THE EUROPEAN FUND
FOR STRATEGIC INVESTMENTS

THE LEGACY

EFSI

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The story of the European Fund for Strategic Investments (EFSI) from 2015 to 2020 told through interviews with the Managing Director, Deputy Managing Director, members of the Investment Committee and final beneficiaries across Europe

European Investment Bank
The EU bank

The European Fund for Strategic Investments: the legacy

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For further information on the EIB's activities, please consult our website, www.eib.org. You can also contact our InfoDesk, info@eib.org

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Foreword

By Werner Hoyer
and Jean-Claude Juncker

We met each other back in July 2014 to see what the European Commission—which had just started to prepare for a new five-year mandate—and the European Investment Bank Group could do to counter the economic fallout of the financial crisis. It was clear that business as usual was not an option. No fresh money was available from Member States' budgets, so we needed a new approach at European level to boost investment, which was still low, even several years after the crisis. Over a working lunch and one weekend of intense work, we came up with the European Fund for Strategic Investments (EFSI), colloquially called the Juncker Plan. The innovative idea—and the great challenge—was to take financial instruments to a new level. We would leverage the impact of this public investment thanks to a European Union guarantee and the robustness of the EIB Group, thus financing the riskier projects that the economy truly needed. This cross-fertilisation between public and private funds is at the heart of EFSI. It is about doing more with less.

The European Fund for Strategic Investments has been one of the good news stories to emerge in a decade of economic uncertainty. It has gone well beyond its highly ambitious target of €500 billion in mobilised investments. The Juncker Plan has made a strong contribution to the 14 million jobs created in the European Union between 2015 and 2020.

EFSI has become a success in co-financing projects that otherwise might not have been carried through. It has also charted the path towards new ways of financing. This is not only the case in relatively conventional areas, such as infrastructure, but also in sectors like research and innovation or the contribution to climate change mitigation. This is exactly what makes EFSI so groundbreaking: responding to the needs of the market through continuous financial innovation.

The principle of EFSI is here to stay. It has paved the way for its successor, the InvestEU programme, which is to be deployed under the 2021-2027 multiannual financial framework.

Today we are proud and grateful. Proud of how EFSI stimulates much-needed investment across Europe, especially from the private sector. Grateful to all the colleagues in the European Commission and the EIB Group who worked tirelessly to make EFSI a success. Our special thanks go to Wilhelm Molterer, managing director, and Iliyana Tsanova, deputy managing director, for their entrepreneurial spirit and remarkable commitment to securing the greatest benefit for the European economy and European citizens. We are deeply grateful to the leadership of the EFSI Steering Board, in particular Chairpersons Kerstin Jorna and Gerassimos Thomas, who have represented the European Commission's Directorate-General for Economic and Financial Affairs, and European Investment Bank Vice President Ambroise Fayolle.

In this document, we invite you to discover how EFSI came about and how its lean, efficient governance structure, epitomised by the Investment Committee, helped guide it to success. Through the testimony of the leadership behind EFSI, the unveiling of EFSI's mechanics and the inspiring stories of Europeans whose jobs were created by EFSI, you will learn how the Juncker Plan continues to make a difference, every day.

Werner Hoyer ,
President,
European Investment Bank

Jean-Claude Juncker,
Former President,
European Commission

Introduction

How it started

Inside EFSI: The Managing Director

In autumn 2014, Wilhelm Molterer walked from his office on the top floor of the European Investment Bank's sloping glass headquarters. He entered a meeting room where he joined the EU bank's president, Werner Hoyer. A former Austrian finance minister, Molterer was one of the Bank's eight vice-presidents, overseeing its massive operations in the EU Member States and around the world. He wondered what Hoyer intended, particularly when he saw that the meeting room also contained the Bank's two most important members of staff, Klaus Trömel, head of lending operations, and Secretary General Alfonso Querejeta.

Hoyer told the trio that he had discussed Europe's economic situation with Jean-Claude Juncker, the former Luxembourg prime minister who was soon to take over as president of the European Commission. Europe had been buffeted by a financial crisis only a few years earlier and the economy was still in trouble. Investment volumes had plummeted during the crisis and remained far below pre-crisis levels. The banking sector had little risk-bearing capacity. Public budgets were squeezed. There were other concerns about the immaturity of European capital markets and inconsistent regulatory environments across the European Union. In response, Juncker had told Hoyer that he needed to send a strong signal that economic recovery was

Europe had been buffeted by a financial crisis only a few years earlier and the economy was still in trouble.

the new Commission's priority and that it would put the full power of EU institutions behind the task. Hoyer was ready and had proposed ideas of his own about how the European Investment Bank might respond. He wanted to ally the Commission, which manages the EU's budget, with the financial machinery and expertise of the EIB, the world's biggest international financial institution.

