

Doing the same thing and expecting different results?

Analysis of the sustainability and transparency of the
European Fund for Strategic Investments

November 2017

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Contact the author:

Anna Roggenbuck
EIB Policy Officer, CEE Bankwatch Network
annar@bankwatch.org
Office: +48 91 831 5392

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Summary

This analysis of EFSI investments evaluates operations from its start in 2015 until October 2017 and concludes that while geographical and sectoral imbalances have eased over this period, these still persist. The fund still does not meet the geographical and sectoral targets set by the EFSI Steering Committee in its Strategic Orientation document. **Concerns remain about its sustainability and transparency.**

Contrary to claims by the EIB and the European Commission the EFSI has not become a strong contributor to the fight against climate change. Over the time, since our first analysis in 2016¹, the EFSI has continued the support for fossil fuels in the energy sector, it has decreased its contribution to energy efficiency whereas in the transport sector it has financed increasingly individual transport modes, including motorways.

The analysis of signed operations shows that in the energy sector, the EFSI supported almost **equal volumes of fossil fuels projects and renewable energy (EUR 1.85 billion versus EUR 2.0 billion)**. Fossil fuels investments were mainly located in Italy and contributed to the development of gas distribution networks, smart metering and gas storage.

In the transport sector, the two most supported forms of investment were **motorways and innovations in the automotive industry**. The latter was categorised under the EFSI Research and Development heading, which is partly misleading. **Sustainable public** transport like rail and urban mobility have been largely **neglected, receiving** a minor share (13 per cent) of the EFSI transport sector.

These findings are all the more concerning because only 20 per cent of EFSI financing supported projects that contribute to climate change mitigation and adaptation, whereas the EIB's standard portfolio reached the threshold of more than 25 per cent. Simply, EFSI does not do more for climate change mitigation and adaptation than the EIB's standard operations.

EFSI operations are still fraught with a concerning level of opacity: there is no distinct, **clearly identifiable and transparent functioning of the instrument**. Little information is disclosed

1 Best Laid Plans, October 2016, <https://bankwatch.org/sites/default/files/best-laid-plans.pdf>

regarding the merit of the projects, their expected impacts and their additionality. In many cases project summaries have not been published. Scoreboards against which the projects are assessed are not published even after a loan agreement is finalised. Moreover, the EFSI portfolio on the EIB website is not compatible with the list of investment approvals available from the Investment Committee.

Introduction

The European Fund for Strategic Investments (EFSI) was launched in spring 2015 jointly by the European Commission and the EIB Group – the European Investment Bank and European Investment Fund – to “mobilise private investments and catalyse new projects that implement strategic, transformative and productive investments with high economic, environmental and societal added value”². Since January 2016, EFSI has operated at its full capacity, with its governing bodies established.

In autumn 2016 CEE Bankwatch Network, Climate Action Network Europe, Counter Balance, Friends of the Earth Europe and WWF conducted the first analysis of the fund’s additionality and added value under the so-called ‘Infrastructure and Innovation Window’ managed by the EIB. The report concluded that EFSI failed in its objectives of sustainability, geographical distribution, additionality and transparency and called for necessary reforms in the new EU regulation that would extend EFSI operations until 2020³.

The recommendations called for improving the sectoral and geographical balance of EFSI investments and to enhance cohesion and sustainable development objectives; to re-direct investments from high-carbon operations in the transport and energy sectors to those that are 100 per cent climate-proof; to ensure that EFSI investments do not crowd out or replace conventional EIB financing but instead provide additional support, especially for energy efficiency projects; and last but not least to provide transparent justification of the added-value and additionality for EFSI projects.

2 http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en

3 Best Laid Plans, October 2016, <https://bankwatch.org/sites/default/files/best-laid-plans.pdf>

In the same vein, the European Parliament offered similar conclusions regarding sectoral and geographical imbalances, additionality and transparency in its report on the implementation of EFSI⁴.

In September 2016 the European Commission put forward a new legislative proposal to extend the EFSI until 2020 ('EFSI 2.0'), with several adjustments to the existing regulation including:

- a more detailed definition of additionality;
- an additional focus on projects that contribute to halting climate change in line with the objectives of the Paris Agreement, in particular those that support energy efficiency;
- increased transparency through the publication of the scoreboard of indicators for signed operations; and
- an alignment with the principles of tax good governance.

This proposal has been met with criticism. The European Court of Auditors (ECA) said the legislation was not evidence-based, because it lacked a comprehensive impact assessment and followed too soon after EFSI was initiated for any economic, social and environmental impacts to be measured and for any conclusions to be drawn about whether EFSI is achieving its objectives⁵. However the regulation to extend EFSI beyond 2018 is expected to enter into force by the end of this year.

