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Briefing on the legislative review of the European Fund for Strategic Investments:

EFSI 2.0: Make it climate proof, additional and transparent

How to maximise added value, sustainability, additionality and good governance until 2020

Key recommendations:

- End support for fossil fuel energy and high-carbon transport infrastructure;
- Introduce a 50% climate action target for investments under the Infrastructure and Innovation Window;
- 20% should be earmarked for energy efficiency;
- Focus on regions so far underrepresented by stepping up the European Advisory Hub;
- Provide for proactive support for the development of climate action projects;
- Better define the concept of “additionality” by introducing accountability and reporting standards that ensure EFSI delivers on its political objectives;
- Increase transparency by requiring the timely publication of the “scoreboard of indicators”, comprehensive information and justification for granting the guarantee for each EFSI operation.

In September 2016 the European Commission published its proposal for the prolongation of the EFSI until 2020, to be achieved by amending the existing regulation. We welcome several improvements. However, as organisations monitoring closely the creation and implementation of the Investment Plan for Europe, we believe that the proposed changes are not sufficient to genuinely tackle the challenges and shortcomings identified in the EFSI first year of operations.

Following the publication of our report [Best Laid Plans](#) which analysed the 93 projects approved until July 2016 under the Infrastructure and Innovation Window (IIW), this briefing informs the ongoing negotiations on the EFSI’s prolongation, providing for key recommendations for EU decision makers to ensure the EFSI will contribute to a sustainable future for European citizens. Indeed, we consider that the EFSI regulation needs considerable improvements in the following four critical areas:



1/ The EFSI needs to support sustainable projects and be aligned with EU climate objectives

Despite claims by the European Investment Bank (EIB) and the European Commission that the EFSI is a strong contributor to the fight against climate change, there is a dark side to these its investments, mainly found in two sectors:

- In the energy sector, the EFSI provides significant support (15% of its energy financing) for fossil fuels – in particular gas infrastructure – which has leveraged EUR 1.5 billion in additional investments into fossil fuel infrastructure. Those gas investments take place principally in Italy, Spain and Germany where the potential for renewable alternatives to gas is still underexploited, and at a time when these countries repeatedly make commitments to phase out fossil fuel subsidies¹. These operations were approved without being scrutinized on the merit of their compliance with the EU 2030 and 2050 climate and energy frameworks. **This is of particular concern as the EFSI regulation already explicitly requires alignment with EU’s long-term climate goals.** Whereas the share of energy efficiency and renewable energy investments in the EFSI’s Innovation and Infrastructure Window is substantial (around 30%), all energy efficiency investments happen in just three countries, the UK, France and Finland; and more than 50% of all investments into renewable energy take place in two countries only, the UK and Belgium.
- In the transport sector, 68% of EFSI support benefits high carbon projects (motorways and airports), with a strong focus on motorways via public-private partnerships (PPPs), in particular in 4 western Member States (Germany, the Netherlands, France and the United Kingdom).

These types of investments are a far cry from the innovative and zero-carbon projects that will help Europe meet the objectives of the Paris Agreement and help steer Europe on a sustainable path to build the renewable based, energy efficient and fossil fuels free infrastructure needed.

Key recommendations:

- **The EFSI regulation should exclude all support to fossil fuel infrastructure.** At a time of decreasing EU gas consumption for six years in a row and projected reduced gas demand in the medium to long term future, this creates a high risk of sub-optimal investments and carbon stranded assets.
- **The EFSI portfolio under the Innovation and Infrastructure Window (IIW) needs to become climate proof.** 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 under the EFSI.
- **A threshold of at least 50% of EFSI financing under the IIW should be devoted to climate action projects,** in order to strengthen the EFSI contribution to EU’s climate objectives. The 40% target proposed by the Commission is inappropriate now the Paris Agreement is being ratified. In order

¹ For instance in the framework of G7 and G20 proclamations.

to ensure additionality, such a climate action target for the EFSI should be established separately, in addition to the existing EIB's 25% climate action target applicable for its standard lending.

- However, such earmarking does not guarantee that new investments take place in deprived sectors, especially the critical area of energy efficiency in regions with economies marked by high energy intensity. Therefore, as part of the climate action threshold, at least **20% of EFSI support under IIW should support energy efficiency projects**. In this context, the European Investment Advisory Hub (EIAH) should take a proactive approach when it comes to providing for Technical and Project Development Assistance for climate projects, in particular in those areas and markets which are less developed and face various barriers.
- **In the transport sector, the EFSI needs to stop supporting motorways**. The Commission rightly proposes to end EFSI support for motorways, but adds an exemption for any project in the Cohesion countries. Such an exception cannot be justified: it contradicts the European Strategy for low-emission mobility. Cohesion countries and less-developed regions are precisely the place where public funding for transport infrastructure most needs to be aligned with climate goals. Funds need to be re-directed to achieve GHG emission cuts in the transport sector, such as reducing transport needs, promoting public transport, shifting away from fossil fuel-based transport and research and innovation for low-emission mobility.
- **For airports, the EFSI regulation needs to be aligned with the regulation of the European Regional Development Fund (ERDF)**, to ensure consistency: EFSI support based on the EU budget (Horizon 2020) should not be used to support projects that are banned in another EU budget fund. The ERDF regulation (Art 3) bans support for airports (with exemptions).