Still, the plan was going to take the Bank into unknown territory. Molterer and his colleagues wondered at the challenging nature of the project as they began to put together a structure for it. They also aimed for an ambitiously large amount of investment—€315 billion in supported investment over three and a half years, which would later be increased to €500 billion over two additional years, once the programme had started to prove itself. For the EIB, Molterer saw that this programme would mean a shift from output—making big loans to big projects—to impact, in which every euro it loaned would have to trigger an eventual investment totalling €15, when the funds crowded in from other investors were included. It would be investment on the ground that counted.

Everything had to get rolling quickly, too. The Bank would have to deliver from the very first day after the regulation was in place. It was not an institutional concept. There were no country or sector quotas. The programme would be market-driven. Demand for investment from companies would determine where the new programme would invest. All this had to be done with sufficient transparency to satisfy the European Parliament.

The fundamental principles of what would eventually be the European Fund for Strategic Investments (or EFSI) were quickly in place. The EU budget would offer a guarantee to be used by the EIB Group (the Bank, plus its specialist subsidiary for small businesses, the

European Investment Fund) to develop and deploy products for the market. Juncker had made it clear that the Commission was not a bank and that he wanted to leave that end of the plan to the EIB. "This really makes it crystal clear that the plan is a shared responsibility, putting the strengths of the Commission and the Bank together," Molterer thought.

A critical element would be to maintain a lean governance structure for this new, market-driven initiative. While the EIB would deploy the financial products, there had to be an independent body to decide upon the availability of the guarantee. That would be key to a transparent and trustworthy application of the regulations and their instructions for how the EIB might use the guarantee. Soon, this body came to be known as the Investment Committee. Its operation and the role it took in the €500 billion success of the European Fund for Strategic Investments are the subject of this document. The aim is to get a view from the inside and to expand upon the lessons learned through EFSI and how they might be applied to future economic stimulus programmes in Europe or around the world.

The EFSI Steering Board

In setting up and operating EFSI, the role of the Steering Board was vital. EFSI Managing Director Wilhelm Molterer and Deputy Managing Director Iliyana Tsanova would like to thank the Steering Board, in particular for the insights and guidance of Chairpersons Kerstin Jorna and Gerassimos Thomas and European Investment Bank Vice President Ambroise Fayolle. Molterer and Tsanova add that they are also deeply grateful for the dedication of the staff of the European Investment Bank and European Investment Fund and for the work of the EFSI Secretariat.

Chapter 1

What is it?

The financial arm of the Investment Plan for Europe, the European Fund for Strategic Investments, tackles three pressing issues–economic, environmental and non-financial barriers to investment, capacity constraints and subdued investment activity. The plan was designed by the European Commission and the European Investment Bank in 2014 and launched for a five-year period in the summer of 2015.

It was born from the diagnosis that following the 2008 financial and economic crisis, investment activity in Europe was far too low and that the competitiveness gap between Europe and other parts of the world was growing rapidly. These problems were driven by a credit crunch for private sector financing (despite ample liquidity), a fragmented banking system, underdeveloped capital markets and severely limited public resources, as well as other non-financial investment barriers.

As the financing arm of the Investment Plan for Europe, EFSI enables and challenges the European Investment Bank Group to increase support for viable projects with risk profiles that go beyond the EIB's own risk-bearing capacity. As a public policy instrument, it also has to address market failures and suboptimal investment situations.

From the beginning, EFSI had three clear objectives: additionality, mobilised capital and impact. The eligibility of each project for the EFSI guarantee is assessed based on these three criteria. The EIB Group remains the lender or financier, with all related activities performed by the EIB (such as due diligence, funding, risk management, legal and contractual requirements towards the client, monitoring, governance, etc.). That allows EFSI governance (as the guarantor) to focus solely on the crucial decision as to whether the EU guarantee should be made available, based on the assessment of the EFSI eligibility criteria. This keeps the process lean and efficient.

The EIB Group has a detailed reporting obligation towards the European Commission (which provides the guarantee) and the European Parliament (which legislates the EFSI regulation).