This briefing looks into the issues of geographical distribution, sustainability and transparency of EFSI investments after two years, by evaluating the signed operations under the 'Infrastructure and Innovation Window' until 6 October 2017⁶.

Methodological note

The EFSI regulation indicates seven eligible sectors that the EFSI should support⁷. However, an additional category, 'mixed infrastructure', was created by the authors of the briefing for

4 Report on the implementation of the European Fund for Strategic Investments (2016/2064(INI)), 22 May 2017

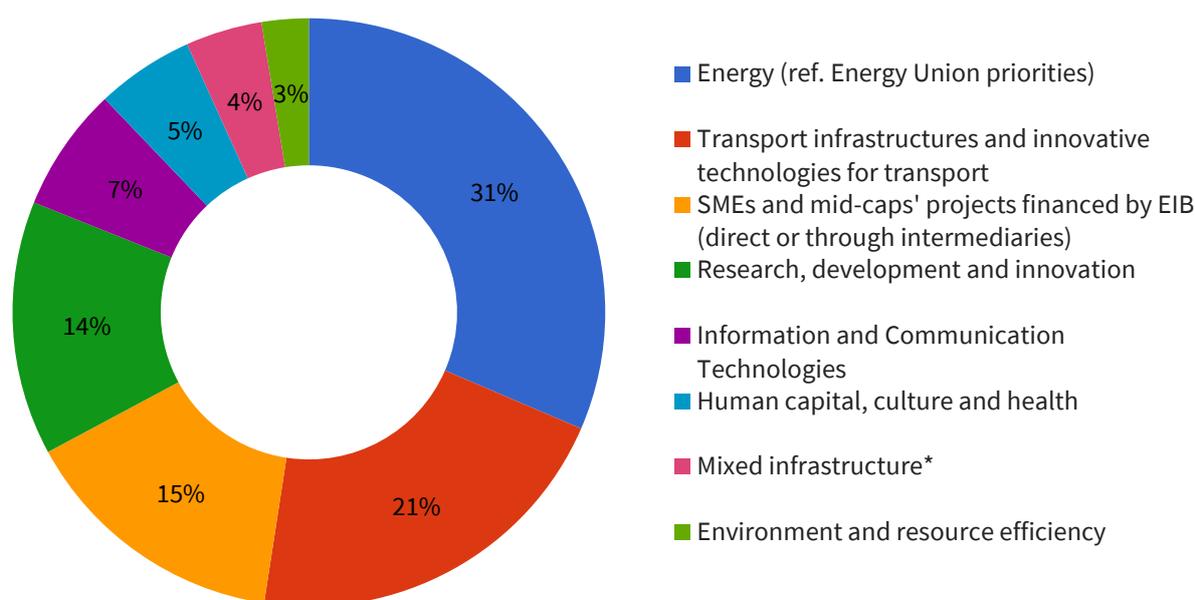
5 Opinion No 2/2016 concerning the proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 and the accompanying Commission evaluation in accordance with Article 18(2) of Regulation (EU) 2015/1017 — EFSI: an early proposal to extend and expand

6 <http://www.eib.org/efsi/efsi-projects/index.htm>

operations that could not be assigned to any of the eligible sectors due to scarcity of information and nature of these investments. While the EFSI Steering Board's Strategic Orientation asserts that the EIB classifies each operation in the eligible sectors or areas in a mutually exclusive manner, in reality it often classifies one operation into several sectors⁸. In such cases, categorisation for this analysis was based on additional research when feasible. Therefore, the EFSI sectoral distribution in this analysis can differ to some extent with the results of similar analyses presented by the EIB or the European Commission.

EFSI support for general objectives

Figure 1. Volume of EFSI guarantees for general objectives, %, 2015 - 2017



In order to avoid excessive sectoral concentrations, the EFSI Steering Board has set an indicative concentration limit of 30 per cent of signed operations in any one sector under the Infrastructure and Innovation Window⁹. Figure 1 shows that the limit has been exceeded in the

