interventions (in combination with desk review of relevant documents, see above).

Interviews, however, presented the following limitations: significant time resources needed (from both the Evaluation team and EFSI stakeholders), and risk of collecting disparate or anecdotal evidence. Taking note of the evaluation fatigue among EFSI stakeholders, the Evaluation streamlined the interview process by circulating Interview Guides in advance of meetings, and meeting multiple interviewees at once. The Guides were based on a long list of questions tailored to specific interviewees and generally focused on strategic issues. In total there were 32 interview sessions with 62 internal interviewees, and 19 sessions with 21 external interviewees (including sessions with 14 NPBs), most of whom were management staff in both cases.

Stakeholder	Number of interview participants
EIB Group Services	50
EFSI Governing Bodies (incl. Steering Board, Managing Director and Deputy Managing Director, Investment Committee, and EFSI Secretariat)	12
National Promotional Banks (NPBs)	14
European Commission	6
European Parliament	1

Economic analysis

In addition to policy review, to assess EFSI's relevance as a policy response to the investment gap(s), this Evaluation carried out an economic analysis of macro-economic trends in the EU-28 overall as well as in Member States separately. The purpose of the analysis was a) to substantiate the existence of the investment gap(s) by examining long-term investment trends as share of GDP, and b) to assess the extent to which there is a financing gap for SMEs and the factors behind it. The analysis used official data from a range of sources such as Eurostat, the European Central Bank (ECB SAFE survey, ECB lending survey) and the OECD. As this analysis was mainly theory-driven and macro-level, it was complemented with the analysis of operational data from the EFSI portfolio of operations.

Portfolio review

The review of the portfolio of EFSI operations was used to inform the analysis of both effectiveness and efficiency. It included both analytical and descriptive analysis, based on data from internal EFSI reporting documents as of end-2017.

Comparative risk analysis

Because of the link between risk¹⁰⁷ and additionality of EFSI operations, this Evaluation carried out a two-part analysis of the risk profile of EFSI-IIW operations and a comparison with equivalent non-EFSI EIB operations.¹⁰⁸

The first part of the analysis focused on the recovery rates assigned to EFSI-IIW operations. Recovery rates provide an estimate of the percentage of loan exposure that will be received by the EIB in case of borrower's default. Recovery rates are one of the most important inputs for determining the risk profile of an operation. Other factors equal, lower recovery rates result in an increased risk, and higher recovery rates in a decreased risk of a particular operation. With respect to EU lending, recovery rates are pre-assigned for each asset class in internal EIB systems, with the possibility for users to modify the pre-assigned values when warranted. The first part of the analysis examined the distribution of recovery rates for a sample of EFSI operations as of end-2017 (207 operations¹⁰⁹), in comparison to that of EIB non-EFSI SA

¹⁰⁷ EFSI operations carrying risk corresponding to EIB SA, as defined in Article 16 of the EIB Statute and by the EIB internal credit risk guidelines, shall be considered to provide additionality. SA are defined as: (i) Lending/guarantee operations with a risk profile as determined by their Loan Grading of D- or below. (ii) Equity and quasi-equity and other operations with an equivalent risk profile. Loan Grading (LG) is an application used by the EIB to calculate the creditworthiness of a particular loan before and after signature. Loan grades range from A0 (0 expected loss) to F (expected loss equal or greater than 25% and default). Loan grades of D- or below correspond to expected loss of 2% or more. The calculation of expected loss in LG is relatively complex and involves, among others, estimates of the default probability, the recovery rate, cash flow and contract-specific information.

¹⁰⁸ This analysis was undertaken only for EIB-IIW operations as EIF-SMEW operations' additionality is not assessed at the level of individual operations (which would merit an analysis of their risk rating among other characteristics), but rather at the level of Products (e.g. COSME LGF, InnovFin SMEG) as per the EFSI Agreement, Article 17.

