The Juncker European Investment Plan: What Has It or Might It Accomplish?

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This report applies a set of statistical tools to assess the existing record of the European Fund for Strategic Investment (EFSI) in the implementation of the Investment Plan for Europe. The EFSI operates in conjunction with the European Investment Bank (EIB) and its small business financing arm, the European Investment Fund (EIF). In addition to reporting on the statistical breakdown covering project implementation and the associated links to the plan's goals, the study outlines the processes and procedures followed in vetting projects. This allows a comparative analysis of alternative financing arrangement tools from the public or private sectors and gives the opportunity to examine the marginal contributions, or additivity, of the new institutional arrangements on project financing costs, risk sharing, and capital-structure architectures.

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Introduction

The Juncker European Investment Plan has reached a transition point coinciding with its transformation to the InvestEU Fund. Over the past decade since the global financial crisis the main factor responsible for holding back non-residential investment has been the overall weakness of economic activity, both within the European Union and internationally. As expected firms have continued to respond to weak demand, both current and expected future, by cutting back on capital spending. Evidence from business surveys provides complementary support: firms often mention lack of customer demand as an important factor limiting their production and employment. Beyond a generally weak economic climate, other factors, including financial constraints and policy uncertainty, have also held back investment in some economies, particularly euro area economies with high borrowing spreads which peaked at the time of the 2010–11 sovereign debt crisis and squeezed bank balance sheets. With the lack of progress toward completing the Banking Union and a near standstill on effective policy progression toward Capital Markets Union, the lack of fiscal and monetary policy coordination has managed to prolong historical lows in interest rates, and therefore funding costs, but private-sector investment demand has not been generated.

What policies, then, could be most effective in inducing a recovery of investment? Addressing the broad weakness in economic activity is crucial for supporting private investment. A large share of the output loss since the crisis can now be considered as permanent, and policies are thus unlikely to return investment fully to its overstated goal. This implies that there is remaining scope for using fiscal policies to help sustain the recovery and thus to encourage firms to invest. In the European Union, accommodative monetary policy also remains essential to prevent real interest rates from rising prematurely, given persistent and sizable economic slack as well as continued weak inflation dynamics. Overall, a comprehensive policy effort to expand output should contribute to a sustained rise in private investment.

There is a strong case for increased public infrastructure investment in advanced economies with clearly identified infrastructure needs and efficient public investment processes and for structural economic reforms more generally. In this context, additional public infrastructure investment may be warranted to stimulate demand in the short term in a fiscally-constrained public sector, feedback to raise potential output in the medium term, and thus perhaps "crowd in" additional private investment. But there seems to be no political will to pursue even mildly stimulative fiscal policies. There is also a widespread need for structural reforms in many European Union economies including policies directed toward increasing labor force participation and potential employment as a reaction to aging populations. By increasing potential output these policies should add a positive stimulus to boost private investment. The evidence presented of financial constraints holding back investment, particularly the case of small and medium sized enterprises, suggests a continuing role for policies aimed at further reducing debt overhang and in several instances cleaning up bank balance sheets to improve credit availability. A medium term goal would be to increase the range of financing opportunities by going beyond a successful Banking Union and realizing the creation of a realistic framework for a Capital Union.

There have been a variety of criticisms in terms of alternative methodologies used to provide estimates of the EU investment gap or shortfall. The standard approaches used by the EIB have become yardsticks for EFSI performance.[1] In addition to comparative figures on EFS generated investment relative to measured gaps, evidence has been gathered on the proper identification of indicators of market failures producing investment needs as well as placing limitations on resource funding alternatives.[2] The debate as to whether implemented public policy has 'crowded in' or 'crowded out' private sector investment is tied to the EIB's concern over categorizing and measuring the 'additivity' of EFSI funding. More nuanced and well-supported studies of the dynamics of the recent history of EU investment can be found in Gros (2014) and Barkbu, et. al. (2015).

This set of issues has been played out recently with an added intervening player, the European Fund for Strategic Investments (EFSI). Established in November 2014 under the initiative of the European Commission the EFSI was built in order to promote an improved investment environment and was funded by the EU budget to aid the European Investment Bank (EIB) in leveraging guaranteed lending. The EFSI operating life spans the 2015-2020 period. Moving forward, based on the June 2018 proposal, the Commission will role out the InvestEU Fund over a seven-year period. Rubio and Virel (2018) offer an excellent short overview of the planning framework for the InvestEU Fund.

We wish to examine the track record of authorized funding under the EFSI through mid-January 2019. In our analysis we will look at the categorical and Member State distributions of participation in the EFSI and present some comparative analysis of measures of effectiveness in terms of investment funding mobilized. In addition we well gain some insights into the nature of market failures, borrowing constraints, and the distribution of risks by looking at the breakdown of funding multipliers by Member States and categorical projects.[3]

Data Source[4]

We will use the EIB data on approved projects with EFSI funding. EFSI financing is the portion of an operation that benefits from the direct support of the European Fund for Strategic Investments. This amount sometimes differs from the total EIB financing amount of the same operation if there is supplemental funding from the existing European Investment Fund (EIF) or by EIB loan programs. Signed projects are listed with the documented amounts agreed in the contract, which may differ from the amounts initially stipulated by the EIB Board of Directors.

