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Juncker Plan: Supporting investments for a **competitive Europe**

The global economic and financial crisis brought about a sharp drop of investment across Europe. Investment in innovative SMEs, new industrial facilities and top-class infrastructure is needed to ensure the long-term growth potential of the continent, preparing Europe for the future challenges that will require more productive economies. In November 2014, the President of the European Commission, Jean-Claude Juncker, announced a plan to help bringing investment levels back to their long-term sustainable levels. The ambitious plan – named the Investment Plan for Europe – aims at reversing the downward trend in investment by mobilising the ample liquidity in the financial markets and transforming it in productive investments in the real economy by ensuring a better business environment. The Investment Plan for Europe is based on three mutually reinforcing pillars as outlined below.

First pillar: Mobilising Investment in Strategic Sectors

Better use of the EU budget and creation of the European Fund for Strategic Investments: The EU budget has a great potential to deliver sustainable investments. However, there was a need to complement the instruments available in the EU budget with risk-financing tools aimed at crowding-in private investors. At the heart of the Investment Plan is the European Fund for Strategic Investments (EFSI).

The EFSI provides a substantial risk-bearing capacity to the European Investment Bank (EIB) Group. In the period between 2015 and 2018, the ambition was for the EFSI to mobilise at least Euro 315 billion of total investment in strategic areas of the EU economy, with a maximum of private capital to leverage scarce public funds: this is about one third of the annual investment gap in Europe.

The EFSI has two components to support projects with wide sector eligibility: the Infrastructure and Innovation Window, deployed through the EIB; and the SME Window, implemented through European Investment Fund (EIF). In order to ensure that investments made under the EFSI are focused on the specific objective of addressing the market failure in risk-taking which hinders investment in Europe, the projects must be green-lighted by independent experts free from any political interference. In doing so, the EFSI is increasing the volume of higher risk projects supported by the EIB Group. The so-called "special activities", which represent projects with a higher risk profile, will be increased by the EIB from Euro 4 billion to Euro 20 billion per year.

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Um das langfristige Wachstum und damit die Wettbewerbsfähigkeit Europas in einer globalisierten Welt zu verbessern, hat die Europäische Kommission vor gut zwei Jahren einen Investitionsplan für Europa aufgelegt und den Europäischen Fonds für strategische Investitionen geschaffen. Es geht darum, durch die Fondsmitttel ein Marktversagen bei der Bereitstellung risikobehafteter Projekte zu verhindern und private Investoren dazu anzuregen, solche Investitionen zu tätigen – beispielsweise Infrastruktureinrichtungen. Der Autor schildert den aktuellen Stand des Programms sowie seine Inanspruchnahme in Deutschland. Zu den notwendigen Reformen zur Verbesserung des Geschäftsklimas zählt er hierzulande unter anderem eine Verringerung der Ineffizienz im Steuersystem, eine Modernisierung der Steuerverwaltung und bessere Rahmenbedingungen für Risikokapital. Zur Erleichterung der Finanzierung der Realwirtschaft verweist er auf Überlegungen, die Eigenkapitalanforderungen für Versicherer und Banken bei bestimmten Infrastrukturprojekten zu senken. (Red.)

Market failure or suboptimal investment situations

Additionality is a main feature of EFSI investments. Projects must be 'additional' in the sense that they point to a market failure or suboptimal investment situations and therefore would – in principle – not have been financed in the same period without the EFSI support or not to the same extent.

An attractive opportunity: The EFSI provides investors not only with solid, economically and financially viable projects, but also with the opportunity to co-invest alongside the EIB, an AAA-rated institution with extensive experience, which will take a significant share in the overall risk. This allows investors to participate in investment projects that could have been deemed too risky previously. Investors can co-invest in individual projects or in investment platforms, which allow financing from multiple sources pool of projects with a thematic or a geographic focus.

State of play: As of November 2016, 385 transactions have already been approved across 27 Member States, with total EFSI financing having the potential to trigger Euro 154 billion, or 49% of the target set for the EFSI, and benefiting some 377,000 SMEs.