¹⁰⁹ In the interest of maximising the number of observations, the analysis included all operations identified as EFSI-supported in internal EIB systems and for which information on recovery rates was available.

operations for the period 2012 to 2014 (129 operations). Data was directly extracted from EIB's internal systems by the EV team, and cross-checked (where possible) with other sources such as the latest available EFSI IIW Annual Risk Profile Report (as of end-2016 at the time of the analysis). As the recovery rates are assigned to borrowers, operations with multiple contracts were merged unless there was an evidence that the contracts are different and warrant different recovery rate values; this is in line with the approach in the EFSI annual risk report. This process of data cleaning resulted in 209 observations for EFSI-IIW recovery rates, split into the following main asset classes: 172 operations with Corporates (82.3%), 20 operations with Financial Institutions (9.6%), and 17 operations with Public Entities (8.1%). The recovery rate analysis focused on the Corporates asset class, and specifically on corporates with unsecured loans¹¹⁰, for which there is a standard recovery rates of 50%. As such, corporates classified as Project Finance as well as guarantee exposure, hybrid bonds and multi-beneficiary intermediated loans were excluded from the analysis to make the sample comparable to the non-EFSI sample. This resulted in an 'EFSI sample' size of 108 operations (51.7% of debt-type operations).¹¹¹

The analysis on the EFSI sample included the following steps:

- Calculate the number of corporates for which the recovery rate has been modified,
- Record the direction and magnitude of modification,
- Calculate the ratio of downgrades to upgrades (i.e. how many modification were downgrades for every one upgrade),
- Repeat the above for the EIB non-EFSI SA sample of operations for the period 2012 to 2014 (90 operations in the comparable corporates category),
- Compare the occurrence and direction of modifications between the EFSI-IIW and non-EFSI SA portfolio.

As part of the comparative analysis, the evaluation carried out an in-depth review of a sample of 35 IIW EFSI corporate operations for which recovery rates were manually modified.

The second component of the risk analysis assessed the evolution of the risk profile of the EFSI-IIW portfolio since signature. The analysis assessed the change in Loan Grading between signature and the end of 2017 using a sample of 279 EFSI contracts. Prior to the analysis the following data cleansing took place: from the total EFSI operations, equities (direct and indirect) were excluded, given that the analysis was only undertaken for debt-type operations. Moreover some LG ratings were retrieved manually from IT systems (as the application used did not allow to retrieve all year end intermediary ratings the evaluation team was seeking to obtain).

This comparative analysis provided valuable insight into the risk profile of the EFSI-IIW portfolio, but presented limitations in terms of:

- Scope as the recovery rate analysis focused only on a corporate sample of EFSI operations and standard debt operations under the IIW;
- Conclusions based on the recovery rate analysis include a high degree of expert judgment;
- Data preparation included subjective choices as a full reconciliation with official EFSI data was not possible at this stage;
- Extrapolation from corporate sample to whole population of EFSI IIW operations.

Project documentation review

The above-mentioned portfolio-level analysis was complemented with more granular approaches that focused on the level of individual operations. For that purpose, the evaluation carried out a

These parameters identified 279 EFSI-IIW operations as of end December 2017, the majority of which (243, i.e. 87%) were signed operations.

¹¹⁰ Loans with no additional security or guarantee, where the EIB, irrespective of the number of signatures provided, has no genuine recourse to an independent third party, or to other forms of autonomous security.

¹¹¹ The 172 Corporate asset class operations were split into: 108 corporates with senior unsecured loan (51.7% of debt-type operations), 31 project finance corporates (14.8%), 9 public sector corporates (4.3%), and 24 other corporates (not with senior unsecured loan) (11.5%).

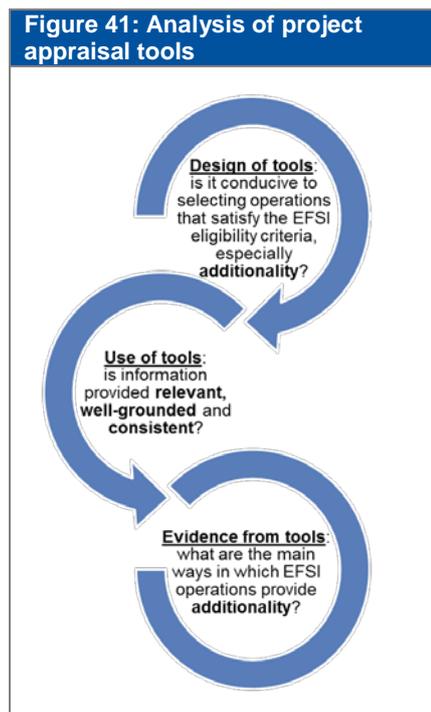
comprehensive analysis of the additionality of EFSI at the level of individual operations. The first part of the analysis consisted of examining the processes, guidance and main project appraisal/selection tools used to assess the additionality of individual operations from a design perspective, i.e. in order to assess their adequacy. The scope of this analysis included the EFSI Scoreboard i.e. the 3 Pillar Assessment of Value Added (3PA) and Pillar 4, and the associated guidelines for the assessment of additionality under the IIW, and the project appraisal documents for the assessment of added value under the SMEW. The purpose of this analysis was to assess to what extent these tools address all eligibility criteria for EFSI operations as defined in the EFSI Regulation, and primarily the criterion of additionality.