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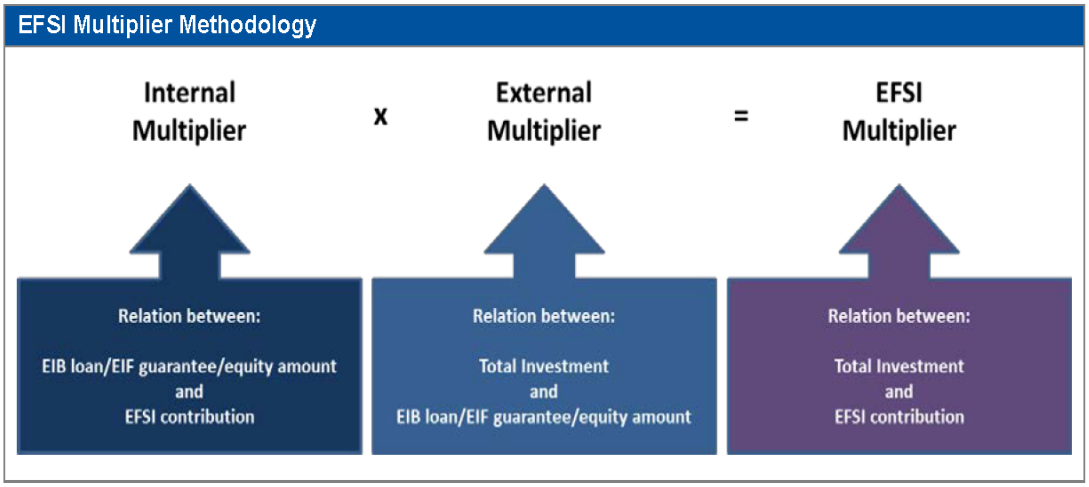
[1] See Chapter 2: Rationale and Design of EFSI, in EIB (2018).
[2] See Chapter 4: Evaluation of EFSI, in EC (2018).
[3] See EIF (2018a) and EIF (2018b) for measures of SME access to financing and venture capital funding.
[4] The Excel workbook can be downloaded from the following URL:
http://www.eib.europa.eu/provider/app/efsi/export

Total investment related to EFSI refers to the total financing amount expected to be attracted for any particular EFSI project. This amount can come from a variety of public or private sources, and it includes EFSI financing provided by the EIB. Pre-Approvals are umbrella operations that have been ratified under the EFSI but which cannot be tallied towards the EFSI objective until defined sub-projects have been signed. The data set we use contains plans approved through 16 January 2019.

Multiplier Analysis

From the data we report, using standard EIB methodology, calculated EFSI Multipliers. The Internal Multiplier is a result taken under the EIB decision-making framework and while the mix of the funding in the internal portion may affect the external funding structure chosen and the amount dedicated to the project we do not separately model the Internal and External Multipliers.



Source: European Investment Bank (2018), page 35.
Total investment refers to the total amount covering the EFSI-eligible cost of a project provided by all financiers (EIB Group and other financiers, less EU co-financing);
EFSI contribution refers to the expected or actual amount committed by EFSI to the project;
EIB loan/EIF guarantee/equity amount refers to the volume of funds provided by the EIB or EIF in a project.

The EFSI approach to foster investment is based on addressing and promoting a standard market failure rationale. Markets can fail to allocate resources efficiently in the presence of a wide ranging set of impediments motivated by non-competitive behavior, imperfect information and informational asymmetries, externalities, and joint consumption goods. The EFSI recognizes that market-based inefficiencies result in distorted price signals which skew decisions and leave unexploited opportunities. How best to address policy solutions toward solving these market failures requires an examination of a wide set of alternatives. In many cases second-best approaches are taken which fail to resolve the underlying structural problems. The EFSI as a patchwork approach suffers in this regard because it diverts attention from building a policy consensus to insure the development of a competitive single market in banking, financial services, and capital markets. Fostering open and comprehensive competition in these markets would vastly improve the functionality of risk management and intertemporal consumption and investment decisions. Offering subsidized pricing to categorical investments is unlikely to lead to a lessening of market distortions. Permanently institutionalizing subsidies to combat perceived market failures is an admission of institutional failure. First-best

dominates second-best so the strategy ought to be to promote first-best solutions and discourage constraints which result in second-best policies or perpetuate an entitlement scheme.

We propose a simple task here. That is to look at the most recent basic funding data on EFSI endorsed projects to see if we can discern any patterns of practice which appear to be address at confronting allocative inefficiencies generate by financial market failures.

