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Delegations will find attached the Opinion of the European Economic and Social Committee mentioned above.

European Economic and Social Committee

ECO/374
An Investment Plan for Europe

Brussels, 19 March 2015

OPINION

of the
European Economic and Social Committee
on the
Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank - An Investment Plan for Europe
COM(2014) 903 final
and on the
Proposal for a Regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013
COM(2015) 10 final – 2015/0009 (COD)

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On 19 December 2014 the European Commission, on 3 February 2015 the European Parliament and on 3 March the Council of the European Union decided to consult the European Economic and Social Committee, under Articles 172, 173, 175, 182 and 304 of the Treaty on the Functioning of the European Union, on the

> *Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank - An Investment Plan for Europe*
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> COM(2015) 10 final – 2015/0009 (COD).

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 2 March 2015.

At its 506th plenary session, held on 18 and 19 March 2015 (meeting of 19 March 2015), the European Economic and Social Committee adopted the following opinion by 200 votes to 6 with 11 abstentions.

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1. **Summary and recommendations**

1.1 The EESC welcomes the Investment Plan for Europe and appreciates the change of tone away from austerity and fiscal consolidation. The Commission now acknowledges that there is a lack of investment and of aggregate demand and that the financial sector is still not able to play a full role in boosting growth.

1.2 The Investment Plan is a step into the right direction but it does face a number of serious questions about its size relative to Europe's huge investment needs, about the high degree of leverage expected, about the potential flow of suitable investment projects, about the marketing strategy for attracting private capital from and outside Europe, about the involvement of SMEs, especially micro- and small enterprises, and about the Plan's timescale.

1.3 There is uncertainty about whether a pipeline of projects can be developed that offer returns that attract institutional investors. The EESC regrets that the EC has not adhered to the principles of its own Regulation 1303/2013 (Art. 5), developed further in

Regulation 240/2014, in the current proposal and strongly recommends involving the social partners and organised civil society in the identification process at national level. This failure to involve the stakeholders in the ownership of proposals is evident in the December list of potential projects.

1.4 Much greater attention must be paid to establish a conducive and predictable investment environment. Without confidence of the investors, better regulation and adequate cost of doing business in the EU, there is hardly any hope to restart even moderate growth with the necessary new jobs.

1.5 The Plan proposes that contributions to the European Fund for Strategic Investments (EFSI) from Member States will not be included in budget deficit calculations and this is to be welcomed. The Commission should explain why ongoing strategic public infrastructure expenditures are not treated in the same way. What is the difference between a favourable budgetary treatment of Member States' contributions to productive investments under EFSI and a full-blown Golden Rule?

1.6 The EESC believes that it is time to recognise that Europe needs a sustained public and private investment programme in order to regain growth, jobs and prosperity. Strategic public investment such as that envisaged in the Plan which underpins present and future economic development should be incentivised by a more benign European fiscal framework. The EESC invites the Commission to open a discussion on a properly formulated fiscal rule for Europe in full recognition of its many definitional difficulties and in the setting of appropriate conditionalities.

1.7 The EESC calls on the Commission to take into consideration the ILO recommendations on focusing on attracting viable projects from the regions with the highest unemployment rates, with the active involvement of the national social partners and stakeholders. The EESC recommends that the macro-regional strategies are taken into consideration when identifying and assessing potential projects.

2. Background

2.1 The level of investment in Europe has fallen 15% below its pre-crisis peak. At the same time there are high levels of savings rates across Europe; corporate balance sheets are bulging with liquidity; institutional investors are awash with money while at the same time the budgets of most Member States are either fully stretched or shrinking.

2.2 This low level of investment is all the more unacceptable when the cost of capital in both nominal and real terms is at rock bottom. The markets to bring together investment demand and the supply of investment finance are clearly not working properly across Europe. In the investment community there is a lack of trust in the economic environment. Uncertainty is seriously affecting business confidence. The Plan's third pillar aims to tackle regulatory reform and to simplify the framework for investment across Europe. This will not be easy to achieve.

2.3 What is the essence of the Investment Plan for Europe? There are three pillars of the Plan:

- the creation of a dedicated European Fund for Strategic Investments (EFSI) guaranteed by EUR 21 billion from the EU budget and EIB reserves which – according to the Commission's assumptions – can leverage an additional EUR 294 billion of investment finance over three years;
- an investment pipeline of strategic projects supported by a specialist investment hub of technical assistance;
- the removal of barriers to investment and improvements in the regulatory regime.

2.4 The EFSI is similar to a Special Purpose Vehicle (SPV) set up within the EIB in order to take on higher risk investments than the rest of the Bank and in doing so the EIB's AAA rating is secured. In this respect the EFSI is an innovation. It also marks a significant departure from orthodoxy in that funds from the EU budget will be used as a guarantee or backstop to cushion against potential losses on EFSI investments.

