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TECHNICAL PAPER FROM THE CPMR GENERAL SECRETARIAT

THE INVESTMENT PLAN: WHAT'S IN IT FOR REGIONS?

This Technical Paper has been prepared to help CPMR Members understand the key points of Commission President Jean-Claude Juncker's Investment Plan. The first section of this note provides a summary of the main aspects of the Juncker Investment Plan, and the section identifies a series of issues which could be raised during the CPMR Political Bureau meeting on 27 February 2015.

Key points

- ✓ The Investment Plan is a package of measures which aims to lever at least €315 billion over the next three years (2015–2017)
- ✓ The European Strategic Investment Fund (ESFI) was set up as a core component of the Investment Plan. The ESFI is a trust fund to mobilise investments in specific sectors and areas of the economy.
- ✓ The ESFI is backed up by existing EU funds from the existing margins of the EU budget (€2 billion), the Connecting Europe Facility (€3.3 billion) and the Horizon 2020 programme (€2.7 billion), to a total amount of €8 billion. The European Investment Bank (EIB) will also commit €5 billion to the ESFI.
- ✓ There are no geographic preferences or pre-allocations for projects to be funded under the Investment Plan. Projects will be selected on the basis of their economic viability, their 'risk profile', their maturity and their 'European added-value'
- ✓ Member States' contributions to the ESFI will be excluded from the limits of the Stability and Growth Pact. The German development Bank KfW has already pledged a contribution of €8 billion.

1. Context and Background

Incoming European Commission President made it one of his priorities of his 5 year mandate to revive investment in Europe. On 26 November 2014, the Commission launched the [blueprint for an Investment Plan](#) which aims at mobilising at least €315 billion over the next three year. This was promptly followed by a legislative proposal (issued on 13 January 2015) on [the European Strategic Investment Fund](#) which is to act as a trust fund to mobilise the additional investment.

1.1. Why an Investment Plan?

The main objective of the Investment Plan is to reverse the downward trend of falling investment into the EU since the start of the financial crisis in 2008. In 2014, total investment in the EU was about 15% lower than 2007 levels: this accounts for €430 billion in real terms.

Weak investment slows economic recovery and job creation. According to the European Commission the drop in investment accounts for the largest proportion of the fall in GDP between 2007 and 2013.

The issue is not about the lack of finance in the private sector: **low investor confidence, the fragmentation of financial markets and a lack of sufficient risk-bearing capacity** are some of the issues which the Investment Plan aims to resolve.

The plan is not meant to be a public investment plan but to raise private finance. The European Commission is fully aware that public investment cannot be higher and will not be increasing in the coming years.

1.2. How is the Investment Plan governed?

A key aspect of the Investment Plan is **that projects selected for finance will be done by independent market experts.**

The governance of the EFSI comprises a Steering Board and an Investment Committee:

- The Steering Board will decide on the overall orientation, the investment guidelines, the risk profile, strategic policies and asset allocation of the Fund.
- The Investment Committee will consist of six independent market experts and a Managing Director who will vet specific projects and decide which will receive EFSI support, without any geographic or sectorial quotas.

1.3. Which projects will be funded?

The Investment Plan makes it clear that projects should be (1) economically viable with the support of the initiative, (2) sufficiently mature, (3) of European added value and consistent with EU policy priorities. Projects with a 'higher risk return profile than existing EIB or EU instruments' will be targeted.

The EFSI will help trigger the following types of investments:

- ✓ development of infrastructure, including in the areas of transport, particularly in industrial centres; energy, in particular energy interconnections; and digital infrastructure;
- ✓ investment in education, health, research and development, information and communications technology and innovation;
- ✓ expansion of renewable energy and energy efficiency;
- ✓ infrastructure projects in the environmental, natural resources, urban development and social fields;
- ✓ providing financial support for the companies having up to 3000 employees, including working capital risk financing.

1.4. Which criteria will be used to select projects?

The Investment Plan document is fairly vague with regards to how project proposals will be selected for finance. The Steering Board of the EFSI (see above) will be responsible for defining the criteria for assessment. **There will be no country-specific or sector-specific criteria and Member States are not included in the selection process.**

Each project should represent an investment of at least €50 million; however, platforms could be created, gathering similar projects from different operators.