Table 1: Summary of Signed Projects

(Millions of Euros)

	EFSI	Total	Multiplier*
AT	597	3698	6.19
BE	1169	5209	4.46
BG	295	717	2.43
CY	35	53	1.51
CZ	50	140	2.80
DE	3006	12085	4.02
DK	301	1173	3.90
EE	30	48	1.60
EL	1623	5511	3.40
ES	4440	20131	4.53
FI	987	3288	3.33
FR	5963	23481	3.94
HR	89	334	3.75
HU	355	1012	2.85
IE	393	829	2.11
IT	5405	19753	3.65
LT	190	226	1.19
LV	115	234	2.03
NL	1289	5120	3.97
PL	1883	5915	3.14
PT	745	2375	3.19
RO	440	1185	2.69
SE	899	4104	4.57
SI	51	102	2.00
SK	427	639	1.50
UK	1191	8371	7.03
Partnerships	8229	75279	9.15
*Overall average multiplier is 5.00			

A primary statistic we will examine is the EFSI Multiplier, calculated as the ratio of the Total investment in a project to the EFSI contribution (see final column of ***Table 1***). We will look at variations in this measure across member states and programmatic categories of investment projects. We begin by performing a simple aggregation across all funded projects within a given Member State. As a measure of bang for the budget the United Kingdom (7.03) has the highest multiplier ranking and along with Austria (6.19) is the only Member State with a multiplier above the overall average funding multiplier of 5.00. We should note that these two countries have very deep and competitive internationally-linked financial markets. Ceteris paribus, small amounts of equity investments can be used to mobilize a substantial additional amount of funding using a variety of alternative debt and equity instruments. Notice however that jointly connected Partnership projects have a much higher aggregated multiplier (9.15) than that associated with any individual Member State.

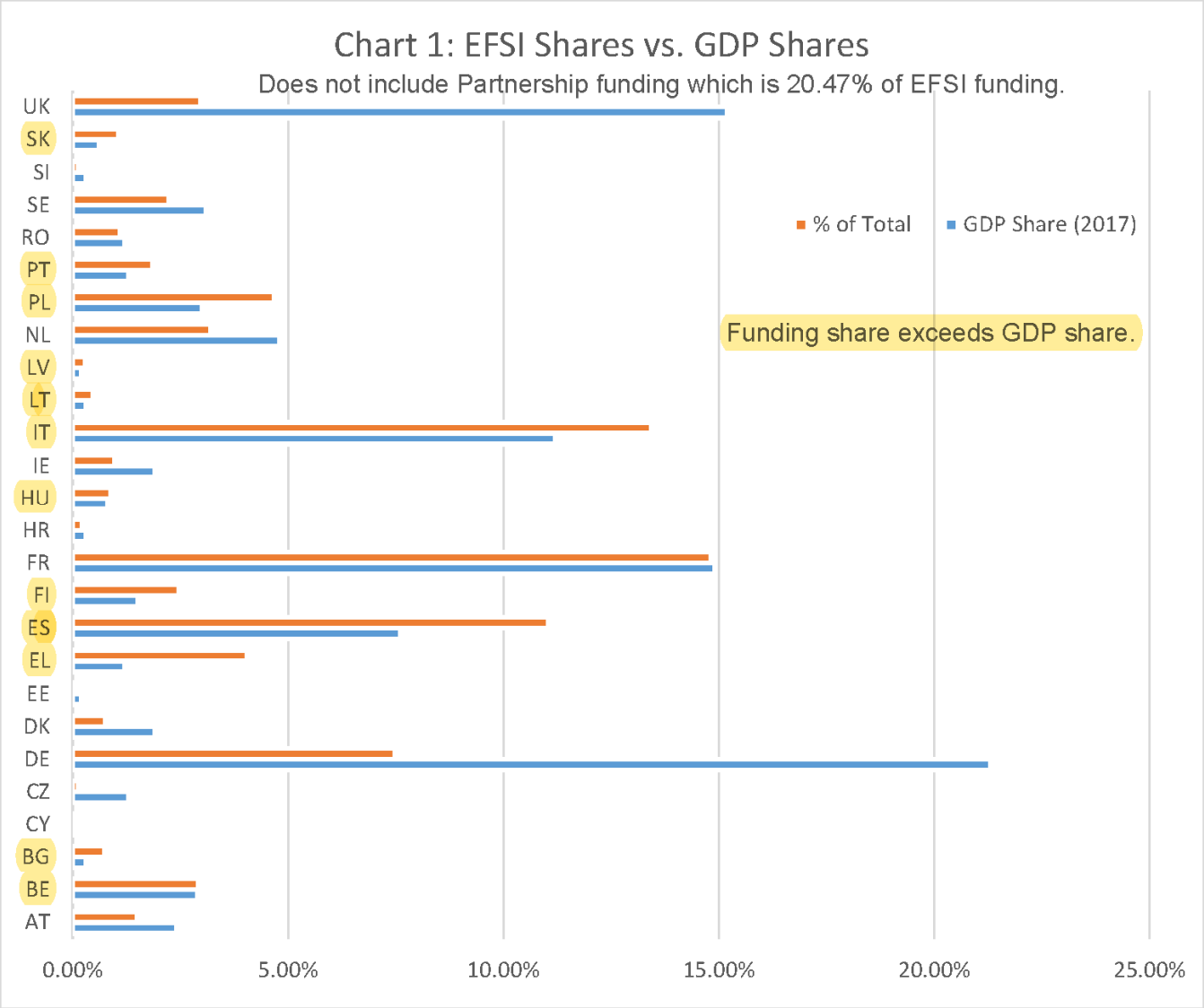
Table 1 also clearly demonstrates the broad correlation between the size of Member State economies and total funding of EFSI projects with the five largest economies capturing the five largest funding amounts. Three of these Member States (France, Italy, and Spain) have funding shares falling in the range of 10-15% of EFSI allocated funds and these shares do not include significant additional involvement with Partnership projects (20.47%).