7 Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal, Art. 9.2

8 Steering Board EFSI Strategic Orientation, update June 2017

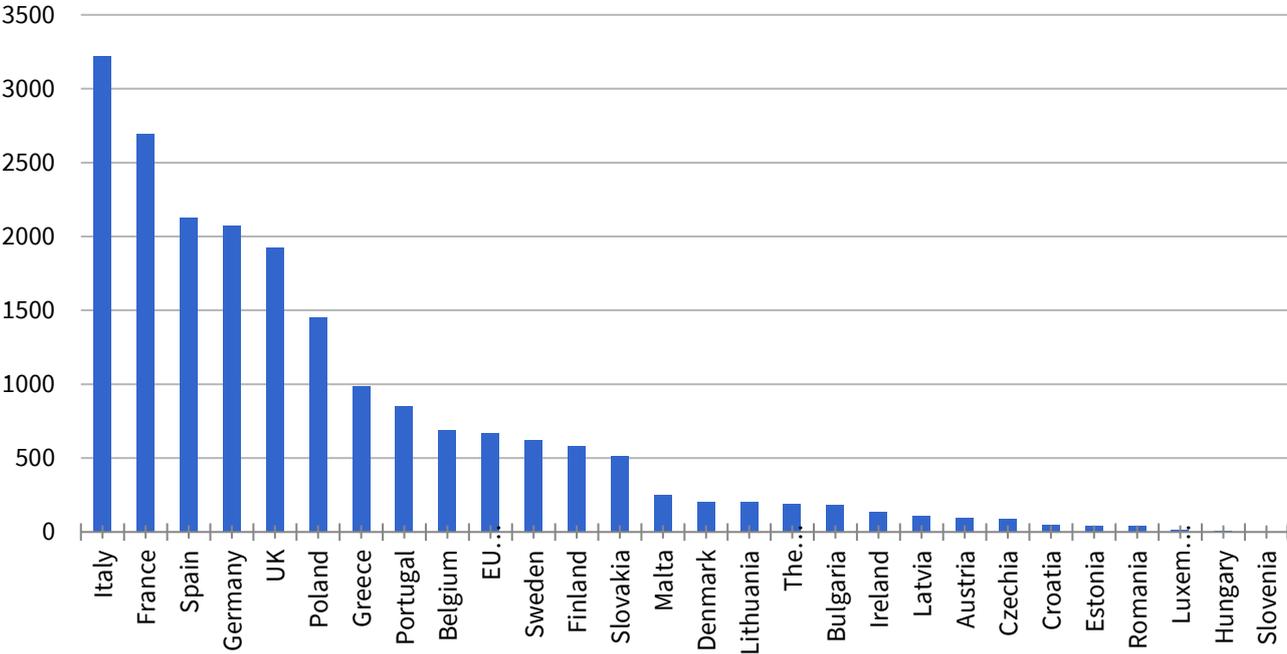
9 Infrastructure and Innovation Window, a pillar of the EFSI for guaranteeing operations of the European Investment Bank

energy sector, and the environment and resource efficiency sector received the least amount of funds. In comparison to our previous analysis in 2016, the balance in EFSI sectoral coverage has increased in particular for small and medium enterprises.

Geographical distribution

Slovenia is the only EU country where the EFSI has not supported any investment under the Infrastructure and Innovation Window. In line with the Steering Board concentration limits, the share of investments in any three Member States together should not exceed 45 per cent of the total EFSI portfolio. This limit has been established on a very conservative level, given that the EIB’s standard investment pipeline does not exceed this threshold. Figure 2 shows that the three states with the highest EFSI investments level are Italy, France and Spain. EFSI has concentrated approximately 40 per cent of the volume of its guarantees in those three states.

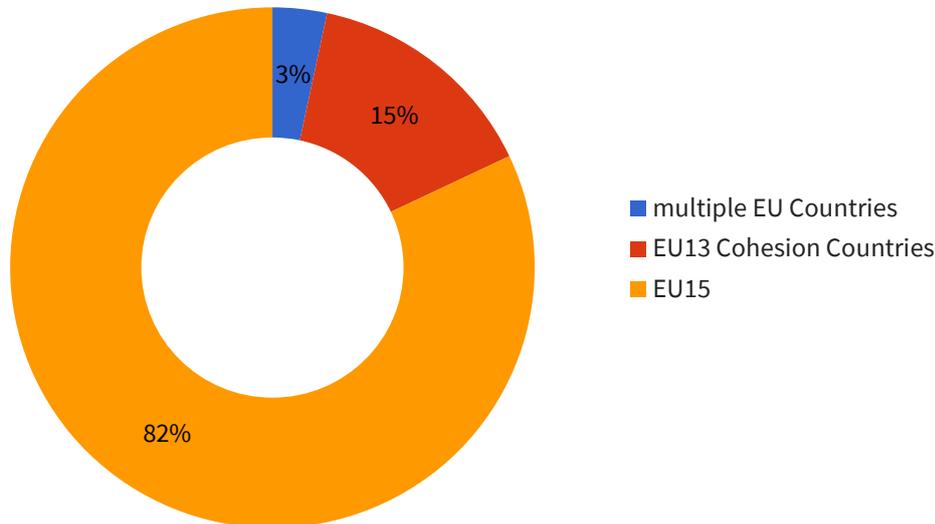
Figure 2. Volume of EFSI guarantees in EU states, EUR million, 2015 - 2017



In comparison to our first analysis, EFSI contributions to projects in the least-developed EU countries that receive Cohesion Funds have slightly increased, but still half of EFSI financing in these countries was located in just one, Poland.

