Luxembourg newsflash

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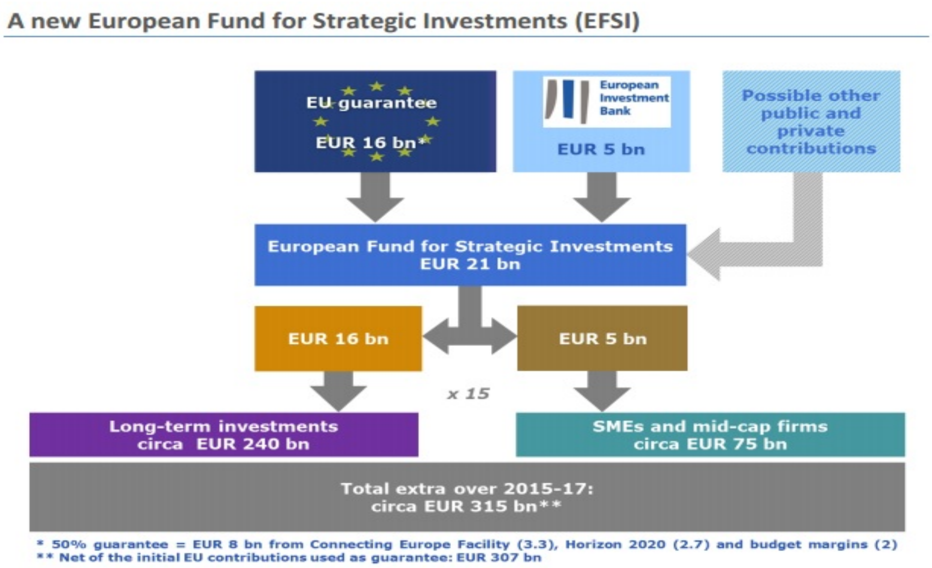
The European Fund for Strategic Investments (EFSI)

As one of the three pillars[1] of the investment plan for Europe ('plan Juncker'), the EFSI will play a central role in mobilising investments in the EU. An analysis of the new silver lining behind the clouds.

After approval by both the Members of the European Parliament (Wednesday, 24 June) and the Council (Thursday, 25 June), the EFSI is ready for take-off. The adoption of the Regulation paves the way for new investments to begin after its entry into force on 4 July 2015.

The EFSI will be established within the EIB and managed by the EU Bank. It will be endowed with a EUR 16 billion guarantee from the EU budget and EUR 5 billion from the EIB´s own resources. The EIB will use the EFSI funds and guarantee to provide catalytic, risk-bearing capacity and unlock additional financing of at least EUR 315 billion for investment in strategic infrastructure, innovation and small and medium enterprises (SMEs). The EFSI operations will take place within the EIB and there will be wide sectorial and product eligibility for EFSI operations, but no country or sectorial quotas.

<u>Schematic overview by the European Commission:</u>



[1] Besides mobilising investments of at least EUR 315 billion in three years, the two other pillars are: supporting investment in the real economy and creating an investment friendly environment.

The general goal

The main idea behind the creation of the EFSI is to provide greater risk-bearing capacity through public money and guarantees, in order to encourage project promoters and attract private finance to viable investment projects which would not have happened otherwise. As a consequence, this will make use of EU public resources more efficient.

At EU level the EFSI will provide risk support for long-term investments and ensure increased access to risk financing for SMEs and mid-cap companies. At national level, a more strategic use of the EFSI will make a significant difference.

The EFSI complements the projects currently financed through the EIB or existing EU programs. It indeed allows the EIB Group to offer products that absorb more risk than current products and enable investment in projects with a higher risk and high added value. The range of potential instruments will be open-ended in order to adapt to evolving market needs.

Essential part of the plan: SMEs

Next to investments in long term projects of European significance in respect of infrastructure, notably broadband and energy networks, as well as transport infrastructure, particularly in industrial centers, and investments in education, research and innovation and renewable energy and energy efficiency, the EFSI will support risk finance for SMEs and mid-cap companies across Europe, relying on the European Investment Fund (EIF, part of the EIB-Group) for the operational implementation.[2] This should help them to overcome capital shortages by providing higher amounts of direct equity, as well as additional guarantees for high-quality securitisation of SME loans. This is considered an effective way to kick-start job creation and growth, including the recruitment of young people.

The EIF is highly experienced in these kinds of activities. The EFSI should thus serve to scale up the activities of the EIF and, in doing so, create new channels for National Promotional Banks (NPBs) to develop their own activities in this area. This will come on top of existing activities for SMEs initiated by programmes such as COSME and Horizon 2020, which will notably already provide significant sources of funding in 2015.

Instruments

According to the Commission a particularly effective way to increase the impact of the Funds is to use financial instruments in the form of loans, equity and guarantees.

[2] This support must be compliant with the Commission's State Aid Guidelines on Risk Finance or must be priced on market terms.

Project conditions[3]

The EFSI aims to support projects that meet the following conditions:

- Must have high social and economic value contributing to EU policy objectives
- Must attract private capital by addressing market failures.
- Must come on top of existing EIB and EU financing possibilities.
- Must be economically and technically viable.
- Must be consistent with EU state aid rules.
- Some examples of key growth-enhancing areas being targeted by the EFSI are:
    - Infrastructure (transport, energy, digital, environment, urban and social sectors)
    - Education and training, health, R&D, ICT, innovation
    - Renewable energy and energy efficiency
    - Support for SMEs and mid-cap companies.

[3] General conditions named by the Commission

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