In Germany, the EFSI has seen a very promising start. Under the Infrastructure and

Innovation Window, 18 projects involving Germany, some of which are multi-country, have been approved for EFSI support, amounting to over Euro 2 billion in EIB financing. This is expected to trigger Euro 5.4 billion in investments. Under the SME Window, the EIF approved 18 agreements with financial intermediaries (e.g. Bürgschaftsbanken, KfW Bankengruppe, Holtzbrinck, Ventures Fund VI, Odewald KMU II Fonds and Finatem IV, etc.). EIF financing enabled by the EFSI totals Euro 616 million and is expected to trigger over Euro 5.5 billion in investments. Some 27,400 SMEs will benefit from this support.

EFSI is benefiting German companies: some examples

Heidelberger Druckmaschinen printing RDI

- Research, development and innovation in digital printing machines and 3D printers
- EIB financing under EFSI: Euro 100 million
- Total investment expected: Euro 306 million

Combined heat and power plant Kiel

- Construction of a natural gas-fired heat and power plant in Kiel
- EIB financing under EFSI: Euro 105 million
- Total investment expected: Euro 249 million

Second pillar: Enhancing quality and transparency of investment opportunities

Given the ample liquidity in Europe, investment is not only a question of risk-financing but getting a stable pipeline of bankable projects. The Commission and the EIB have set up the European Investment Advisory Hub (http://www.eib.org/eiah/) – Europe's gateway to investment support offering a single access point to 360 degree advisory and technical assistance services. As of end-November, the Hub has already received more than 270 requests, with about two thirds coming from the private sector.

In addition, the Commission has put in place the European Investment Project Portal (www.ec.europa.eu/eipp) where project promoters can submit their projects online to match them with relevant investment opportunities. The Portal is open to all projects looking for funding and any investor worldwide can access it free of charge. There are currently close to 140 investment opportunities to choose from, situated in 25 Member States and of which about 70 per cent come from private promoters. The total investment proposed from all the published projects amounts to over Euro 50 billion.

Third pillar: Improving the investment environment in the EU

The general business environment is an important element when it comes to promoting sustainable investments. This is why the Commission is implementing an ambitious agenda to remove remaining bottlenecks and to provide greater regulatory predictability.

The Commission has already tabled initiatives to help support investment and facilitate the financing of the real economy. For instance, similarly to the proposals made to reduce capital charges for insurers investing in qualifying infrastructure projects, the Commission proposed a reduction of bank capital charges for certain infrastructure investments.

In addition, the Energy Union, the Capital Markets Union, the Single Market and the Digital Single Market Strategies, as well as the Circular Economy package and international trade and investment agreements, all contain specific measures that will remove barriers to investment, promote innovation and further improve the environment for investment, when fully implemented. In parallel, the Better Regulation agenda of the Commission contributes to the quality and predictability of the regulatory environment.

Remove obstacles to investment

Member States also need to step up their efforts in implementing the necessary reforms with a view to remove obstacles to investment. For Germany, it is essential to deliver on reforms to improve the business climate and business confidence. For instance, one of the Country-Specific Recommendations of 2016 calls for a reduction of inefficiencies in the tax system, in particular by reviewing corporate taxation and the local trade tax, modernise the tax administration and review the regulatory framework for venture capital.

With respect to public investment, the recent agreement on the reform of the federal fiscal relations and other measures to relieve federal states and municipalities should increase the scope for public investment and could alleviate barriers to investment in infrastructure at the level of municipalities.

Member States can also benefit from the technical assistance provided by the Commission's Structural Reform Support Service with respect to the design and implementation of institutional, administrative and structural reforms.

Looking to the future

The European Commission has taken stock of the Investment Plan after its first year of implementation, looking at what has worked well, what can be improved, and how it should move forward. To that effect, in September 2016 the European Commission, encouraged by the results to date, proposed to extend the duration of the EFSI until end-2020 and increase its firepower to at least Euro 500 billion.