Response to ECA Audit Recommendation 5:
Improving the geographical spread of EFSI supported investment

Joint proposal by the EC and the EIB
Questions concerning this note should be referred to EFSI Secretariat: e-mail: EFSISecretariat@eib.org
Response to ECA Audit Recommendation 5: Improving the geographical spread of EFSI supported investment

In its EFSI performance audit report, the European Court of Auditors (ECA) issued a recommendation to the European Commission (EC) and the European Investment Bank (EIB) to improve the geographical spread of EFSI. ECA requested the EFSI Steering Board to “assess the root causes of the observed geographical spread” and to recommend possible actions to be taken in the remaining EFSI implementation period.

In response to the ECA recommendation, a study has been prepared by the EIB and EC services, which reviews the EFSI geographical spread (until April 2019) as well as the economic and investment aspects which may impact on the uptake of EFSI. The study has been steered and endorsed by two High-Level Experts (HLEs) appointed for the task: Mr Kevin Cardiff and Mr Cristian Popa.

The study concludes that more EFSI-type of investment in the EU13 can contribute to the long-term economic convergence across the Union. Compared to the EU15, the EU13 receive less EFSI financing on a per capita basis, even though the EU13 share of total EFSI lending slightly exceeds their economic weight in the Union as measured both by GDP and Gross Fixed Capital Formation (GFCF). This is an indication that there is a gap between long-term investment needs and current investment demand. The study has identified several causes that have impeded a stronger take-up of EFSI financing in the EU13 (including comparatively modest capacity for innovation and absorption of finance, sub-optimal business framework conditions, less experienced National Promotional Banks and Institutions (NPBIs), availability of non-repayable financial instruments and other sources of finance, structural reforms still in progress). The response required is a combination of important structural shifts and targeted action and support. Still, assessment of the macroeconomic impacts of EFSI reveals that impacts on the EU13 region are in line with the EU average.

The study documents that considerable efforts on the side of the EIB Group and the European Commission have been undertaken to facilitate a more even geographical distribution of EFSI. These efforts focus on originating projects in the EU13, by addressing new market segments and client groups, and developing new products or product features. For example, this has led to a higher share of corporate clients in EU13 of over 50% under EFSI, in relation to less than 10% of EIB business outside EFSI. In addition, the EIB Group and the European Commission have carried out multiple awareness-raising actions focused on the EU13, complemented by focused economic seminars and upstream capacity-building activities.

EFSI is a demand driven instrument that operates without country quotas as decided by the legislative authority. The study has discussed factors that limit investment absorption capacity in the EU13 Member States to levels below their long-term investment needs, and points at observing such obstacles to better understand the geographical diversification of EFSI financing.

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1 European Court of Auditors (ECA), Special Report 03/2019 “European Fund for Strategic Investments: Action needed to make EFSI a full success” (January 2019)  
In order to further improve the geographical distribution of EFSI investment, the Steering Board recommends that the European Commission and the EIB take action until end of 2020 as follows:

1. The EFSI Steering Board will continue monitoring closely the indicative geographical concentration limit set in the EFSI Strategic Orientation. Moreover, it will monitor the geographical balance and country absorption of EFSI financing through appropriate indicators.

2. For Member States significantly underrepresented based on a GDP per capita metrics, this monitoring shall include analysis of the specific investment situation of the concerned Member States, particularly in the framework of cooperation between the European Commission and the EIB in the context of the European Semester.

3. More targeted awareness raising activities with a particular focus on EU13:
   - Organise a regional operational-oriented workshop targeting project promoters and local economic actors in the CESEE region\(^2\) (i.e. to present case studies, including Investment Platforms and projects with NPBIs, allowing peer-learning within the region)
   - Organise a joint EC-EIB social media campaign for awareness-raising and promotion of EFSI oriented towards the EU13 Member States (based on existing activity in this region).

4. EIB to keep special focus on EFSI operations in the EU13 Member States, in particular in the innovation, climate and environment, and SME sectors.

5. Further EIAH outreach for the EU13 region to support better project preparation and provide upstream technical assistance.

\(^2\) Being a regional activity, this workshop will be geared to the CESEE region (EU-13 region minus Cyprus and Malta).