Does the EFSI have a territorial dimension?

The European Fund for Strategic Investments (EFSI) shares with the European Structural and Investment (ESI) funds one of its primary objectives, promoting investments. Unlike the EFSI which remains an instrument, Cohesion Policy is a much broader long-term development strategy for all European member states and regions whilst the EFSI does not need any programmatic input.

In contrast to ESI funds, the distribution of the EFSI is geographically and sectorally highly imbalanced. Some member states have seen very few EFSI projects developed in their territories, in part due to low interest rates of commercial banks. The centralised governance of the EFSI contrasts with the programming approach of Cohesion Policy funds, which is based on a wider partnership.

The first impact of an instrument that was never designed with a territorial dimension in mind is that projects tend to be financed in wealthy and well developed Member States, both in terms of number of projects (shown on right hand axis below) and sheer financial volume (left hand axis)\(^1\).

\(^1\) The analysis of EFSI projects in this document considers exclusively data published until March 2017 on the EFSI Project list and considers all the projects: Signed, Approved and Pre-approved.
1. Comparing distribution of the EFSI vs distribution of ESI funds

It is difficult to represent what the EFSI actually means at regional level as many of the projects financed involve more than one Member State, or because some of the EFSI financing is delivered through platforms (which are often set up at national level and therefore do not involve a specific project located in one region).

But it is possible to visualise and compare the distribution of the EFSI with that of ESI funds per capita and per GDP, as the following maps show.

Clearly there is a dichotomy between traditional ‘Cohesion’ countries for which Cohesion Policy represents a substantial share of investment (per GDP and per capita), and other EU Member States.

The independent evaluation of the EFSI published by Ernst and Young in 2016 shows several potential reasons as to why this dichotomy exists, and therefore why ‘Cohesion’ countries failed to attract substantial EFSI financing so far:

1. competition with ESI Funds;
2. lower capacity to develop large bankable projects;
3. lack of experience with public private partnerships (PPP);
4. insufficiently developed venture capital culture;
5. excessively small size of projects
Distribution in terms of € per capita and per Member State (CPMR own research)\(^2\)

Distribution in terms of national GDP and per Member State (CPMR own research)

\(^2\) Source of data: the EFSI Project list – EIB, the Open data portal for the ESIF – European Commission and Eurostat

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2. Can the EFSI include an objective of territorial cohesion?

As mentioned above, some of the EFSI financing can be traced at NUTS II level. The map below represents EFSI supported projects which could be located in a particular region. The key learning point from this map is that there is no distribution logic (in terms of geography or type of sector supported) to the EFSI, which confirms the above analysis.

Representation of EFSI projects per sector at NUTS II level

![Map of EFSI projects per sector at NUTS II level](image)

The EFSI’s investment guidelines include a sectoral and geographical diversification that is not defined beforehand and should avoid geographical concentration with the aim of covering all the Member States at the end of the period.

The project selection committee can prevent geographical concentration at European level when selecting projects, but it is unclear as to whether national investment platforms financed by the EFSI (in particular for SMEs) ensure a regionally balanced distribution.

However, there are instances of EFSI projects which have been designed to address the needs of specific territories:

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3 Source: EIB project database. All projects which could be located at NUTS II level are represented

4 See article 8.b in Annex II to COM(2015)10 - European Fund for Strategic Investments
• The French Overseas Territories (RUP) Risk Sharing project was put forward by the Agence Française de Développement as a risk-sharing framework guarantee scheme for investments in the French Outermost regions.

• The Przewozy Regionalne rolling stock modernisation project in Poland aims to purchase and modernise existing rolling stock for a regional rail passenger operator and targets convergence regions in Poland.

This means that there is nothing preventing a Member State submitting projects for EFSI financing which have a territorial dimension (and therefore target specific regions) in the current framework. But given the ‘raison d’être’ of the EFSI, there are no obligations or incentives for these types of projects to be financed at the moment.

3. Options to provide a ‘territorial cohesion’ objective to the future EFSI

   - In an ideal world, the EU would have an integrated strategy to support investment. This is what the CPMR asked for in its position paper ‘Principles for a post-2020 Cohesion Policy’ adopted in November 2016, and echoed in the Fernandes / Bullmann report on the extension of the EFSI.

   - The EFSI is here to stay and changes will need to be made to ensure that it does not exacerbate regional disparities and leave some Member States and regions behind. Doing so would run against the ‘convergence’ model praised by the European Commission in its Social Dimension reflection paper.

   - The EFSI does have an impact on regional development. Despite the EFSI having been conceived as a spatially blind instrument to boost investment volume in Europe, it is important to note that EFSI supported projects do have an impact on regional development and spatial planning. EFSI supported projects are linked to competences that are traditionally at local and/or regional level. This would require changes in the way regional authorities are involved in some way in terms of the project selection process.

   - A potential solution to reconcile the EFSI with the territorial cohesion objective of the European Union would be to add a ‘development window’ within the future EFSI. The idea, proposed by the CEPS in a recent paper on the EFSI5, would be to cover country-specific or region-specific operational and market risks to ensure that less developed regions can benefit from the EFSI. This would potentially help peripheral regions access EFSI financing better.

   - Another option would be to remove the restriction on the size of projects eligible for EFSI support, which is currently 10 million euros for a project to be considered for financing under the EFSI financing platforms. The small size of markets in some peripheral regions (and island regions in particular) means that the EFSI is less

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5 D. Rinaldi and J. Nunez Ferrer, The European Fund for Strategic Investments as a New Type of Budgetary Instrument, April 2017
attractive in these territories. This idea to lower the threshold for EFSI projects is pushed by the European Parliament report on the extension of the EFSI (due for 1st reading on 3 July).

- With regards to the EFSI in relation to Cohesion policy, the first key point is that many of the areas of interventions and sectors supported by the EFSI and ESI intertwine: SME support, energy and transport infrastructure projects being two of many examples.

- The solution praised by the Commission is to maximize potential for synergies between the two policies/instruments. Evidence from CPMR regions is that this has failed, as the EFSI and ESI funds were never designed to work together in the first place. Radical changes would need to be made to the functioning of the EFSI for such synergies to be made effectively in the future.

- A better solution would be to establish clear boundaries between what sectors and types of projects the EFSI should support and the areas of intervention of Cohesion Policy funds, and to ensure that EFSI financed projects should indeed be additional investments generating a clear European value added and contributing to job creation and economic growth.
The Conference of Peripheral Maritime Regions (CPMR) brings together some 160 Regions from 25 States from the European Union and beyond.

Representing about 200 million people, the CPMR campaigns in favour of a more balanced development of the European territory.

It operates both as a think tank and as a lobby group for Regions. It focuses mainly on social, economic and territorial cohesion, maritime policies and accessibility.

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