Figure 3. Volume of EFSI guarantees in EU countries, %, 2015 - 2017

EFSI geographical concentration, volume of operations



In its most recent communication on the results of the EFSI, the Commission ranked the geographical distribution of EFSI investments as a proportion of a country's GDP. The top ten beneficiaries of the program measured in this way were Estonia, Bulgaria, Portugal, Greece, Spain, Finland, Lithuania, Latvia, Italy, and Poland¹⁰.

By this metric, we find that in Estonia only three operations received EUR 40 million, including the Tallinn Airport upgrade guaranteed up to EUR 30 million. In Latvia, also among the top ten beneficiaries, of EUR 108 million in EFSI guarantees, only EUR 3 million went for private investment. In Latvia EFSI guaranteed loans have entirely crowded out the EIB's standard operations, which between 2014 and 2015 triggered over EUR 6 billion investment, several times more than mobilised by the EFSI.

Moreover, the EFSI Regulation also provides a set of indicators for assessing the potential impact on economic disparities within the EU and its long-term growth potential. While the mobilisation of additional investment is one of the goals of the fund, there are also other key

¹⁰ Investment Plan results, https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results_en

performance indicators such as the mobilisation of private capital or the macroeconomic impact of investments against which EFSI should be assessed.

The European Court of Auditors warned that EFSI's multiplier effect is overstated due to a flawed methodology and instead proposed to align it with the methodology suggested by the OECD. It also recommended using the new methodology to produce the key performance indicators for the EFSI that would show the extent to which it attracted private capital¹¹.

EFSI investments in the energy sector – more fossils than ever

The energy sector received the lion's share of EFSI guarantees, with more than EUR 6.3 billion. There are concerns about whether the fund has contributed enough to achieving the EU's long-term objectives to decarbonise the energy sector. Our previous assessment showed that by the end of 2016, the EFSI had granted, both in approved and signed operations, EUR 1.8 billion for fossil fuel infrastructure projects (mostly gas), which leveraged at least EUR 5 billion in additional investment into this type of infrastructure.

The latest analysis of signed operations shows that by the end of September 2017, EFSI had financed almost the same amount of fossil fuels-based projects as renewable energy ones: fossil fuels received EUR 1.85 billion and renewables EUR 2 billion.

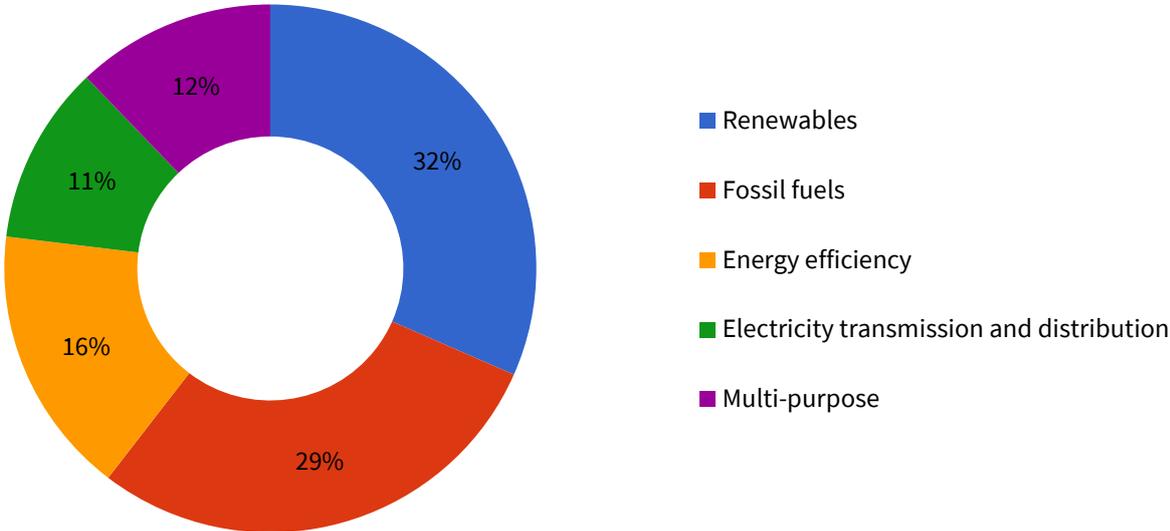
Almost 60% of fossil fuel investments were located in Italy, and the rest in the UK, Germany, Spain and Portugal. Gas infrastructure prevailed among those eleven investments, particularly new gas transmission and distribution networks and gas metering. In addition, almost two thousand kilometres of gas and oil pipelines were constructed or renewed under the category of SMEs and mid-caps¹². Such an unbalance had been seen in the EIB's standard project