The second part of the analysis assessed the quality of the project appraisal/selection documentation in terms of the following criteria:

- relevance of the evidence provided (*was it in line with guidelines?*),
- depth of argumentation (*were the claims made generic and high-level or were they elaborated, well-argued and specific to the operation?*).

The third part of the analysis consisted of clustering evidence provided under different categories of additionality and providing descriptive statistics, in order to identify the main ways in which EFSI operations provide additionality (see Chapter 4).

Under the IIW, the scope included the population of signed operations for which complete documentation was available as of end August 2017 (137 out of total 184 signed operations, 74%). Due to limited time resources, because the additionality of SMEW debt operations (COSME LGF, InnovFin SMEG and EaSI) is also addressed under ongoing or recently completed evaluations (such as the Interim Evaluation of the COSME Programme or the Interim Evaluation of Horizon 2020's Financial Instruments), it was decided to focus on SMEW equity transactions. Under the SMEW, the scope included the population of signed equity transactions for which complete documentation was available as of end June 2017 (91 out of total 98 signed equity transactions, i.e. 93%; and out of grand total of 263 SMEW signed operations, 34%). Limitations of the above-described analysis included the partial coverage of the SMEW operations (34% of all signed operations).



Source: EV

Survey of EFSI beneficiaries

To complement the desk-based analysis of the additionality of EFSI operations, this Evaluation utilised primary data from surveys of final EFSI beneficiaries under the IIW and the SMEW.

Under the IIW, data were collected through an original phone survey designed by the Evaluation team, and covering the population of final beneficiaries of signed operations as of end August 2017 (184 operations). The survey took place in September to October 2017, and was administered in the preferred language of final beneficiaries via Computer-Assisted Telephone Interviewing (CATI)¹¹² by a specialist data collection company. The final sample of interviewees contacted was 156¹¹³, of which 94 responded, thus achieving a response rate of 60%. The questionnaire was designed by the evaluation team (see Annex 2), to assess the extent to which

¹¹² Telephone surveying technique in which the interviewer follows a script provided by a software application.

¹¹³ The population of 184 eligible operations was adjusted to remove operations examined under the case studies (11) and operations under-going changes post-signature. There were also a few cases where the promoter was the same for more than one operations.

EFSI operations addressed market failures (see Box 15). There were two tailor-made versions of the questionnaire, one for debt and one for equity/quasi-equity operations.

Box 15: Operationalising the concepts of “additionality” and “market failures”

In order to assess the extent to which EFSI operations provide additionality, it was necessary to assess the extent to which operations address market failures (first dimension of the definition of additionality in the EFSI Regulation, Article 5). The second dimension is addressed by the analysis of risk for EFSI operations at the individual and portfolio level (see above).

One way of looking at the extent to which operations address market failures is to focus on the results of market failures: in the presence of market failures, the market fails to adequately provide the inputs that are needed for the projects of interest to happen. Such inputs might refer to volume of financing, but also to specific terms of financing such as type of support (traditional debt, hybrid debt, equity etc.), maturity, risk premiums and others.

As a result of the mismatch between project needs and market offering, the market fails to provide financial and/or non-financial inputs (Table 10) needed for operations. Some projects may not be able to go ahead at all, some projects may go ahead with a reduced scope or within a longer timeframe, and some projects might still go ahead unchanged – depending on varying degrees of “needing” specific inputs.

The original survey of final beneficiaries of EFSI-IIW was designed to analyse the aspects described above, through a two-pronged approach: on the one hand, assess what (financial and non-financial) inputs provided by the EIB under EFSI could not have been provided by the market; and on the other hand, assess what would have happened to projects supported in the absence of EIB support under EFSI.