2.5 In terms of leverage, the initial EUR 21 billion seed funding will enable the EIB to lend EUR 63 billion using its normal business model. The Commission assumes that the EFSI will then seek private sector and other investors for suitable projects and potentially unlock a total of EUR 315 billion of capital investment. The key to this leverage is that the EFSI provides risk protection to the EIB enabling the Bank to invest in riskier projects.

2.6 The Committee acknowledges the fact that the Commission advocates a need for the removal of barriers to investment. The planned financial resources equal merely an annual average investment gap on a healthy investment rate; thus, such an additional investment would be needed every year. The business environment must be much more conducive to investment if the initiative is to meet its aim. For example:

- Better regulation and a more predictable regulatory environment which supports long-term decision-making are essential pre-conditions.
- The cost of doing business in Europe is too high. It is important to address high energy prices, among other factors.
- In order to establish the EU as a location from which businesses have the best global market access, an ambitious EU trade policy must be pursued.

3. Comments on the Investment Plan for Europe

3.1 While the initial reaction to the Investment Plan for Europe was favourable, there have subsequently been several criticisms levied against it. Some commentators have been unambiguously negative and others have welcomed it while pointing out some weaknesses.

Much of the negative comment stems from a lack of understanding of the real-time context of the Plan. Ideally, a comprehensive European investment plan would be driven by publicly funded strategic projects aimed at boosting growth and job creation.

3.2 One of the main criticisms of the Plan is that it is too small, given the scale of underinvestment in Europe. A multiplier effect of 1:15 is expected under the Plan. Some argue that this scale of leverage is simply not credible[1]. The Commission expects the initial EUR 21 billion to be leveraged twice, first with private sector bond finance to boost the size of the EFSI and second when projects are supported by EFSI capital which then attracts additional private investment. There is no doubt that the expected multiplier effect is very large but, according to the Commission, it is within the range of actual leverage achieved by the EIB historically. Notwithstanding the riskier nature of the projects to be funded by EFSI, the fact that the fund will be housed within and managed by the EIB should ensure that leverage will probably be quite high.

3.3 For larger infrastructure projects and especially for cross-border projects the lead-in time can be several years because of political, environmental, regulatory barriers or sometimes just plain NIMBY-ism[2]. These barriers raise two further issues. Firstly, will there be sufficient numbers of big infrastructure projects in the pipeline that are both strategic and attractive to investors? Secondly, over three years, a EUR 315 billion investment implies about EUR 100 billion per annum which is 40% above current EU investment levels and does not seem feasible. These criticisms are valid up to a point. Around 25% (EUR 75 billion) of the EFSI funding will be targeted at SMEs and mid-cap companies and should be up and running reasonably quickly. The remainder of the Fund's investments will be earmarked for the types of projects outlined in the report of the Task Force on Investment in the EU. An examination of this comprehensive list would suggest that there is a substantial potential set of projects in the energy, transport, innovation and digital domains that could benefit from EFSI support.

3.4 A major criticism of the Investment Plan is that its impact will be medium to long-term when what is needed is a shorter term investment programme similar to the European Economic Recovery Programme during the recent recession. The budgetary consequences of this approach could be managed within a more flexible national accounts framework and this issue is developed further in section 4 of this opinion.

3.5 The capacity of the EIB to handle such an ambitious fund has also raised questions. In terms of funding for SMEs and mid-caps, especially for micro- and small enterprises, some believe that there will not be enough staff resource within the EIB to reach companies directly. There will therefore be a greater reliance on commercial banks to select micro-enterprises, SMEs and mid-caps and provide them with relatively cheap finance. The risk here is that banks will

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1 See for example: *Europe's Great Alchemist*, The Economist, 29 November 2014; Daniel Gros, *The Juncker Plan: From EUR21 to EUR315 billion, through smoke and mirrors*, CEPS, 27 November 2014.

2 NIMBY is an acronym for "Not in My Back Yard".

select their most favoured business clients which they would have funded anyway and this gives rise to a lot of what is termed "deadweight". The EESC insists that this type of situation should be avoided. This can be achieved, inter alia, in consultation with SMEs' representative organisations.

3.6 One possible solution to this risk is for Regional Development Agencies and business associations to be given a greater role in the identification of micro-enterprises, SMEs and mid-caps to be supported by the Fund. These Agencies and associations typically have better knowledge of, and are closer to smaller businesses and can make an effective contribution to risk assessments. While recognising that there are some moral hazard issues, the EESC has called for such an approach before and believes that it could be an effective measure in the implementation of the Investment Plan[3].

3.7 Parallels have been drawn between the Investment Plan for Europe and the Growth Initiative that was launched in 2012[4]. The Growth Initiative comprised a EUR 120 billion package of funding drawn from reallocated budgets, but very little of this has been delivered. This is a valid criticism and it makes it essential that the rollout of the Plan is both transparent and well communicated. The EESC welcomes the fact that the Plan and the EFSI will be monitored closely by the European Parliament and the Council. The EESC should also play its part in the scrutiny of the outworking of the Plan over the next three years.