Wilhelm Molterer, Managing Director

Here's how I would describe EFSI to someone who knew nothing about it. You have two big machines. One is called the EIB Group. The other is the EU budget. As long as the two machines are running in parallel and not interconnected, their efficiency is no more than acceptable. But if you put the strength of these machines together, you are not just doubling the effort—you are making three to five times more out of what you put in. EFSI has an even higher level of multiplication. If you have a budget guarantee of €1, you make €15 in terms of the investment volume supported in the real economy. That is the real story.

When EFSI started, the problem was not liquidity. The European Central Bank did a great job of stabilising the markets, and the banks had liquidity. The issue was their limited risk-bearing capacity. If you really wanted to restart the economy in the European Union, you had to take on some of the risk to enable both the public and the private sector to invest again. Call it a type of insurance that we offered at that time, focusing not only on economic stabilisation, but also on a return to growth-enhancing investment. This was the real key: we had to do what the markets needed, which was not to provide liquidity, but to bear some of the risk. This was also why new products were deployed relatively quickly. Risk-sharing instruments were not available at the EIB before, at least not to the same extent. Quasi-equity [also known as venture debt], providing the capacity to support innovative and fast-growing companies, did not exist at the Bank before EFSI. The EIF had the scope to do substantially more, because the guarantee gave it more firepower, whereas at the EIB it was about doing things differently. It was all about higher risk-taking and being additional. That was the fundamental story.

You are not just doubling the effort—you are making three to five times more out of what you put in.

The second surprising thing was that originally, we all thought the main users of EFSI financing would come from the public sector, but this turned out not to be true. The private sector came to us and said, "We want to be the first movers in this." At first, it seemed that companies supported by an

EFSI loan from the EIB might be perceived as rather risky. But within months, it turned out to be the other way around. Companies realised that the markets reacted totally differently, saying, “if you have an EIB loan with an EFSI guarantee, you are more innovative. You are an interesting company, a company that looks forwards and not backwards.” This was a clear indication that we were on the right track. What we ultimately did was show that there was demand in the market.

There had not really been anything like EFSI before. InnovFin provided some guidance about where we wanted to go because it mixed financial instruments with the EU budget. But it was very narrowly focused. EFSI is much broader and supports real needs in the market. First and foremost, small and medium-sized enterprises (SMEs): in some countries, we had a real credit crunch at the time and SMEs had no access to financial products. The second thing was innovation, research and development. The third was infrastructure—in some regions of the European Union, this is still a critical part of making the economy stronger. And last but not least, the climate and the environment.

Iliyana Tsanova, Deputy Managing Director

I would point out four aspects that make EFSI unique and define its legacy. It was the first, highly visible flagship initiative of the European Commission on such a large scale and with such an impact. EFSI was a real pan-European response to a massive economic and social challenge the European Union was facing at the time. The second point is that EFSI revolutionised how public funding can be used as an instrument to mobilise capital and catalyse investment, instead of one-off grants, and this philosophy is here to stay. Third, EFSI clearly demonstrated that an economic recovery package can be fully in line with sustainability objectives. Lastly, EFSI was deployed very quickly in the real economy without unnecessary bureaucracy, thanks to its efficient governance, simple management rules and the clear objectives set in the legislation.

Projects and People

Car battery tech charges ahead

With electric vehicle production rising rapidly, manufacturers from all over the world rely mostly on batteries imported from South Korea, China or Japan. With an important collaboration deal with Volkswagen and BMW under its belt, Northvolt is confident that Europe is changing the current state of play. The Swedish company has built one of the world's most advanced battery factories. "Renewable energy storage is the key to a carbon-neutral society," says Peter Carlsson, the former Tesla executive who heads Northvolt, "and batteries are the key to getting there."

Backed by the EFSI guarantee and the EU's InnovFin programme, the European Investment Bank supported Northvolt's construction of a concept demonstration line in Västerås, not far from Stockholm. The factory started producing its new battery at the end of 2019, but by then Northvolt was already looking much further ahead. The next step is a lithium-ion battery factory in Skellefteå, northeast Sweden, which will employ up to 1 400 people and serve as a stepping stone to producing batteries with a capacity of 32 gigawatt-hours by 2023. The company aims to ramp up even further to 40 gigawatt-hours in subsequent years. The Skellefteå factory will be backed by another European Investment Bank loan, this time for €400 million, again using the EFSI guarantee.