Table 10: Financial and non-financial inputs provided by EFSI¹¹⁴

Financial inputs (debt products)	Non-financial inputs (debt and equity)
<ul style="list-style-type: none"> • Product range • Amount of finance received • Rates offered • Fees charged • Duration of the loan/loan maturity • Collateral requirement • Contractual clauses 	<ul style="list-style-type: none"> • Facilitation <ul style="list-style-type: none"> - Provision of innovative form of financing - Attracting other financiers (crowding in) - Improving public/private risk allocation (“honest broker” role in deals) - Improving overall ability to attract other financiers (“halo effect”)
	<ul style="list-style-type: none"> • Advice <ul style="list-style-type: none"> - Advice on financial structuring - Technical advice - Expert knowledge of business context
	<ul style="list-style-type: none"> • Time (can be positively or negatively affected by any of the above dimensions) <ul style="list-style-type: none"> - Acceleration (e.g. acceleration of financial close due to positive signalling effects or delay due to long appraisal processes) - Timeliness of support provided (support provided at a time that was crucial for the project to have access to financing) - Time savings (with long-term financing, the counterpart does not have to find re-financing solutions as time passes)

¹¹⁴ The distinction between financial and non-financial inputs is merely theoretical: the former refer to terms associated with the lending and investment activities of the EIB Group, which are concretely defined in contractual documents, and are generally easily quantifiable and comparable between operations (e.g. pricing, maturity etc.), while the latter refer to more abstract forms of support, which are generally not quantifiable (sometimes referred to as “soft enhancement” e.g. signalling effects to markets about the viability of an investment).

Under the SMEW, in the interest of minimising the risk of survey fatigue among final beneficiaries, it was decided to use survey data collected in the context of the Interim Evaluation of the COSME Programme by the EC – DG GROW. Data were collected through an online survey of final beneficiaries (i.e. SMEs) under the COSME Loan Guarantee Facility (LGF). COSME beneficiaries constitute more than 90% of all SMEW beneficiaries; hence this is considered a good approximation for the entire SME Window. Furthermore, key questions in the COSME survey were comparable to questions in the IIW questionnaire, thus facilitating a common approach to the analysis of additionality relative to the market. In the case of questions that were not comparable, the methodology was adjusted. More specifically, behavioural questions on whether respondents applied and received financing (or not), as well as counterfactual questions on what would have happened in the absence of support were comparable in the two surveys. For the estimation of the share of beneficiaries that would have had to stop their projects in the absence of EFSI, although the IIW survey asked respondents why they sought EIB financing, the SMEW survey only asked respondents what was their general situation when they applied. To mitigate this lack of information from the SMEW survey, this question on the general situation of SMEs when they applied for COSME support was used in conjunction with the other two sub-indicators (i.e. it is not an “either/or” (like for the IIW), but an “and” conditional relationship). Out of a total population of 143,344 of COSME final beneficiaries as of April 2017, a stratified sample of 3,870 in 19 countries received the survey, and 359 responded, thus achieving a response rate of 9%.

As explained in detail below, the surveys utilised both behavioural (e.g. past search for external financing prior to applying for EFSI/COSME support) and hypothetical (e.g. what would have happened to the scope/timing of the investment in the absence of EFSI/COSME support – counterfactual estimate) questions to construct corresponding sub-indicators. Based on these sub-indicators, respondents were then categorised into one of three pre-defined categories:

- Respondents who would have had to stop their projects in the absence of EFSI as evidenced by at least one of the following conditions:
 - Respondents applied for external financing in the private market but were not able to secure it (actual behaviour);
 - Market financing was unavailable (based on respondent’s assessment);
 - Respondents would have to cancel their project if the EFSI financial support had not been available (hypothetical assessment).
- Respondents who would have gone ahead with their projects but not to the same scale or within the same timeframe as evidenced by at least one of the following conditions:
 - Respondents would have to scale down their project if the EFSI financial support had not been available (hypothetical assessment);
 - Respondents would not have found private investors for the same volume of funding within the same time-frame if EFSI funding had not been available (hypothetical assessment).

Respondents who would have gone forward with their projects, at the same scale, scope and timeframe without EFSI: projects that cannot be categorized under the two previous categories. For the sub-indicators, all “Refused” or “Don’t know” responses were generated as missing observations because there was insufficient information to determine which category they would fall under. For the three above indicators, an observation was generated as a missing variable if and only if both sub-indicators were missing.

