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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE EVALUATION

Accompanying the document

**Proposal for a Regulation of the European Parliament and of the Council
amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension
of the duration of the European Fund for Strategic Investments as well as the
introduction of technical enhancements for that Fund and the European Investment
Advisory Hub**

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1. The European Fund for Strategic Investments (EFSI) was set up with the aim of kick-starting investments in the Union through the mobilization of private finance. The EFSI builds on a EUR 16 billion guarantee from the EU budget (the "EU Guarantee"), complemented by an allocation of EUR 5 billion of the EIB's own resources. The guarantee aims to increase the volume of higher risk projects supported by the EIB Group's financing and investment operations and, as a result, to tackle the market failures and sub-optimal investment situations which hinders investment in Europe. The EFSI is established within the EIB, which manages it under the rules set out in the EFSI Regulation¹ and in the EFSI Agreement². The Guarantee Fund under EFSI constitutes a liquidity cushion intended to provide an appropriate safety margin and to avoid exposing the Union budget to sudden guarantee calls. The Guarantee Fund has to be maintained at a certain percentage (the "Target Rate") of the total amount of the EU guaranteed obligations, currently 50%.
2. The EFSI Regulation provides that the Commission shall evaluate the use of the EU Guarantee and the functioning of the Guarantee Fund by 5 January 2017. Based on the successful delivery of the EFSI so far, the Commission has decided to propose an extension of the EU Guarantee to the EIB beyond 2018 to mobilise an even greater amount of investments. As a result, the evaluation is being presented to accompany that legislative proposal.
3. The present report provides an overview of the use of the EU Guarantee and the functioning of the Guarantee Fund during its first year of activity until 30 June 2016 in terms of effectiveness, efficiency and relevance and evaluates whether the current setting and parameters could be reviewed to optimise the use of the EU Guarantee. In particular, the evaluation includes an analysis of the risk profile of the current and future EFSI Guaranteed Operations and of the adequacy of the target rate and level of the Guarantee Fund.
4. Under the Infrastructure and Innovation Window, the EFSI Board of Directors approved 77 operations, for a total approved amount of EUR 11 billion in EFSI financing. EUR 4.7 billion have already been signed and are expected to support an estimated amount of investments of EUR 58 billion. Under the SME Window, the EU Guarantee has been used for two guarantee sub-windows and aimed at frontloading guarantee operations under the COSME and InnovFin financial instruments. As of 30 June 2016, 186 operations (71 equity projects – financed from EIB's EUR 2.5 billion contribution to the SME Window, 43 COSME and 72 InnovFin guarantee operations) had been approved under the SME Window. Those operations total EUR 3.4 billion in EFSI financing (EUR 3.3 billion had been signed by end-June 2016) and will support an estimated amount of investments of EUR 48.4 billion. It is expected that around 180,000 SMEs and mid-caps will benefit from those operations.

¹ Regulation (EU) No 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 Project Investment Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments, OJ L 169, 1.7.2015, p. 1.

² Agreement on the Management of the EFSI and on the granting of the EU Guarantee between the EU and the EIB of 22 July 2015.

5. In terms of effectiveness, under the Infrastructure and Innovation Window the EU Guarantee allowed the EIB to expand the volume and the risk profile of its operations, although some adjustments to the original set up were needed in order to develop new models of cooperation with national promotional banks or financial intermediaries as well as to facilitate the deployment of risk-sharing instruments and subordinated financing. The SME Window has seen a very strong uptake, exceeding expectations and demonstrating a high market demand for the products available under the SME Window. After one year, EFSI-supported operations already amount to about 65% of the target (EUR 75 billion) to be reached under the SME Window over three years. So far, there have been no calls due to defaults or value adjustments of EIB and EIF operations.
6. In terms of efficiency, for the Infrastructure and Innovation Window, the availability of the EU Guarantee proved to be an efficient tool to considerably increase the volume of riskier operations by the EIB. The reliance on EIB rules and procedures allowed a swift start of the EFSI. For the SME Window, the availability of the EU Guarantee was the only way to frontload guarantee activities under COSME and InnovFin. A gradual conversion of the EFSI frontloading into a topping up of COSME and InnovFin products is expected to take place before the end of 2016. Very fast implementation was possible because of reliance on existing products developed by the Commission and the EIF and on well tested EIF rules and procedures.
7. The EU Guarantee enabled the EIB to undertake riskier activities and allowed the EIF to enhance its intervention in support of SMEs and mid-caps. Even so, it is not designed to support first-loss pieces in investment platforms addressing serious market failures, as the pricing of such interventions would need to respect EIB or market-based pricing. The resulting prices would probably be too high for the platforms to be financially viable. As a result, the use of the EU budget (e.g. European Structural and Investment Funds, COSME, InnovFin and Connecting Europe Facility) and, in some limited cases, of the national budget, has been necessary to cover the riskiest tranches. In addition, the EU Guarantee was not designed to cover the potential impact of currency fluctuations. The EIB has therefore been less able to deliver long-term fixed rate financing in certain non-euro countries with less developed financial markets. The risk assessment of the different products supported by the EU Guarantee shows that overall the current budget foreseen for provisioning the Guarantee Fund, together with recoveries, revenues and reflows from equity-type operations, should be able to shield the Union budget from calls under the EU Guarantee. The findings suggest that, considering the overall portfolio, the risk of losses – net of revenues – exceeding the amounts budgeted for the replenishment of the Guarantee Fund (EUR 8 billion) would remain acceptable if the target provisioning rate of the Guarantee Fund were adjusted.
8. The legislative proposal issued by the Commission provides for some adaptations of the EFSI Regulation aimed at increasing the effectiveness, efficiency and relevance of the EU Guarantee, such as an adjustment of the target provisioning rate, a stronger focus on risk-sharing instruments and subordinated financing and enabling the EU Guarantee to cover the potential impact of currency fluctuations.