"I'm trying to show Europe that carbon-free energy can be stored better, distributed with higher quality and lower costs and made more sustainable and truly available," Carlsson says. "I want to inspire change and flick a switch for Europe."

Inside EFSI:
The Deputy Managing Director

In 2015, Iliyana Tsanova was in charge of EU co-financing and financial engineering with the European Bank for Reconstruction and Development (EBRD) in London. She had been following the development of EFSI closely and was already trying to set up a partnership with the EIB under EFSI. In July that year, a colleague forwarded her a link to a job vacancy. The post was the Deputy Managing Director of EFSI. Tsanova, who was 39 at the time but had already served as Deputy Prime Minister of Bulgaria in a technocratic caretaker government, immediately liked the idea. "I knew I was a strong candidate for the job and I could add value," she recalls. "I have the experience, both in banking and policy. From my work with the EBRD, I really know something about finance additionality." Late that night, she pressed "Send" on her application and began a journey that would take her to confirmation hearings at the European Parliament and conferences across Europe, telling the story of EFSI.

By October, she was preparing for the public hearing at the European Parliament in Brussels. That's when she first met Wilhelm Molterer. The day before the hearings, they talked about their roles in Luxembourg and travelled by car to the Belgian capital for "by far the most difficult job interview I have ever had," she remembers, laughing. "I was sitting in front of 100 members of the two responsible committees of the Parliament and I didn't have a clue about the questions I would be asked. It was a very open and genuine discussion, which I really enjoyed after my initial couple of minutes of stress passed."

The working relationship that developed between the Managing Director and Deputy Managing Director of EFSI became key to the smooth functioning of the programme. "We are a small team," Tsanova says. "Having good chemistry among the members of the team really matters. If we didn't have that it would have been very difficult for us to function well. I appreciate Willi's great personality and I've learned a lot from his experience as a politician and as a member of the management team of the EIB. We were initially put together in a sort of arranged marriage. And it actually worked out pretty nicely."

Iliyana is a strong personality. It's great to work with her. She aims very high and sets extremely high standards for whatever she does. She has also brought in something new because she comes from the EBRD, another international financial institution, but with a totally different culture and history. And since she is from Bulgaria, she has a strong sense of the region's needs. This combination of a strong personality with fresh ideas and a specific background—this is the wonderful contribution that Iliyana makes to the bright picture of our EFSI tapestry.

Another important point is that the Juncker Plan is not just EFSI. It's also about the regulatory environment and the advisory component. Iliyana had a keen interest in this advisory component from the very beginning because she knew from her last job and previous role as Deputy Prime Minister of Bulgaria exactly how important this advisory component is. This is what made her contribution so important, beyond the fact that she is a wonderful person.

EFSI is not a separate legal entity. It is a guarantee facility with an independent governance structure. For the banking operations, EFSI relies fully on the EIB Group as the financer of all investments. In addition, as the guarantor, EFSI has a lean and efficient governance structure that provides legitimacy and transparency, without delaying the ultimate financing decision.

1. **Steering Board**, with three Commission representatives and one from the EIB, and since 2018 with a non-voting expert nominated

by the European Parliament. It provides a strategic overview and guidance on implementation guidelines and monitors the EFSI portfolio. It is involved in individual proposals only for exceptional cases.

2. **Managing Director and Deputy Managing Director.** These two politically vetted posts are implanted within the EIB following nomination by the Steering Board and a public vote by the European Parliament. They are responsible for the day-to-day management of the activities of the guarantor and report to the Steering Board on a quarterly basis. They are voting members of the Investment Committee and answerable to EFSI, not the European Investment Bank. They are strictly not involved in EIB project preparation.

3. **The Investment Committee**, an independent body of eight external experts, plus the Managing Director, or the Deputy Managing Director in his absence. (The initial membership of the Investment Committee included Gillian Day, Noel Gregor Patterson-Jones and Dominik Radziwill, who were replaced ahead of the coming into force of the "EFSI 2" Regulation in September 2017 by Gordon Bajnai, Andreja Kodrin and Manfred Schepers.) It is the gatekeeper to the public guarantee for projects submitted by the EIB. The decisions of the Investment Committee are final and taken by a majority vote. In their decisions, Investment Committee members are strictly independent from guidance by the Commission, the EIB, the European Parliament or any other party. Investment Committee approvals for the use of the EFSI guarantee are public. Since 2018, the rationale for the decisions has had to be explained in specific documents available for public consultation on the EFSI pages of eib.org.