Respondents which could not be categorised under the first two categories, were classified under the third one, namely “Respondents who could have gone forward with their projects, at the same scale, scope and timeframe without EFSI”. The results of both surveys were jointly analysed by the Evaluation team and an economic research company to produce the analysis presented in Chapter 4. The analysis included descriptive statistics, analysis of the distribution of different financial and non-financial inputs, as well as some correlation analysis to investigate the extent to which results were influenced by the projects’ context (e.g. country or sector) or the instrument used (e.g. investment loans or equity). Some of the analysis of the survey results was also used to investigate at a more high-level some of the findings (“leads”) from the non-representative case studies (e.g. the lead that final beneficiaries receiving equity investments were less likely to go ahead with their projects than those receiving investment loans).

This survey-based methodological approach entails a number of limitations. The information analysed is based on a sub-set of EFSI beneficiaries. In the case of the IIW, this sub-set is restricted to all existing beneficiaries by the time of the survey, and to those which responded. In the case of the SMEW, this sub-set is even more restricted as it only concerns COSME beneficiaries by the time of the survey, of which a very small portion responded (9%). In addition, the information collected is largely based on the questions of interest for the evaluation teams (EFSI's intended effects), and even though it leaves some space for comments from beneficiaries, it might overlook other issues (e.g. unintended effects). This risk might be partially mitigated by the case studies, which allow for more nuanced discussions with EFSI beneficiaries. Finally, as with all surveys, there is a risk that social desirability bias might motivate respondents to provide answers that present them in as good a light as possible. In this specific survey, this might translate either in respondents overstating their need for financing (so that they confirm their eligibility) or in respondents downplaying their need for financing (so that their companies appear more financially independent). This risk was partially mitigated by offering assurances that survey results are anonymous, and thus reducing respondents' concern with how they are perceived by interviewers or the EIB Group.

Case studies

To complement the survey described above, this Evaluation carried out 15 case studies involving field visits of EFSI operations (both IIW and SMEW) in order to:

- Understand the specific mechanisms through which EFSI financing provides additionality, responds to market needs, and crowds in (mostly) private investments.
- Provide examples that complement the results of the survey.
- Identify potential "leads" for further analysis/investigation (to assess the extent to which specific findings from individual case studies apply to the portfolio overall).

Similar to the survey above, the case studies focused on the extent to which EFSI provided to operations the financial and non-financial inputs listed in Table 10.

Based on available time and staff resources, it was decided to carry out 15 case studies covering six (6) Member States: 11 IIW operations and four (4) SMEW operations, reflecting the financial allocations under each Window. The purpose of the case studies sample was not to be representative of the population of EFSI operations, but rather to identify a sufficiently varied group of information-rich cases. For that reason, the cases studies were not used to draw any generalizable conclusions that would apply to the whole portfolio, but rather provide insights into higher-level findings. The sampling approach differed between Windows as there were more parameters to consider for the IIW (e.g. product, amount, EFSI sector etc.).

Under the IIW, the scope was limited to single-country partially disbursed operations to facilitate logistics and ensure there was some progress in the operations visited. The sample of 11 operations represented 6% of the population of signed, 11% of the population of disbursed, and 14% of the population of single-country disbursed operations, as of end August 2017. The sampling approach consisted of the following steps:

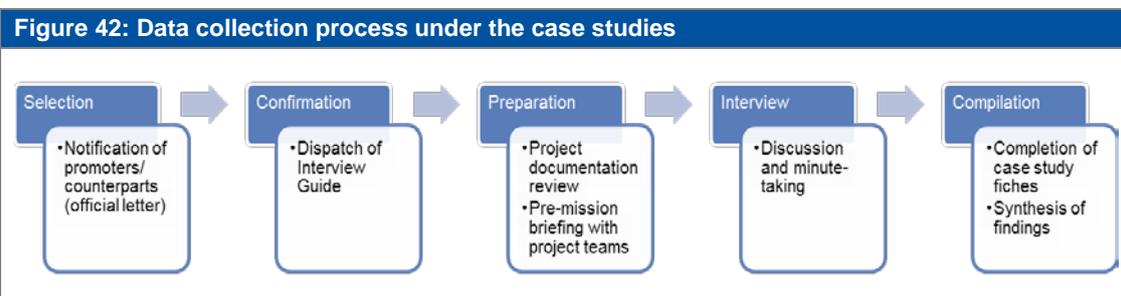
1. Split portfolio of single-country partially disbursed operations into four categories depending on the number of disbursed operations.
2. Choose six countries from first three categories with highest, middle and lowest number of operations (excluding countries with no disbursed operations), ensuring mix of interesting cases (e.g. Greece), big and small, old and new EU MS.
3. Within this six country selection, filter operations by type of product (investment loan, multi-beneficiary intermediated loan (MBIL), hybrid loan, equity or quasi-equity (investment into fund or direct quasi-equity into SMEs or Mid-caps) and within each product category, randomly identify operations to visit, keeping in mind the following parameters: amount and EFSI sector.