The Commission document makes it clear that **"high quality", "economically viable"** projects which have the **"potential to leverage other sources of funding"** within 2017 are a priority.

1.5. Which links with Cohesion Policy?

Structural Funds can be used by Member States and Regions to invest alongside the EFSI. It is also a stated objective of the Commission to double the use of financial instruments in the 2014–2020 period compared to the 2007 – 2013 period. The Commission and the EIB set up a special assistance platform – fi-compass – in January 2015 to help managing authorities set up financial instruments.

The Commission documentation makes an interesting distinction between the ESIF (associated with the Juncker Plan) and the EU Structural and Investment Funds (associated with Cohesion Policy). Cohesion Policy funds are meant to reinforce "social, economic and territorial cohesion" and are largely based on grants, whereas the EFSI is about attracting investors on economically "viable" projects.

It also states that the Investment Plan is **"a paradigm shift in how public money is used for strategic investments in Europe"**.

1.6. What are the next steps?

The European Parliament and the Council need to reach an agreement on the EFSI Regulation by June 2015 (no rapporteur has been appointed as of yet for the European Parliament). In the meantime, the European Investment Advisory Hub will be set up to provide advisory support to project identification, preparation and development across the EU. **The EFSI is expected to be operational by mid-2015.**

2. Key questions for the CPMR

The Juncker Plan raises a number of issues which could be addressed during the CPMR Political Bureau meeting on 27 February 2015.

- **Territorial dimension of Juncker Plan**

Based on the 2007 – 2013 programming period, it is fair to note that financial instruments are generally seen as being complex and difficult to set up by regional authorities. The recently set up fi-compass platform is a welcome step to help managing authorities of ESI funds set up financial instruments, but it remains to be seen how regions which lack the experience or the right structures to use financial instruments will benefit from the Investment Plan.

- **Criteria for selection of projects**

At this stage, the criteria for selecting projects for finance under the Juncker Plan are vague as they will be defined by the Steering Board of the EFSI. The Council and the European Parliament have also raised the question of the governance of the EFSI, with some Member States expressing concern about possible political interference that could derive from the fund's steering board. There is also the issue of accountability to the general public and the European Parliament is likely to raise this point as an issue.

- **Links with EU policies and European added value**

It seems clear that projects selected for finance need to be consistent with EU policy priorities, such as the Europe 2020 strategy and the 2030 climate and energy package. One could ask how such a connection will be realised given that projects will be selected by 'independent market experts', who may lack knowledge and proper incentive to consider the EU policy framework when assessing projects.

Similarly, although it is clear that the list of projects submitted by Member States in December 2014 will not be taken with regards to the EFSI, many of the projects submitted had a national dimension and did not demonstrate a clear European added value.

Last but not least, the EFSI draws from existing EU budget lines, such as the Horizon 2020 (€2.7 billion). This means that funding earmarked for a specific sector or activity within Horizon 2020 will be lost.

- **Investment themes**

Project selection will not be done on a sector-specific basis. The Commission documentation states that that projects will be selected for 'key growth-enhancing areas' without being overly specific about the nature of these areas. Regions are in a very good position to identify the key strengths and potential of their territory. There is a risk that some investment themes will be left out due to the perceived slow rate of investment return. An example would be investments linked to the maritime economy, which are seen as key sectors for CPMR Regions. At European level, it is precisely what Smart Specialisation Strategies were meant to achieve. There is perhaps a missed opportunity in terms of linking these regional strategies with the Investment Plan.

- **Link with Cohesion Policy**

Fundamentally, one could ask whether the increased use of financial instruments (loans, equity instruments, guarantees...) is a sign of things to come and the extent to which the future of Cohesion Policy will be shaped by this type of development. More significantly, does it confine Cohesion Policy to a role of supporting "economic, social and territorial cohesion", and therefore signals a break with the European Commission push for Cohesion Policy to be the "investment policy for the EU" of the past ten years?