¹¹ EFSI: an early proposal to extend and expand, Opinion No 2/2016 concerning the proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) Nos 1316/2013 and 2015/1017, European Court of Auditors, 2016

¹² EFSI 2016 Report from European Investment Bank to the European Parliament and the Council, http://www.eib.org/attachments/strategies/efsi_2016_report_ep_council_en.pdf

pipeline, which last year supported twice as many renewables as fossil fuel projects¹³. Only 16 per cent (EUR 1 billion) of EFSI guarantees in the energy sector targeted energy efficiency. These projects included the construction of new ‘near-zero’ buildings and projects to modernise existing buildings. The rather limited share of investments in energy efficiency can partially be explained by the fact that some of these investments fall into other categorisations. Complete data on the volume of EFSI guarantees in support of energy efficiency can be found in the EIB’s climate action report which covers also energy efficiency components of projects from the remaining sectors¹⁴.

Figure 4. EFSI energy sector, %, 2015 - 2017



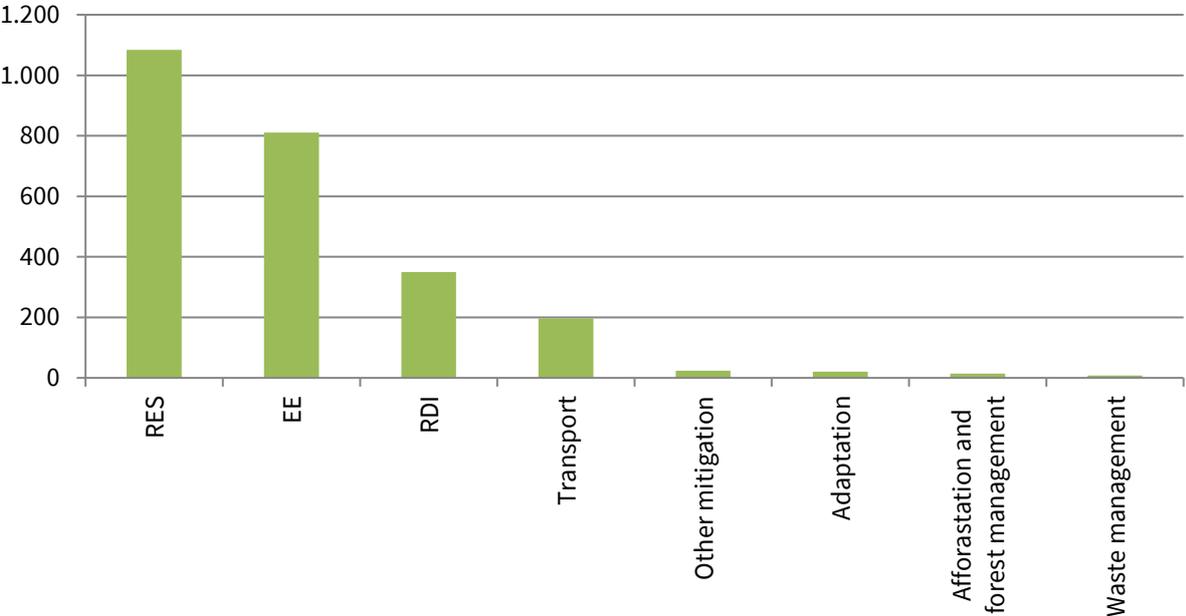
In the proposal to extend the EFSI beyond 2018, the Commission called for the EFSI to contribute to achieving the long-term objectives of the Paris Agreement¹⁵. One of the ideas put forward by the Commission was to establish a threshold of 40 per cent for climate financing under the Infrastructure and Innovation Window. But as the EFSI continues to invest in fossil fuels, a 40 per cent climate target should go hand in hand with a ban on fossil fuel financing.