When did the idea develop that there would be an Investment Committee and that it would play this part?

It was a journey. There were two questions that were finally also discussed with the Parliament. The first was whether we would call it the European Fund for Strategic Investments—this was because legally it's not a fund, it's a guarantee facility. At the beginning this created some confusion in the market because people were approaching the EIB and saying, "Okay, I want to invest in this fund. Where is this fund? What's the legal entity?" The other question was why the Investment Committee was called that. Because this committee doesn't decide on investments. It decides on the use of the public guarantee. One option was to call it the guarantee committee. Finally, things took on their own momentum. But this was more about labelling. The fundamental principles were agreed from the very beginning.

In the legislative process was there a moment when you thought it might not happen or that it might take on a completely different form?

There was one point. That was interesting. It was at the beginning of the discussion in Parliament. There was a legal proposal sent to the Parliament and it was more or less the same as the one that was finally adopted. One parliamentarian said, "We are happy, we want to do this, but we want to have political control." We, the EIB and the Commission, said to them, "If you want to kill this instrument, make it political. If you want to have it succeed, then keep this market approach in place." This was a very fundamental decision. Finally, the European Parliament accepted that it's market-driven, not policy-driven. But we agreed that we would have a scoreboard in place to give us a clear indication about additionality. Second, we agreed to keep the Investment Committee truly independent. Third, Parliament had the final say in selecting the Managing Director and the Deputy Managing Director.

The two posts were published and between 40 and 60 people applied for Managing Director and the same number or even a little more for Deputy Managing Director. Finally, the Commission and the EIB made a shortlist and when there was one candidate for each position, Iliyana and I were voted in by the European Parliament, confirmed by a large majority.

Fourth, we agreed with the Parliament to make it a transparent process by publishing the project scoreboards and, since 2018, the Investment Committee's rationale documents also. Since 2018, the Parliament has also had an observer on the Steering Board, former EU Commissioner László Andor.

How were the members of the Investment Committee selected and who are they?

First of all, the regulation said it must be 50-50 concerning gender. It was one of the first pieces of legislation at EU level to include this principle. The advertisement said that candidates must have market backgrounds. They should have also a broad overview of the European economy from the perspective of various sectors. There also had to be regional, and not just gender, diversity. Finally these colleagues were selected by the Steering Board, which was already in place at that time. This was more or less the guiding, governing body of the whole process, with three members from the European Commission and one EIB member, Vice-President Ambroise Fayolle. They had the job of selecting the eight members of the Investment Committee. These were people from different regions with different market backgrounds and were absolutely independent. This was one of the fundamental principles of the Steering Board's selection process.

The Investment Committee brought legitimacy and transparency to the process of approving the projects and ensuring that the public funding had the impact it was supposed to have. The Investment Committee is really the guardian of the guarantee facility—which is basically funding from EU taxpayers. The Committee played a very, very important role in ensuring that EFSI is not distorting the market, but actually doing the opposite in that we are catalysing investments. The members are experts with knowledge and know-how from all kinds of economic fields. They are passionate Europeans dedicated to fulfilling their mission to the highest possible standard.

The Investment Committee brought legitimacy and transparency to the process of approving the projects

I am proud that EFSI is such a great example of progressive policymaking by the European Union, because the requirement to have a gender-balanced team was set out clearly in the regulation. It is not only about gender, it is also about national diversity. Diversity really enhanced the work of the Investment Committee and boosted the quality of our discussions. We benefited from the range of experiences and strengths present in the room, as well as different points of view.

Every time I have the opportunity to share my story and my experience with other women and girls, I do so with pleasure. It is very important to inspire other women who definitely need to feel empowered and become more ambitious and less afraid of pursuing their dreams.

In Croatia, jobs were scarce, so Elizabeta Žalac thought she would have to leave home to find work. But an EIB investment backed by EFSI helped keep this talented young engineer in her native country

When Elizabeta Žalac was born in Đurđevac, a town of 6 000 people in northern Croatia, her parents still drove a Soviet-built Lada. Now she works on one of the world's fastest cars.

Elizabeta studied medical device design at the University of Zagreb but she saw little opportunity to advance her career at home. “I thought I was not going to be able to find a job in Croatia, because there weren’t many jobs in the area I specialised in,” she says. “So I was thinking about leaving the country, but I really wanted to stay in Croatia, close to my family and friends.”

