

# European Fund for Strategic Investments: extension of duration; technical enhancements for the Fund and the European Investment Advisory Hub

2016/0276(COD) - 11/11/2016 - Court of Auditors: opinion, report

The Court of Auditors of the European Union presented an **opinion on the Commission legislative proposal** of 14 September 2016 seeking to amend the existing EFSI Regulation with a view to extending the duration of the EFSI and increasing the EU budget guarantee to the European Investment Bank (EIB).

The main observations made by the Court are as follows:

**The evidence base for the proposal is limited:** the Court stated that it is **too soon to propose an increase in the EU budget guarantee**. The Commission submitted the proposal for the extension of EFSI just 1 year after its launch. There is little evidence that the proposed increase of the EU guarantee is justified other than for the SME window.

The EIB data and estimates indicate that the **current guarantee is sufficient for a further period of operation for the Infrastructure and Innovation window**, in which a review of the performance and added-value of EFSI, as established by the co-legislators, could be completed. This could also help reduce the fragmentation and overlaps between EFSI and other financial instruments and allow for a better focus on EU priorities. The proposed extra period for signing operations (2 years) is not in line with the current practice

**The Guarantee Evaluation do not respect the better regulation principles:** the proposal was launched **without a comprehensive impact assessment** and too soon for the economic, social and environmental impact of EFSI to be measured and to enable a conclusion whether EFSI is achieving its objectives. None of the evaluations carried out by the Commission and the EIB assesses the outcomes and the impact of EFSI, as insufficient time has passed to allow these to be identified and/ or measured. Because of the timing there are few, if any, macroeconomic indicators available to measure the impact of EFSI.

**The proposed provisioning of the Guarantee Fund is in line with the updated estimate of expected losses:** the creation of the EFSI and of the Guarantee Fund with a 50 % target rate has limited the budgetary flexibility in the 2014-2020 MFF by reducing the unallocated margins under the MFF expenditure ceiling. In addition, the planned budgets for Horizon 2020 and CEF have been reduced. It is **too soon to assess the opportunity cost of these cuts agreed in 2015**, as the Commission is not yet in a position to assess the impact of EFSI, Horizon 2020 or the CEF.

With the proposed changes, the total potential liability for the EU budget will reach EUR 26 billion (of which around EUR 9 billion to be covered by the Guarantee Fund). Potential liabilities will persist over the lifetime of the investment portfolio.

**The impact of EFSI risks being exaggerated:** the Court stated that the risk is that the multiplier effect of EFSI is overstated, particularly for the investment projects to which investors committed or which are part of national programmes that existed or were announced even before EFSI was launched. It proposed

further developing the methodology to cover financing structures and products which were not in place when the current methodology was established, and using the new methodology to produce the key performance indicator for EFSI showing the private capital attracted.

The Court stressed that there is a risk that the EIB's use of Special Activity status as effectively equivalent to **additionality**, combined with the pressure to reach the investment target, may create an incentive to use unnecessarily complex financing structures or to allocate a risk profile that does not correspond to the real risk of the operation. It proposed to: (i) make clear that all EFSI supported projects should meet the additionality criteria in the definition of additionality and that the basis for this assessment should be documented; (ii) keep the definition of additionality simple and general by avoiding references to specific cases such as physical infrastructure.

**Governance and transparency:** the Court noted that there is room to clarify and improve a number of aspects of EFSI governance and transparency. It stressed the need to:

- address the **geographical and sectorial imbalances** on the use of funds;
- clarify the application of **State aid rules** for projects combining finance from EFSI and structural funds;
- clarify the **governance structure**: the roles and responsibilities of the EFSI's governing bodies should be further clarified and streamlined as they are complex.

**Selection of EFSI operations should be more transparent:** the Court welcomed the proposals that: (i) the EFSI Investment Committee's decisions should provide the reasons for granting support under the EU guarantee with particular focus on compliance with the additionality criterion; (ii) the scoreboards for the EFSI operations under the EU guarantee (96) should be published as soon as they are signed.