¹³ <https://bankwatch.org/publication/the-winners-and-losers-of-climate-action-at-the-european-investment-bank>
¹⁴ This analysis of EIB’s climate action investments with the support of EFSI is based on EIB’s database of climate action projects disclosed on request of CEE Bankwatch Network
¹⁵ COM(2016) 597 final, 14.09.2016, Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal

What about climate-friendly investments?

As the EFSI was created to address a lack of willingness by the private sector to take on more risk and to open financing opportunities for projects that would otherwise struggle to benefit from adequate funding, it should in theory be the ideal tool to reverse the negative trends noted above. For instance, energy efficiency is specifically mentioned as an area that the EFSI should support¹⁶.

Figure 5. EIB climate action loans by category, volume of loans, %, 2016



In 2016, EFSI guaranteed loans worth EUR 12.5 billion¹⁷. Surprisingly, only 20 per cent, or EUR 2.5 billion, contributed to climate change mitigation and adaptation, whereas the EIB’s standard portfolio reached more than 25 per cent. In Cohesion countries, EFSI guaranteed EUR 2 billion in financing, but less than 13 per cent were investments into climate change

16 Commission Delegated Regulation (EU) 2015/1558 of 22 July 2015 supplementing Regulation (EU) 2015/1017 of the European Parliament and of the Council by the establishment of a scoreboard of indicators for the application of the EU guarantee <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1558&from=EN>

17 The number refers to signed loans in 2016

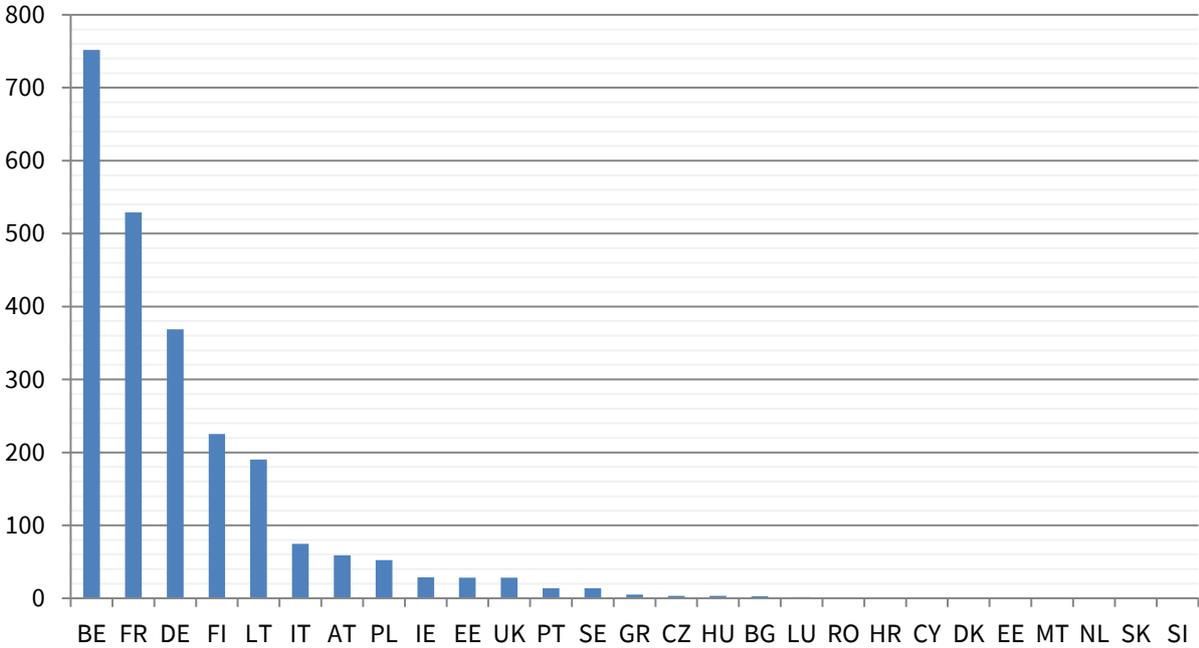
mitigation or adaptation. This is significantly less than what the bank achieved within its standard portfolio and far from what one might expect from an innovative risk instrument.

Figure 5 presents EIB support for climate action under the EFSI. What distinguishes EFSI support from the EIB’s overall climate action is that renewable energy sources and energy efficiency were prioritized over sustainable transport in the EIB’s standard climate action portfolio. These two sectors constitute over 75 per cent of EFSI climate action, while transport less than 8 per cent.