Then she saw an ad for a job as a battery engineer at Rimac, Croatia's sole home-grown carmaker. Rimac manufactures cutting-edge battery technology, which can be used not only in sports cars, but also trains, buses—even wheelchairs. The European Investment Bank first backed Rimac with a loan through HBOR, the Croatian national development bank. Then, in December 2018, the EIB signed a €30 million loan backed by EFSI’s guarantee to fund Rimac’s research and development.

“What was really important for me was the green aspect of the company,” says Elizabeta.

Her first job at the company was working on batteries for an electric racing car for Spain’s SEAT. There was only one other woman working in her department, and she had doubts about working in a male-dominated industry, but her colleagues turned out to be very supportive. “I asked questions, I studied after I came home from work, and soon got the hang of it, with the help of colleagues,” she says.

Now she is working on Rimac’s sports car Concept 2, which reaches a top speed of 412 km/h. “I’m really proud that I’m working in a company that is part of global change, a company that actually has a positive impact on the world and the environment,” she says, “and that all this is happening in a small city, in a country as small as Croatia.”

Chapter 2

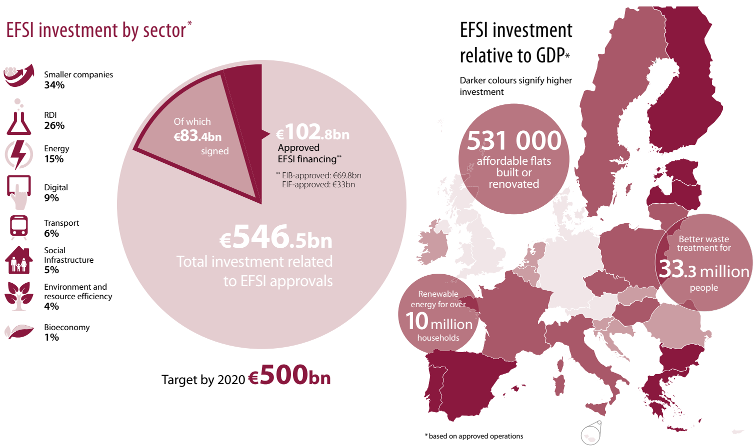
Did it work?

By the mission and yardstick that were defined in the EFSI regulation, it has been a success. It is also still relevant as it reaches the end of its life, even though the focus of the initiative has naturally changed with the emergence of new policy goals (for example, a 40% target for investment in climate action) and the evolution of different market failures or suboptimal investment situations.

Fabio Pammolli, Investment Committee member and professor of economics and management at Politecnico di Milano

EFSI has been a milestone and a key reference point in the way in which we pursue and carry out projects of public interest. This idea of having a complex financial architecture combining the European guarantee with the activity, experience and market outreach of the European Investment Bank, together with an independent committee made up of market experts or academics is an important contribution, and must be carefully assessed as a template and as a benchmark for the future. We were addressing market failures without asking states and the European Commission to intervene. We occupied a grey area between markets and states, and the overall architecture is EFSI's most important contribution.

EFSI dashboard



EIB economists used a well-established economic model to assess the future impact of the investments supported by all its operations, as well as for the loans made by the Bank specifically with the EFSI guarantee. Their findings demonstrate that the EIB Group's loans laid the foundation for long-term growth, beyond providing an immediate boost to the economy. The impact of the EFSI loans is significant. Economists estimate that by 2022, investment under EFSI will increase EU gross domestic product by 1.9% and add 1.8 million jobs compared to the baseline scenario.

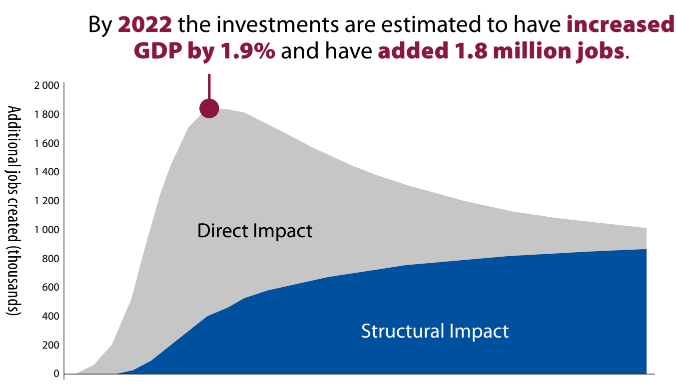
Expected impact

To measure EFSI's impact, EIB economists had to account for the complex interaction between the Bank's operations and other activities in the economy. They teamed up with the European Commission's Joint Research Centre in Seville and worked with an economic model called RHOMOLO that was used to calculate whether increasingly scarce public financing was being used effectively.