Under the SMEW, the sampling approach was slightly different, as the SMEW portfolio is divided into two product categories (debt instruments i.e. guarantees or counter-guarantees and equity participations in investment funds), and the number of case studies was limited. For that reason,

the Evaluation focused on COSME LGF and InnovFin SMEG as the two main debt instruments, and Risk Capital Resources (RCR) as the main equity instrument. The selection of the operations was done randomly and in combination with the need to include at least two operations per country visited.¹¹⁵

The field visits consisted of semi-structured interviews with final beneficiaries of EFSI operations. Interviewees were first notified of having been selected for a case study through an official letter, and then received an Interview Guide that was used as the basis for discussion. The Interview Guides were based on a standard set of questions, tailored every time to the specific characteristics of the operation (e.g. product or national context). The output was 15 individual fiches structured according to the survey of final beneficiaries.

The main drawback of the case studies was the fact that they are (by design) not representative of the population of EFSI beneficiaries. Thus it is not possible to draw any generalizable conclusions, but merely identify examples to complement other conclusions of our analysis – bearing in mind the specific national and business context of the cases studied.



Source: EV

¹¹⁵ This constraint applied specifically to the case of Bulgaria, where there was only one partially disbursed EFSI operation under the IIW, which had to be complemented by a transaction under the SMEW, identified under InnovFin.

Annex 2 - Survey questionnaires

The tables below list the survey questions that were used for the analysis of the extent to which EFSI provided to operations (financial and non-financial) inputs that could not have been provided by the market, as well as for the analysis of whether projects supported would have had to stop or be scaled down or developed at a slower pace without EFSI support. This analysis is used to assess the extent to which EFSI-supported operations addressed market failures and thus provided additionality as conceptualised in the context of this evaluation. For the analysis of IIW operations, two original questionnaires were developed (one for debt-type and one for equity-type operations). The analysis of the SMEW was based on the survey carried out for the Interim Evaluation of COSME by the external contractor on behalf of the EC. Please refer to Annex 1 - Methodology for information on how these questions were used to construct indicators for additionality.

Questionnaire IIW Debt

Q3 *For which of these sources did you actually apply?*

- Funding on capital markets (debt and equity)
- Funding from private banks
- Funding from own resources
- Funding from National or International Promotional Bank
- National or EU grants
- None
- [other]
- Refused

Q4 *From which of these sources did you actually get financing?*

- Funding on capital markets (debt and equity)
- Funding from private banks
- Funding from own resources
- Funding from National or International Promotional Bank
- National or EU grants
- None
- [other]
- Refused

Q9 *Why did your organisation seek EIB financing and support?*

- Other sources were too expensive
- Other sources did not offer sufficient technical and/or financial advice
- The opportunity to attract other financiers thanks to the EIB participation
- The EIB's reputation
- Other, please specify
- Refused
- No market financing was available
- The volume of financing from other sources was insufficient
- The tenor from other sources was too short or not appropriate
- Contractual requirements from other sources were inadequate
- Specification for other

Q10 *If the EIB had not provided financing, what is the likelihood that you would have found private investors for the same volume of funding?*

- Very likely
- Likely
- Unlikely
- Highly unlikely

Q11 *What was the likelihood that you have found private investors within the same timeframe?*

Very likely
Likely
Unlikely
Highly unlikely

Q12 *For each of the following financing conditions, to what extent did the EIB financing meet your needs?*

Product range
Amount of finance received
Rates offered
Fees charged
Duration of the loan/loan maturity
Collateral requirement
Contractual clauses
Grace period
Flexible amortisation tables/repayment schedules
Contractual reporting requirements
Other (open answer)

Q13 *For each of these, could you have obtained comparable financing conditions from other private sources?*

Product range
Amount of finance received
Rates offered
Fees charged
Duration of the loan/loan maturity
Collateral requirement
Contractual clauses
Grace period
Flexible amortisation tables/repayment schedules
Contractual reporting requirements
Other (open answer)