2/ Re-balancing the geographical scope of EFSI to better support cohesion objectives and address real market failures

Just three Western European countries benefited from more than half of EFSI Infrastructure and Innovation Window operations by volume (52%): the United Kingdom, Italy and France. While the EFSI is required to contribute to the EIB's cohesion objective and complement the support from the European Structural and Investment Funds (ESIF - part of the EU Budget), it is puzzling that the Central and Eastern European EU Member States - where most territories are less-developed regions - attracted only 12% of EFSI guarantees so far, which is worse than in conventional EIB lending without EFSI.

Key recommendations:

- **Ensuring diverse sectoral coverage** in those currently neglected EU Member states should be a matter of special attention since several general EFSI objectives have not been supported at all in Central and Eastern Europe . Those include crucial sectors for modernizing economies such as Research, Development and Innovation for clean energy, communication technologies or the circular economy.
- Given that those countries are receiving significant financial resources from the European Structural and Investment Funds (ESIF), **a combination of ESIF with EFSI** should open

opportunities to develop sustainable and viable projects in innovative areas of the economy which have not been well funded in the past.

- Specifically, the EFSI should further promote **energy efficiency projects** in countries with relatively higher energy intensity of economies.
- The Commission's proposal to define all "**cross-border**" projects as "**additional**" and thus making any cross border infrastructure project eligible for EFSI support undermines the essence of additionality and hands-out a blank cheque for any fossil fuel or high-carbon infrastructure without assessing the project's merits. This provision needs to be taken out of the regulation.

3/ Time to enhance EFSI additionality and stop business as usual

EFSI has been established as a distinctive pipeline, separated from and additional to the EIB's standard operations with the aim to finance new investments that otherwise would not be carried out. However, by July 2016 the EFSI's additionality to the energy system transformation and sustainability of the transport sector has rather been minimal, crowding out the EIB standard financing for renewable energy.

Key recommendations:

- **The EFSI 2.0 regulation needs to require that for all operations additionality is substantiated and verifiable.** The additionality requirement cannot be reached by simply calling on a higher risk profile of selected operations. The mere nature of projects needs to be considered, including their sustainable job creation or positive environmental impacts potential. In the case of PPPs for motorways in Western Europe, the EIB made clear that what it deems "risky" is simply the financial instrument used (a PPP scheme). The risk profile of the EFSI operation, whether it is characterised by the risky nature of the project itself or the nature of financial instrument used, shall not satisfy the requirement of providing additionality defined as support to such operations which address concrete market failure and which could not have been carried out by the bank without EFSI. In this context, the classification of projects according to the risk profile of EIB's "Special Activities" shall not automatically grant the status of "additional". Stronger justification of EFSI projects needs to take place in relation to existing **failures in the market conditions** preventing valuable - from the EU policy point of view – projects to be carried out. At the time being, this is not the case as the EFSI follows the same geographical pattern as EIB standard operations, supporting the same type of projects.
- The "scoreboard of indicators" - the 4-pillar assessment done during project appraisal - should function as a priority setting tool for the EFSI portfolio as a whole.
- Additionality should also be linked to the innovative nature of projects and their potentially longer-term and higher risk financing needs. The proactive development of **investment platforms** aiming to bundle e.g. smaller scale energy efficiency platforms, or the support for new types of clients like community energy initiatives should be prioritised.



4/ Towards enhanced transparency and good governance

Currently, transparency of the EFSI at the decision making and project levels does not differ from the transparency of usual EIB operations. NGOs have long been criticising the culture of secrecy at the EIB, and we believe that the EFSI is an opportunity to revert this trend. Indeed, the EFSI governance needs to ensure a high level of transparency and accountability on how the fund will contribute to the achievement of EU long-term objectives, its additionality compared to EIB usual operations and its added-value for the European Union.

Key recommendations:

- **For each project approved under EFSI, standard project information and scoreboard needs to be published on the EIB website immediately after approval by the EIB Board of Directors.** The Commission's proposal to disclose the project scoreboard after signature falls short of addressing the opacity issue, as signature of projects takes months or years following EIB's approval; it is also inconsistent with the EU law which does not establish such limitation to the general right to public access to EU documents. The projects selected for potential use of the EFSI guarantee should also be notified as such on the EIB website before the Investment Committee's decision, so that genuine transparency of the EFSI pipeline is achieved.
- The **transparency of EFSI governing bodies** is crucial. So far the Investment Committee and the Steering Board systematically disclose the minutes of their meetings on the EIB website, in line with article 7 of the EFSI regulation. However **the minutes of the Investment Committee (IC) should include justification for granting guarantee for each operation**, in particular regarding additionality of operations.
- The list of projects rejected by the IC should be made available to the public in order to better understand how the EU guarantee is granted to projects.
- The independence of IC members needs to be guaranteed, so that conflicts of interests or previous links with the EIB are taken into account when selecting EC members.
- The European Court of Auditors should be given a clearer and more prominent role in monitoring and evaluating EFSI operations to ensure the rationale use of EU budget through the Fund and systematically disclose its annual opinion.

Contacts

Sébastien Godinot, Economist, WWF European Policy Office, sgodinot@wwf.eu, T +32 2 740 0920

Xavier Sol, Director, Counter Balance, xavier.sol@counter-balance.org, T +32 2 893 0861

Anna Roggenbuck, Policy Officer, CEE Bankwatch Network, annar@bankwatch.org, T +48 91 831 53 92

Markus Trilling, Finance and Subsidies Policy Coordinator, Climate Action Network Europe (CAN), markus@caneurope.org, T +32 2 8944688

Colin Roche, Economic Justice Programme, Friends of the Earth Europe, colin.roche@foeeurope.org, T +32 2 8931021