One of RHOMOLO's main strengths is that it captures:
• the short-term impact on economic activity;
• changes in productivity and growth in the longer term.

For example, if the EIB finances a road with EFSI support, there is increased economic activity as the road is built. Once the road is complete, the EIB financing continues to generate positive effects because the road reduces travel times and transport costs, thus increasing productivity, growth and job creation. To truly assess the impact of EFSI financing, all these factors have to be measured.

Furthering jobs and sustainable growth



Economic estimates suggest that by 2022 investment under EFSI will increase GDP by 1.9% and add 1.8 million jobs compared to the baseline scenario.

The higher you raise the level of ambition, the more you are at risk. But, on the other hand, if you succeed, then you have really done something great. The Commission and the EIB Group can be proud that the two institutions took responsibility. We had a discussion in the Parliament where I had to answer a question about whether it was possible that we might lose some money out of a €26 billion guarantee. I said, "That's the nature of a guarantee. If you offer a guarantee, you must be ready to lose. That's not our intention, for sure, but the reality is that money could be lost." The vast majority of parliamentarians and the staff at the Commission were used to the grants world, whereas the EIB had a keen interest in financial instruments. To blend the two was also a bit of a cultural shock. President Hoyer started to talk about a paradigm shift for the European Union.

Another crucial element was the cooperation with national promotional banks. If you want to be successful in any market, you need their capacity and their market knowledge. Also not everybody was happy about the advisory component. The staff at the Advisory Hub were strict about the prerequisites for going to the financing stage. The learning curve was steep for everybody in this endeavour.

EFSI has been a milestone and a key reference point in the way in which we pursue and carry out projects of public interest.

Where do you think the impact of EFSI has been the greatest in the economy?

I would turn it the other way around. The biggest impact has been on the institutional side. The institutions—the Commission, which is responsible for European taxpayers' money and the EU budget, and the EIB Group—have learned that if you put the strengths of these two big institutions together you achieve a higher impact, much higher than when using just the old instruments.

I would say you can see it most in the three Cs, Competitiveness, Cohesion and Climate. You can showcase the fact that EFSI has supported a huge number of projects in RDI (Research, Development and Innovation) to strengthen competitiveness (and the digital sector). If you look at the distribution of EFSI deals in Member States and compare these volumes to the size of the countries' GDPs, you can see that the right ones are getting EFSI deals into their economies. As for the climate, the 40% target of the Infrastructure and Innovation Window will be achieved. These key points are also a good answer to the criticism we heard at the beginning.

There is a third component I want to highlight—flexibility. The 40% climate target was added to the regulation in 2018 when EFSI had already been in full swing for three years, and yet we managed to achieve the target.

And this year, 2020, when COVID-19 has created such turmoil for people and the markets, the EIB Group reacted immediately. The EFSI guarantee was crucial for this quick and bold move.

EFSI is a market-driven instrument and the money flowed where demand was the strongest. EFSI investments in each individual country reflect the specific structure of its economy, the level of economic activity and business dynamics, the level of development of the capital markets and the banking sector, as well as the business environment. In addition, the active role of governments at national and local level is a decisive factor in paving the way to attracting investment for larger-scale initiatives, for example, the deployment of broadband infrastructure or construction of social housing.

These factors have an impact on investment activity and demand for EFSI funding. For example, most RDI projects were proposed by the private sector, from leading industry corporates to medium-sized innovative companies. The top three countries that rapidly attracted EFSI financing for RDI were those that have the strong industries and well-developed national programmes to support it.

In the energy sector, EFSI investments were distributed more evenly across the European Union. However, the nature of the projects differed. In the western Member States, energy efficiency and renewable energy projects attracted close to 75% of the investments. In the eastern countries, the focus was on electricity grids and district heating, and many of the investments were sponsored or co-supported by national programmes.