Q15 *Did the EIB provide support in any of the following aspects?*

Advice on financial structuring
Provision of innovative form of financing
Suggestion for additional sources of financing (private and public)
Opportunity to attract other financiers thanks to the EIB participation
Support to develop/implement your project
Sector expertise/knowledge
Country expertise/knowledge
Adoption of improved organisational or technical processes
Adoption of improved social, environmental or other standards
Speed of approval
Reputational effect of funding by the EIB
Other, please specify (open end)

Q17 *For each of these aspects, could you have obtained comparable support from other private sources?*

Advice on financial structuring
Provision of innovative form of financing
Suggestion for additional sources of financing (private and public)
Opportunity to attract other financiers thanks to the EIB participation

Support to develop/implement your project
Sector expertise/knowledge
Country expertise/knowledge
Adoption of improved organisational or technical processes
Adoption of improved social, environmental or other standards
Speed of approval
Reputational effect of funding by the EIB
Other, please specify (open end)

Q19 *If your application for EIB financing had been refused, would you have taken forward the project anyway?*

Yes
No
Don't know

Q20 *If your project had gone ahead anyway, even in the absence of financing from the EIB, would it have gone ahead...?*

Unchanged
At a later stage or over a longer period
At a higher cost
In a different country
With a reduced scope
With a reduced scale of investment
Refused

Questionnaire IIW Equity

Q3 *For which of these sources did you actually apply?*

Raising equity from private sources on capital markets
Raising equity from business angels, through venture capital or private equity funds
Funding in the form of loans from private banks
Debt from capital markets
Funding from own sources
Funding in the forms of loans from National or International Promotional Banks
Funding through grants
None
[other]
Refused

Q4 *From which of these sources did you actually get financing?*

Raising equity from private sources on capital markets
Raising equity from business angels, through venture capital or private equity funds
Funding in the form of loans from private banks
Debt from capital markets
Funding from own sources
Funding in the forms of loans from National or International Promotional Banks
Funding through grants
None
[other]
Refused

Q9 *Why did your organisation seek EIB financing and support?*

Other sources were too expensive

Expected non-financial support from the EIB (technical and financial advice)
Better funding conditions
The opportunity to attract other financiers thanks to the EIB participation
Reputation of the EIB
Other, please specify
Refused
Specification for other

Q10 *If the EIB had not provided financing, what is the likelihood that you would have found private investors for the same volume of funding?*

Very likely
Likely
Unlikely
Highly unlikely

Q11 *What was the likelihood that you have found private investors within the same timeframe?*

Very likely
Likely
Unlikely
Highly unlikely

Q19 *If your application for EIB financing had been refused, would you have taken forward the project anyway?*

Yes
No
Don't know

Q20 *If your project had gone ahead anyway, even in the absence of financing from the EIB, would it have gone ahead...?*

Unchanged
At a later stage or over a longer period
At a higher cost
In a different country
With a reduced scope
With a reduced scale of investment
Refused

Questionnaire SMEW (EU-COSME)

Q14A *How many requests (total) did your company make to other financial intermediaries to access to financing for the same project/purpose, before you were granted the financing supported by EU-COSME programme? [Only whole numbers allowed]*

Q14B *How many refusals (out of the total number of requests) did you get? [Only whole numbers allowed]*

Q16 *Which of the following statements best describes your situation when you applied for the financing (that was supported by an EU-COSME guarantee)? [Only one option allowed]*

Other sources of finance were available to me and they would have covered the full amount, but I preferred the option that included the EU-COSME guarantee

Other sources of finance were available to me but they would only have covered part of the amount, so I preferred the option that included the EU-COSME guarantee
This was the only option available to me

Q21 *What best describes what would have happened in the absence of the financing supported by the EU-COSME guarantee??*

We would have continued the project at the same scale
We would have continued the project on a smaller scale
We would not have continued the project
Don't know