Table 2: EFSI Funding Matrix (Millions of Euros)

EFSI	Digital	Energy	Environment	RDI	SME	Social	Transport	Row Sum	% of Total	GDP Share*
AT		200		230	45	22	100	597	1.49%	2.40%
BE		941		35			193	1169	2.91%	2.90%
BG				100	181		14	295	0.73%	0.30%
CY		35						35	0.09%	0.10%
CZ		50						50	0.12%	1.30%
DE		742	360	1025	285	45	549	3006	7.48%	21.30%
DK				133			168	301	0.75%	1.90%
EE							30	30	0.07%	0.20%
EL	170	48		28	1097		280	1623	4.04%	1.20%
ES	174	861	140	675	1845		745	4440	11.05%	7.60%
FI		655		132	200			987	2.46%	1.50%
FR	1206	1543	596	1042	977	156	443	5963	14.83%	14.90%
HR		43		30		16		89	0.22%	0.30%
HU		110		20	25		200	355	0.88%	0.80%
IE		79	29	60		70	155	393	0.98%	1.90%
IT	1180	1506	622	465	533	49	1050	5405	13.45%	11.20%
LT		190						190	0.47%	0.30%
LV					10	30	75	115	0.29%	0.20%
NL	10	30	70		156	250	773	1289	3.21%	4.80%
PL		813	14	45	664	180	167	1883	4.68%	3.00%
PT		84	220		285	13	143	745	1.85%	1.30%
RO	10	250	20	68	92			440	1.09%	1.20%
SE	125	437		322	15			899	2.24%	3.10%
SI							51	51	0.13%	0.30%
SK							427	427	1.06%	0.60%
UK		1122					69	1191	2.96%	15.20%
Partnerships	2047	1849	30	2696	1477	70	60	8229	20.47%	
Col Sum	4922	11588	2101	7106	7887	901	5692	40197		
% of Total	12.24%	28.83%	5.23%	17.68%	19.62%	2.24%	14.16%			
***2017 Eurostat**										

Table 2 gives a breakdown of the EIB internal allocation process of EFSI funded projects. In the columns we have the major categories of programmatic funding.[5] Across the rows we have the Member States with the Partnership projects are in the final row. We clearly see the importance of Partnership program funding which represents more than 20% of the total EFSI allocated funds and these joint projects are heavily concentrated in the Digital, Energy, RDI, SME categories.

The final column of ***Table 2*** gives a reference scale for EFSI funding by tabulating the GDP shares of each Member State. We can compare the final two columns to see if Member States are receiving EFSI in excess of their relative economic size within the EU. Keep in mind that we have not allocated the Partnership share of 20.47% across the participating Member States.



[5] When a project had more than one categorical listing the major, or first, categorical listing was used to assign to all funding.

Chart 1 compares the percentage of EFSI funding going to a Member State and the GDP share of that country taken from ***Table 2***. Note that Partnership funding is not completely included so the allocated share of EFSI funding would be higher. The diagram highlights those countries which have received more than a proportionate share. The chart also clearly indicates the absolute funding levels highlight the roles of Germany and the UK as outliers among the five largest economies in receiving proportionately small shares.

Table 3:Total Funding Matrix (Millions of Euros)

TOTAL	Digital	Energy	Environment	RDI	SME	Social	Transport	Row Sum	% of Total	Multiplier
AT		559		1041	392	45	1661	3698	1.84%	6.19
BE		4596		85			528	5209	2.59%	4.46
BG				212	479		26	717	0.36%	2.43
CY		53						53	0.03%	1.51
CZ		140						140	0.07%	2.80
DE		3186	1620	3824	1770	401	1284	12085	6.01%	4.02
DK				333			840	1173	0.58%	3.90
EE							48	48	0.02%	1.60
EL	871	180		57	4003		400	5511	2.74%	3.40
ES	472	2099	177	1660	13690		2033	20131	10.01%	4.53
FI		1626		712	670		280	3288	1.64%	3.33
FR	4906	6224	1863	3851	5232	426	979	23481	11.68%	3.94
HR		187		67		80		334	0.17%	3.75
HU		315		178		70	449	1012	0.50%	2.85
IE		176	39	156		135	323	829	0.41%	2.11
IT	5616	3727	1627	1722	4044	279	2738	19753	9.83%	3.65
LT		226						226	0.11%	1.19
LV					19	40	175	234	0.12%	2.03
NL	50	321	173		1391	707	2478	5120	2.55%	3.97
PL		2442	56	89	2648	301	379	5915	2.94%	3.14
PT		165	727		820	47	616	2375	1.18%	3.19
RO	20	631	34	134	366			1185	0.59%	2.69
SE	974	1675		1321	134			4104	2.04%	4.57
SI							102	102	0.05%	2.00
SK							639	639	0.32%	1.50
UK		7515					856	8371	4.16%	7.03
Partnerships	24607	19909	195	8470	19166	142	2790	75279	37.45%	9.15
Col Sum	37516	55952	6511	23912	54824	2673	19624	201012		**5.00**
% of Total	18.66%	27.84%	3.24%	11.90%	27.27%	1.33%	9.76%			
Multiplier	7.62	4.83	3.10	3.37	6.95	2.97	3.45			

Table 3 repeats the previous tally but for the absolute levels of Total funding for project financing to Member States as well as the share of the Total funding allocated. Additionally the table reports the associated multipliers or the ratio of Total to EFSI funding for programs. These multipliers are tabled for Member States and Partnership programs as well as across categories of funding. Note that Total levels of funding in Partnership programs is heavily concentrated in Digital, Energy and SME-related projects.