Among thirteen energy efficiency projects, two concerned investments into the more efficient use of fossil fuels, including the Kiel CHP gas power plant and the Raffinery di Milazzo. The majority of energy efficiency investments concerned the construction of new buildings, including ‘near-zero energy’ buildings and new housing in urban areas.

EFSI support for climate action projects in 2016 was concentrated in just a few EU states, while as many as eight countries did not receive any financing.

Figure 6. EFSI climate action in 2016 in EU states, million EUR



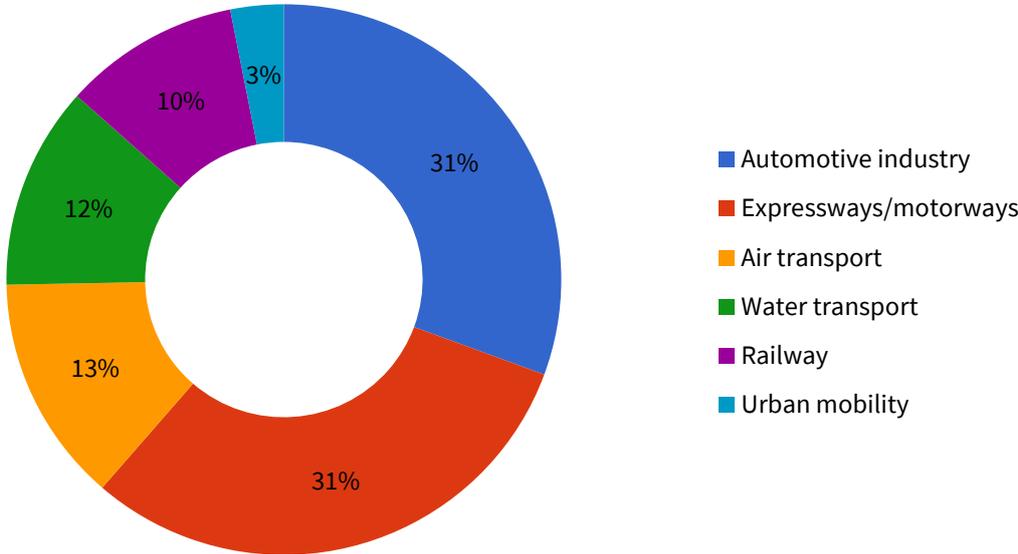
86 per cent of EFSI support for renewable energy in 2016 was concentrated in just four countries – Belgium, UK, Lithuania and France – while 80 per cent of EFSI lending for energy

efficiency was located in France, Finland and Germany. Not only was the EFSI climate action in 2016 at a disappointingly low-level, it was also concentrated in a limited number of countries. Both issues require urgent attention from the EFSI governing bodies.

Sustainable transport sidelined and more money for motorways and the auto industry

In response to a critique that in its initial stage the EFSI overwhelmingly supported motorways via public-private partnerships, the Commission suggested that the EFSI should be better aligned with the EU’s priorities regarding the Trans-European-Networks (TEN) and the Paris Agreement, for example by avoiding support to motorways unless for private investment in Cohesion countries¹⁸.

Figure 7. Volume of EFSI operations in transport infrastructure and innovative technologies, %, 2015 -2017



18 COM(2016) 597 final

By October 2017 the share of motorway projects supported by EFSI (EUR 4.2 billion) had reached 31 per cent, with an additional equal share going to operations supporting the automotive industry. In addition, eight motorway projects approved by the EFSI Investment Committee are awaiting signature, two apiece in France, Germany and the Netherlands, and one in Latvia and Lithuania. The EFSI also has not changed its bias towards large-scale PPP investments in countries with developed markets. The 'EFSI 2.0' should bring a significant change in this pattern only if it adopts the Commission proposal to limit motorways financing.

Automotive industry projects have also been supported generously with EUR 1.2 billion in guarantees. Several of these operations were categorised by the EIB as Research and Development, whereas the EFSI regulation combines transport infrastructure and innovative technologies for transport in one category. These projects concern the development of more efficient car engines, powertrains or various components for vehicles.

The EFSI became a successor to the now notorious EIB action for clean transport. Initiated in 2009, billions of euros were disbursed to European carmakers under the umbrella of the European Clean Transport Facility for cutting carbon emissions but which instead rigged emission tests¹⁹.

As with the energy sector, EFSI support for the transport sector requires better alignment with the objectives of the Paris Agreement. Europe will not manage to decarbonise its economies if it continues to use the EFSI and other forms of public finance in support of motorways, the automotive industry and air transport.

The EFSI still lacks transparency

While the transparency of EFSI governing bodies has improved thanks to the publication of minutes of meetings, information at the project level remains extremely limited.