3.8 It is regrettable that the European Commission does not have either the financial resources or the political support to raise substantial additional resources in order to seed a full-blown European investment plan. This particular budget constraint appears to be absolutely binding. In a situation in which there is very little money available in the EU budget, what is being proposed under the Investment Plan for Europe is a second best.

3.9 The Commission argues that the Plan represents real additionality to other structural policies because the EFSI will only come into play when alternative sources of finance are not available. Furthermore, it is claimed that the EFSI will be additional to other EIB investments because it has a higher risk appetite. The EFSI will also be more flexible in terms of the financial instruments that it uses. These could include equity, quasi-equity, venture capital, debt finance or guarantees for securitisation of loans. The EFSI will operate in collaboration, where possible, with National Promotional Banks. The Commission also proposes to support the Plan with the establishment of European Long-Term Investment Funds (ELTIF), together with moves to create new securitisation markets and vehicles to broaden the base of funding for projects and SMEs. These developments are welcome but long overdue.

3.10 The Commission envisages the Investment Plan being sufficiently flexible in terms of the EFSI, the project pipeline and the investment advisory hub, to enable further phases of

3 See for example EESC opinion on *Finance for business alternative supply mechanisms,* OJ C 451, 16.12.2014, p. 20.

4 CEPS, November 2014, page 2.

investment to come on stream in the years ahead. The Plan has a tight governance structure within the EIB. Every project supported by the EFSI will also have to be approved by the board of EIB as required by the Treaty. The EESC recommends the close involvement of the social partners and stakeholders in the identification process for public investment projects at national level – one possible format is to use the Monitoring Committees of the National Partnership Agreements.

3.11 The EFSI will seek to promote higher risk projects that enhance growth, jobs and productivity. It is as yet unclear whether the co–investment platforms (comprising EFSI, National Promotional Banks and private financial institutions) will be sufficiently attractive to participants. In that respect the EESC recommends a pro-active marketing strategy for attracting private investments to be implemented by providing more clarity on the set-up of the Investment Platforms and by giving the European Investment Advisory Hub a role for promoting the investment possibilities inside and outside Europe. The risk bearing capacity of the Plan (EUR 21 billion) is quite large. Even though risk levels will be higher under the Plan, it is highly unlikely that the whole of the guarantee will be called and certainly not at a single point in time.

3.12 The Commission estimates that, if the Investment Plan fully achieves its investment goal, an additional 1 to 1.3 million jobs will be created over the next three years. This is not inconsiderable, even in the context of a 25 million unemployment total across the EU. The ILO has recently published its own job creation estimates for the Plan. The main finding of this ILO report is that, if careful consideration is given to the design of the programme and its allocation, over 2.1 million net new jobs would be created by mid-2018. For example if funding under EFSI were allocated with consideration to unemployment levels, this would lead to the highest and most equitable employment increase[5]. The EESC calls for the macro regional strategies' priorities to be taken into consideration when deciding on potential projects. It is clear therefore that the criteria to be used to select projects to be supported under the Plan must be made public as soon as practicable.

3.13 If the Investment Plan succeeds in attracting additional capital for the EFSI from Member States the Commission will look favourably on such contributions when assessing the debt and deficit criteria under the Stability and Growth Pact. On the face of it this represents something of a change of heart by the Commission but it does not go far enough. The EESC declares its readiness to participate actively in further discussion on the theme of how to promote better investments across Europe, including by providing greater flexibility under the Stability and Growth pact. The EESC invites the Commission to further explore the opportunities for creating a favourable fiscal environment for investments in Europe.

5 "An Employment Oriented Investment Strategy for Europe", ILO, January 2015.

4. Time for a new Golden Rule for Europe?

4.1 The EESC welcomes the proposal that contributions to the EFSI from Member States will not be included in budget deficit calculations. This does however beg the question as to why ongoing strategic public infrastructure expenditures are not treated in the same way. What is the difference between a favourable budgetary treatment of Member States' contributions to productive investments under EFSI and a full- blown Golden Rule?

4.2 Proponents of a European Golden Rule argue that there is a major inconsistency here. Under the current European fiscal policy framework, adverse incentives have been the cause of the shortfall in public investment. Generally speaking public investment increases the public capital stock and generates growth for present and future generations. It follows that future generations should contribute to financing those investments because failure to allow for debt financing of future generations' benefits will place a disproportionate tax burden on the present generation and lead to underinvestment. This is currently happening in Europe.

4.3 It could be argued that the increased flexibility shown to investments under EFSI is in effect a "mini" Golden Rule. The issue of a properly formulated fiscal rule for Europe should be discussed in full recognition of its many definitional difficulties. The discussion should also be about the setting of appropriate conditionalities. The EESC believes that it is time to recognise that Europe needs a substantial public and private investment programme in order to regain growth, jobs and prosperity. Strategic public and private investment such as that envisaged in the Plan which underpins present and future economic development should be incentivised by a more benign European fiscal framework.

Brussels, 19 March 2015

The President
of the
European Economic and Social Committee

Henri Malosse

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