An alternative visually oriented representation of data from ***Table 3*** follows below in ***Chart 2***. Not only are the overall EFSI and Total funding levels presented but the scaling of the multiplier effect between EFSI funding and Total funding is apparent. The UK and Austria stand out with the largest multipliers. Italy and Spain have similar levels of Total funding for projects but Spain has a significantly lower EFSI contribution. Italy presents a lower multiplier than either France or Spain.

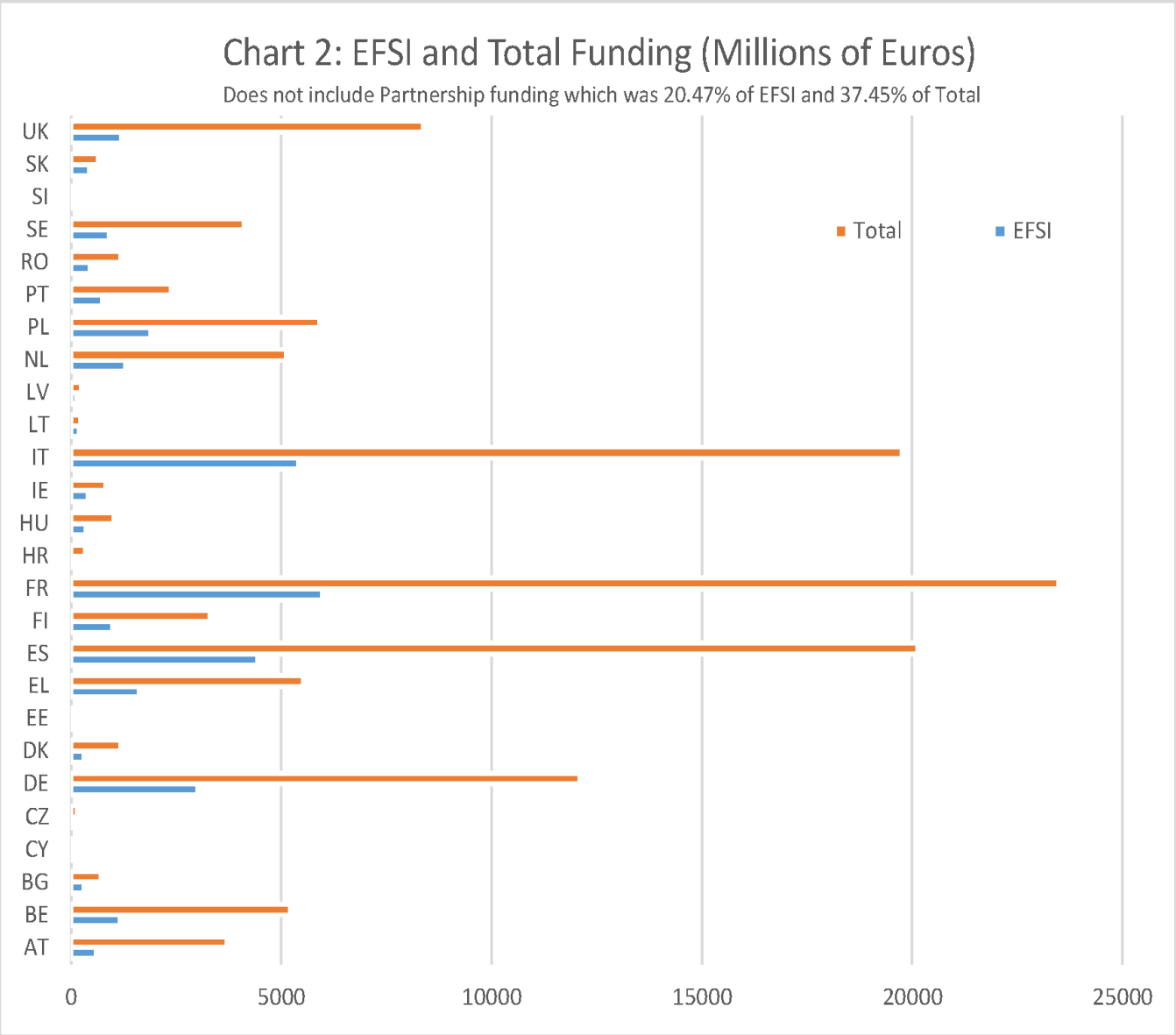
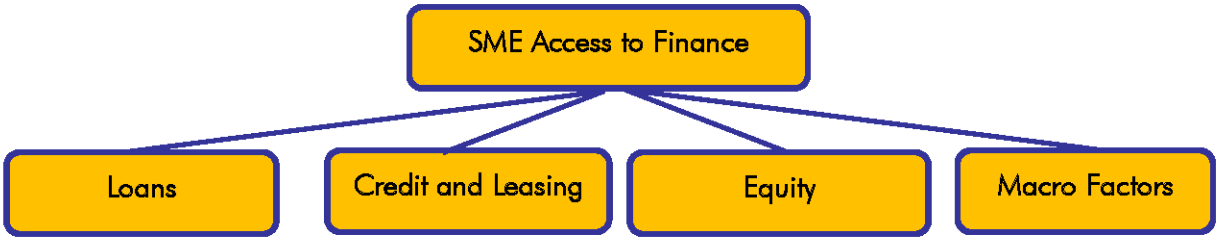