Annex 3 - Estimates of the investment gap

3.1 Estimates of the investment gap based on a review of the literature

Table 11: Estimates of the investment gap from review of academic and policy papers		
Author	Benchmark	Size of the investment gap (billion EUR or % GDP)
Why does the EU need an investment plan?, EIB, European Commission, Factsheet, November 2014	Historical average (period unspecified, probably 1999-2005)	<ul style="list-style-type: none"> In 2013, investment in the EU-28 EUR 400bn lower than in 2007. In 2013, investment-to-GDP ratio 2 pp below the longer-term average (excluding boom and bust years).
The Juncker plan – no risk, no return ¹¹⁶ , Guntram B. Wolff, Bruegel, June 2015	Long-term trend	<ul style="list-style-type: none"> EUR 260bn (EUR 160bn excluding the construction sector) in 2014.
Euro zone: in the grip of ‘Secular Stagnation’?, Société Générale, March 2015, Econote	Average for 1995-2007	<ul style="list-style-type: none"> In 2013, the % investment in GDP of the EU 2 pp below its average for 1995-2007.
“How to close the EU investment gap”, D.C. Crespo, European Commission, June 2015	Assumption that EU investment should represent at least 21–22% of GDP in order to be sustainable in the long run	<ul style="list-style-type: none"> In 2014, investment gap of EUR 240-380bn. Accumulated investment gap 2009-2014 > EUR 1.2tn.
How can Europe tackle its investment gap?, J. Pisani-Ferry, World Economic Forum, August 2014	Unspecified	<ul style="list-style-type: none"> The investment gap for the euro area is at about 2% of GDP, or EUR 200bn.
Investment in Europe: making the best of the Juncker Plan, Rubio, Rinaldi, Pellerin-Carlin, Notre Europe – Jacques Delors Institute, March 2016	Long-term historical average	<ul style="list-style-type: none"> Investment in the EU in 2015 is below the long-term historical average. Its size is in the range EUR 130-330bn per year. Some MS do not have any gap, some MS have very large gaps.
German Institute for Economic Research (DiW)	Unspecified	<ul style="list-style-type: none"> Around EUR 190bn/year.
Growth for Europe – Is the Juncker Plan the answer?, J. D. Schneider, European Policy Centre, March 2015	Comparison of 2014 with the trend 1970-2014.	<ul style="list-style-type: none"> Investment gap – EUR 260bn for the EU15 in 2014.
Investment in the Euro Area: Why Has It Been Weak?, IMF, February 2015, Working Paper	Unspecified	<ul style="list-style-type: none"> The decline in the investment-to-GDP ratio with a peak of 3-3.5 pp three years after the crisis. In the euro area, the investment-to-GDP 4¼ pp below the pre-crisis level.

Source: EV

¹¹⁶ This article summarises two blog posts published on the Bruegel website:
<http://www.bruegel.org/nc/blog/detail/article/1486-measuringeuropes-investment-problem/>, 24/11/2014
<http://www.bruegel.org/nc/blog/detail/article/1491-junckers-investment-plan-no-risk-no-return/>, 28/11/2014

3.2 Estimates of the investment gap based on the historical benchmark

Table 12: Investment-to-GDP in % GDP, 1999-2005, 2013 and the difference			
Member State	Investment-to-GDP average 1999-2005 level	Investment-to-GDP, difference between 2013 level and the average 1999-2005 level	Investment-to-GDP, difference between average 2013-2015 level and the average 1999-2005 level
Romania	21.3	3.4	3.3
Bulgaria	19.8	1.3	1.3
Sweden	21.8	0.5	1.2
Belgium	21.7	0.5	1.1
France	21.2	0.9	0.6
Malta	20.7	-3.2	-0.7
Poland	20.3	-1.5	-0.8
Germany	20.8	-1.1	-0.9
United Kingdom	17.2	-1.4	-1.0
Austria	24.2	-1.2	-1.5
Finland	22.4	-1.2	-1.7
Denmark	21.0	-1.9	-1.8
Luxembourg	20.7	-1.2	-2.1
Lithuania	21.4	-2.9	-2.4
Hungary	24.5	-3.6	-2.8
Croatia	23.0	-3.2	-3.3
Netherlands	21.7	-3.8	-3.3
Italy	20.6	-3.4	-3.7
Czech Republic	29.2	-4.1	-3.7
Latvia	26.5	-3.3	-3.9
Estonia	29.7	-2.0	-4.4
Ireland	25.3	-6.7	-5.4
Slovakia	27.9	-7.2	-6.1
Slovenia	26.3	-6.5	-6.9
Cyprus	20.5	-6.4	-7.6
Spain	27.1	-8.3	-7.8
Portugal	25.6	-10.8	-10.5
Greece	24.0	-11.8	-12.3
EU-28	21.2	-2.0	-1.8

Source: Prepared by EV, based on Eurostat

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OPERATIONS EVALUATION

Evaluation of the European Fund for Strategic Investments

June 2018



**European
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The EIB bank



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