The EFSI regulation requires that the Investment Committee takes decisions in a transparent and independent manner, whereas the EIB was required to establish the EFSI as a distinct,

¹⁹ Volkswagen's emissions scandal and the EU's bank, <https://bankwatch.org/project/volkswagens-emissions-scandal-and-the-european-investment-bank>

clearly-identifiable and transparent facility with operations that are clearly distinguished from others at the EIB.

Unfortunately there is still no clarity about how these requirements are being fulfilled by the EIB and the EFSI governing bodies. Little information is disclosed regarding the merit of the projects, their expected impacts and their additionality.

In order to address this situation, the European Parliament urged to achieve the highest levels of transparency and institutional accountability by ensuring the proactive public disclosure of exhaustive and sound budgetary information and access to financial data related to projects funded by the EIB²⁰. The European Court of Auditors also concluded that accountability and transparency concerns remain when decisions of the Investment Committee do not explain the rationale for granting an EU guarantee, the project's additionality or the added-value of the EU for a particular operation. It noted scoreboards for the approved operations are not published and that the EIB published only basic (sometimes outdated) information with respect to EFSI operations²¹.

Although the idea of publishing scoreboards used by the Investment Committee for assessing projects was proposed by the Commission for the EFSI extension act and the Court of Auditors welcomed this proposal, still such documents were not published even for projects financed in previous years. In general there is scarce information published in regards to individual projects, and many do not even include the project summaries that the EIB publishes for its standard operations. Existing project summaries do not include information about EFSI support.

The EFSI's operational pipeline also lacks transparency. Many projects simply disappeared from the pipeline without a trace. This applies especially to projects that were approved but not signed. For example, while one EFSI Investment Committee document lists projects approved on 13 June 2016, two of these projects are missing in the current EFSI pipeline – Wind Turbine RDI (Germany) and Biomass Plants (Portugal). The 2016 EIB's EFSI report to the parliament and the European Council stated that in 2016, the Investment Committee met ten

²⁰ European Parliament resolution of 28 April 2016 on the European Investment Bank (EIB) – Annual Report 2014 (2015/2127(INI))

²¹ EFSI: an early proposal to extend and expand, Opinion No 2/2016

times and approved more than 150 operations. The same report however lists only 121 operations approved and signed by the end of 2016, including approved projects as well as projects approved in 2015 by the Commission.

At the end of September 2017 there were 314 projects on the EFSI pipeline under both categories of approved and signed operations, together with 30 projects under ‘pre-approvals.’ However the EFSI Investment Committee lists only 218 projects approved between January 2016 and September 2017 including those that were removed from EFSI pipeline. This gap of around one hundred projects cannot be justified by the Commission approvals in 2015 before the Investment Committee was established.

In 2015 the EIB pre-financed ten projects with an EFSI guarantees²². Although there are no indications in ‘Decisions taken by the EFSI Investment Committee’ that these documents were redacted, it seems they may not include information on all the projects that were actually approved by the Committee.

The assignment of operation to categories under the regulation also remains unclear. For example, there were several projects in the automotive sector categorized as ‘research and development’ rather than ‘innovative technologies for transport’. In addition, the categorisation is not being done in a mutually exclusive manner, as the value of guarantee under each category is not provided. This prevents public scrutiny, especially in regards to indicative limits for sectoral concentration established by the Steering Committee.

Recommendations for the EFSI:

- Exclude all support to fossil fuel projects, including fossil fuel infrastructure;
- Ensure that the Innovation and Infrastructure Window becomes climate proof;
- Set a threshold of at least 50 per cent of its financing under the Innovation and Infrastructure Window for climate action projects; in particular, the EFSI should also earmark funds for energy efficiency;

²² Report from the Commission to the European Parliament, the Council and the European Court of Auditors on the Management of the Guarantee Fund of EFSI in 2015, Brussels, 31.05.2016

- In the transport sector, end support to air transport and new motorways and ensure that it supports projects aiming at the decarbonisation of the transport sector;
- Collaborate with the EIB and European Commission to ensure that the EFSI becomes a catalyst for sustainable investments and climate action, by providing additionality to the EIB's standard operations in these areas;
- A sound analysis of the climate impact of EFSI projects needs to take place so that high-carbon projects detrimental to reaching EU climate objectives cannot be supported;
- Enhance transparency of EFSI governing bodies: publish detailed minutes of all Steering Board and Investment Committee meetings;
- Raise the bar on transparency at project level: for all operations approved by the EFSI Investment Committee, the scoreboard of indicators used to assess the projects needs to be disclosed to the public.