Chart 3 (following page) breaks down EFSI and Total funding by programmatic categories. Including Partnership projects we see the high levels of total funding for Energy, SME, and Digital projects. SME clearly has a larger multiplier than Energy or RDI but Digital has the largest multiplier. The basic business risks inherent in these projects are difficult to discern when revenue sources in the Energy and Digital sectors are opaque and SMEs have a wide range of business risk profiles across the many service sectors of the economy. In general we expect that SME access to alternative funding sources has relaxed but the overall funding climate remains challenging for many SMEs.

Concerns about SME access to funding sources can be conceptualized in the following diagram illustrating the framework for EIF indicators covering the macroeconomic environment as well as funding instruments.



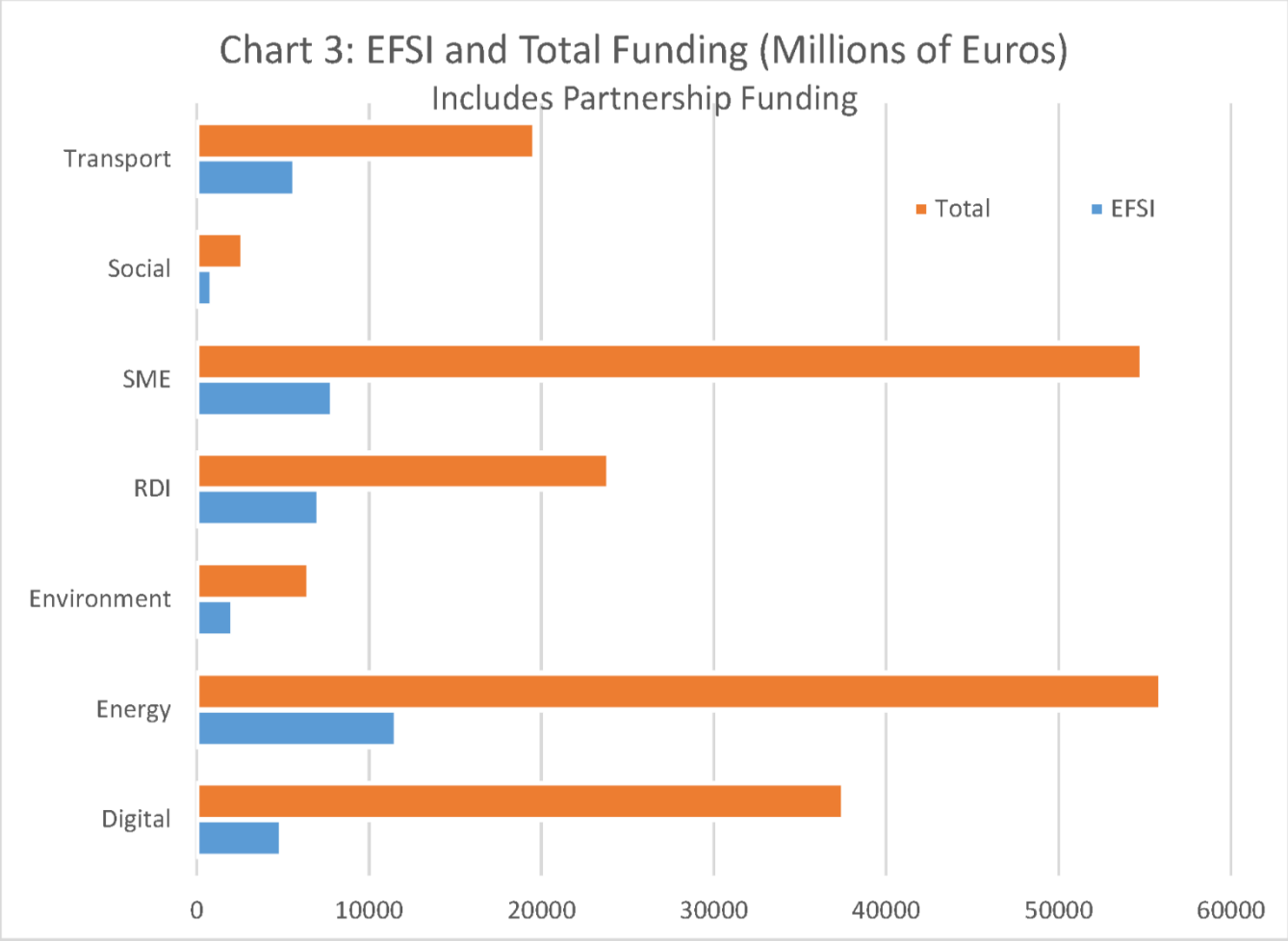
1. % of SMEs using bank loans
2. % of SMEs using grants or subsidised bank loans
3. % of SMEs not applying for a bank loan because of possible rejection
4. Interest rate for loans under EUR 250k
5. Interest rate spread (under EUR 250k vs over EUR 1m)

1. % of SMEs using credit lines
2. % of SMEs not applying for credit lines because of possible rejection
3. Median interest rate charged to SMEs for credit lines
4. % of SMEs using leasing or hire-purchase

1. Venture Capital Investments/GDP
2. Venture capital availability index
3. Value of IPO market/GDP
4. % of SMEs using equity capital

1. Gap between actual and potential GDP
2. Strength of legal rights index
3. Depth of credit information index
4. Availability of financial services index
5. Bank non-performing loans to total gross loans
6. % of SMEs "feeling that there are no financing obstacles"

Source: EIF (2018a), p.11.



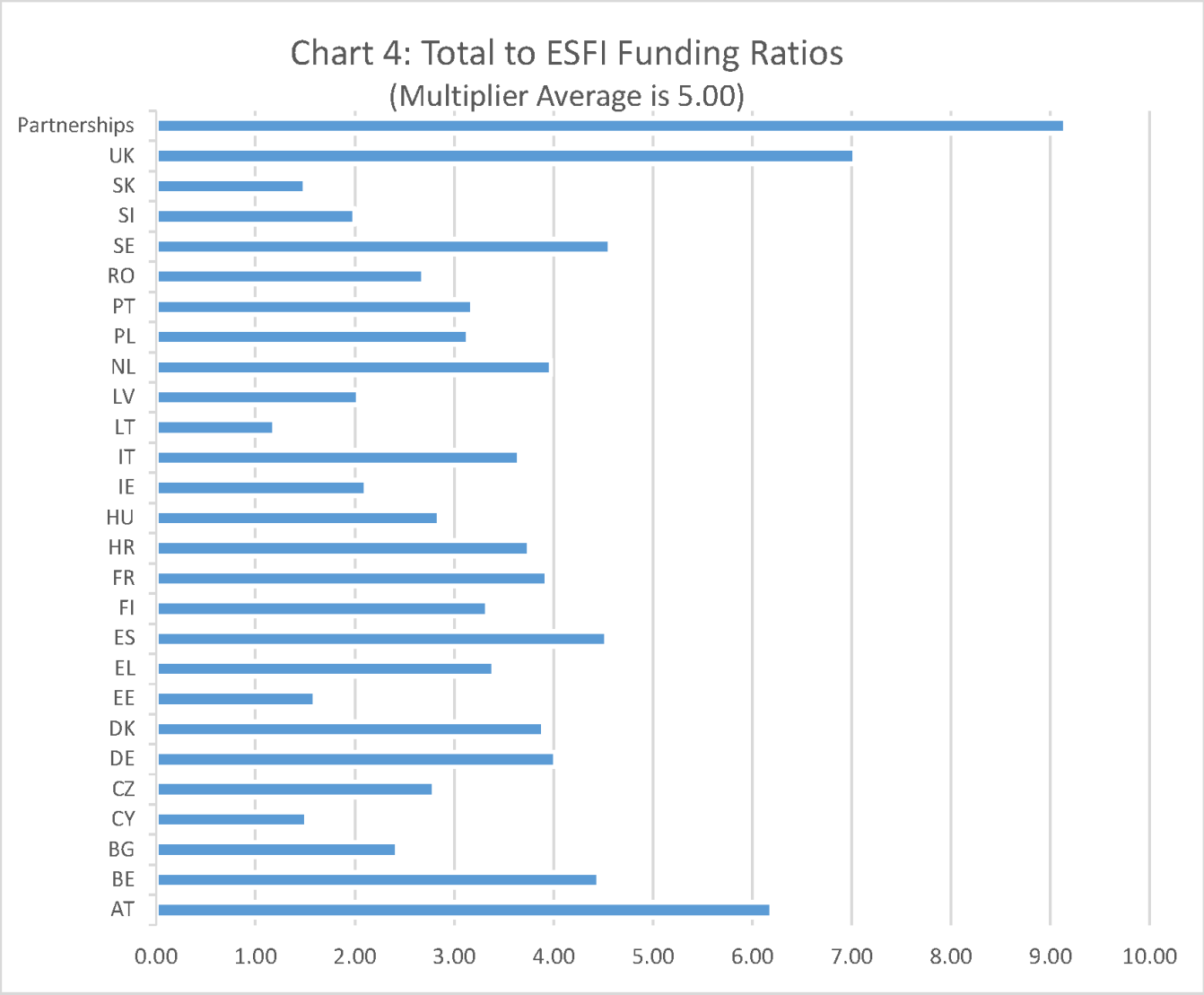
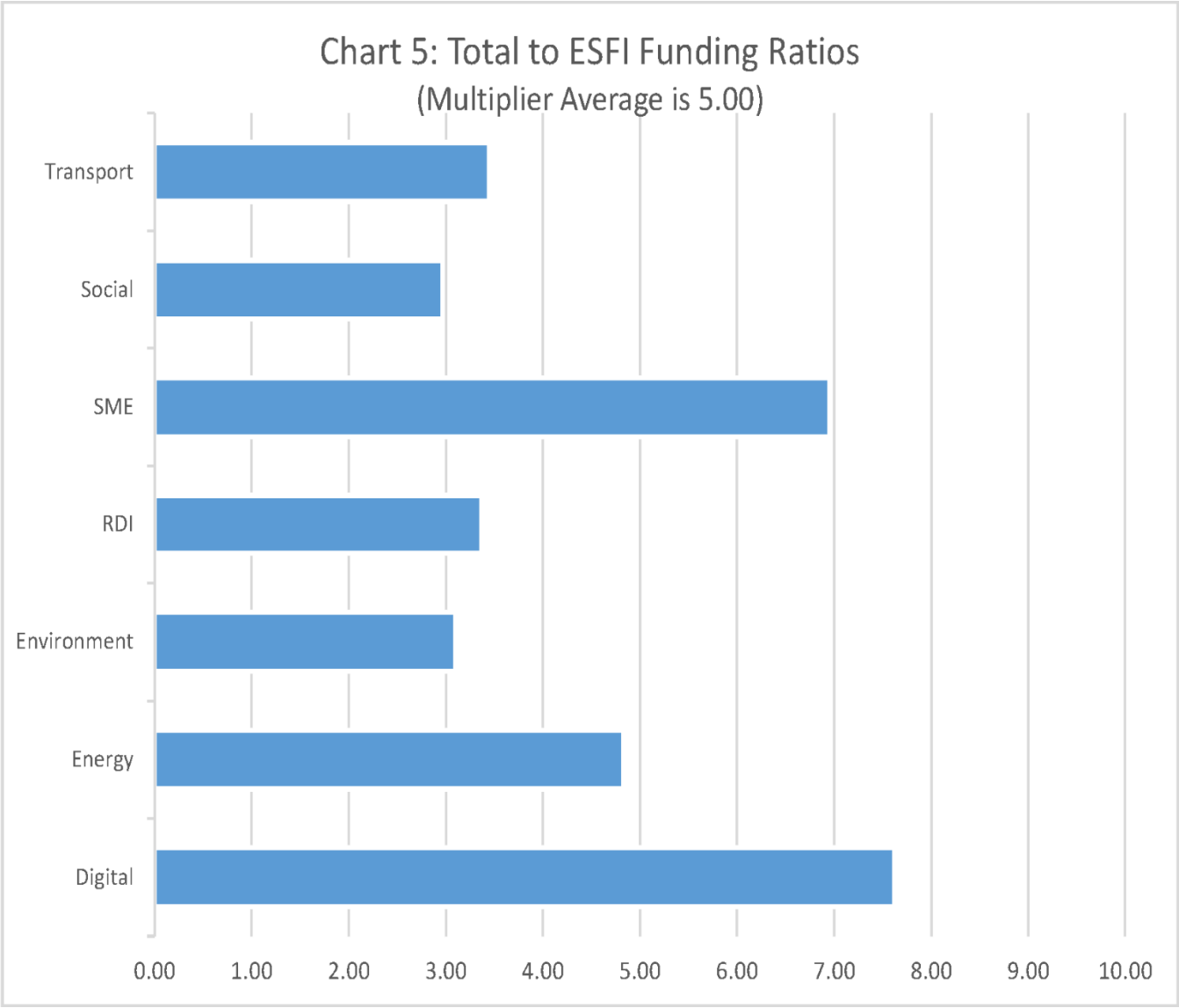


Chart 4 looks at the multipliers across Member States which appear to be most noticeably catalyzed with Partnerships. Partnership projects are for the most part organized on a much larger scale, enjoy the backing of a large number of Member States, and nearly always include Core countries to solidify the support. These factors lend themselves to offering debt positions which can bring depth and portfolio diversification effects for outside investors and can be significant in making the decision to participate in the project funding opportunities.

Chart 5 (following page) demonstrates that both Digital and SME projects produced relatively high multipliers meaning it was possible to bring into the project a large amount of non-EFSI funding. It would be interesting to see how the makeup of the funding varies because we usually think the external financing constraints are very different across enterprises in those two sectors. The Energy category follows the typical pattern of higher leverage in regulated industries although the cross-border regulatory structures impacting Partnership projects in this area can be quite complex.



Summary

We have presented a preliminary analysis highlighting the major allocation patterns of the EFSI and accompanying external project funding sources based on a newly released EIB data set. While the EFSI has proved a significant resource for cohesion and impacted Member States particularly in Partnership projects with core Member States. A comparative analysis of alternative financing arrangement tools from the public or private sectors gives potential to the opportunity to examine the marginal contributions, or additivity, of the new institutional arrangements on project financing costs, risk sharing, and capital-structure architectures. More compete details of how to structure such evaluative analysis can be found in EC (2018) and EIB (2018).

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Data Source

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