Power for electric cars in Austria

Professor Helmut List wants to cut harmful vehicle emissions. "We are heading for a level where we can really say they no longer affect the air quality in cities," he says. "That is the goal we are trying to achieve in the immediate term." As chief executive of AVL, a family-run company based in Graz, Austria's second city, List's focus is increasingly on research and development for hybrid and electric powertrain systems and autonomous driving systems. (A powertrain includes all the propulsion elements in a vehicle, including engines, electric motors, transmissions, batteries, fuel cells and control systems.)

For Aris Pofantis, a lead engineer at the European Investment Bank, AVL "is an enabler of the change that needs to happen in the automotive sector." Pofantis worked on the European Investment Bank's 2018 deal to loan €70 million to AVL for its R&D aimed at developing test and simulation systems for electric and autonomous vehicle technologies, backed by the EFSI guarantee.

"We are working for and with the future," says Dr Markus Tomaschitz, an AVL vice president. "I think we are really good at understanding how the future might look, and then doing what's needed today in order to be successful tomorrow." With an eye towards tomorrow, the European Investment Bank topped up the loan with another €50 million in August 2020, again backed by the EFSI guarantee.

What were the public and political expectations of EFSI?

At the beginning, there was scepticism. People asked whether it was really possible to achieve all this in a short period of time. Remember when EFSI was invented, it was supposed to cover a three-year period to put €315 billion in investment in place. There was scepticism about whether it could be really additional. I would say such scepticism is quite normal and a natural reaction.

Soon enough, however, we saw that the vast majority of EFSI deals came from the private sector. Of that private sector investment, three out of four clients were new clients to the EIB Group. That was a clear indication that we were on the right track.

Another question was whether it would be possible to bring this to the market quickly. It was. In the first phase, we had warehousing over the first six months, without an Investment Committee, when the Commission decided about the use of the guarantee.

This quick start was very convincing. It was a strong argument for increasing both EFSI's duration to five years and its target to €500 billion by the end of 2020.

The Parliament used the extension of the EFSI regulation to increase the level of transparency and to fine-tune the concept of additionality. Since then, the Investment Committee has been obliged to publish the reasons for our decisions in the

EFSI Investment Committee rationale document. Furthermore, the EIB has to publish the scoreboard, which lays out the fundamentals of additionality.

The main concerns were allayed fairly quickly. We also had a huge number of EFSI evaluations that were very welcome, even though the occasional critical remark created some disappointment. But that's normal and it didn't surprise me. It gave us some strong arguments for increasing, for instance, the quality of the documents, going in the direction of transparency and making clearly visible the fundamentals of additionality in the decisions of the Investment Committee. We had an evaluation by the Bank twice, an evaluation by the European Commission and by the European Court of Auditors. We all—the EIB and the Commission—learned a lot from all of the evaluations.

A report by the European Court of Auditors published in early 2019 found that "EFSI has been effective in raising finance to support substantial additional investment in the EU." The Court of Auditors added that "EFSI support enabled the EIB to achieve a four-fold increase in its higher-risk financing operations compared to 2014." That's a four-fold increase in projects that are risky, but also viable and bankable.

In Spain, workers can be up front about their disability when they work for Ilunion

Manuel Delgado spent every night for months job-hunting. Few potential employers responded, and when he did get an interview, he felt he had to keep a secret—he was disabled. Until Ilunion called him.

"When I interviewed for other jobs, I tried to hide the fact that I had a disability," says Manuel, who has a misaligned spine. "At Ilunion, it was the first question they asked. And they didn't care. There aren't many skilled jobs for people with disabilities. Ilunion is opening the door and providing opportunities."

Ilunion is Spain's largest employer of people with disabilities, with 42% of its workforce disabled. The diverse group of companies operates a chain of hotels, an industrial laundry service, a telephone support line and a research and development department. It's all geared towards the company's goal of delivering accessibility to Spain's disabled.

The European Investment Bank's €35 million loan to Ilunion is backed by the EFSI guarantee and creates 200 permanent jobs and a further 725 during implementation of improved energy efficiency at the company's facilities.

Manuel grew up in Badajoz. "When I was 13 years old, the doctors realised I had a misaligned spine," Manuel remembers. He got a back brace, which only prevented his condition from getting worse. It didn't correct his spine. He earned his degree in civil engineering from the University of Extremadura and started looking for jobs. He didn't mention his disability. "I'm not ashamed, but if they didn't ask, I wouldn't tell. It's hard to find a job no matter what. The process is even tougher if you have a disability."

Manuel had to go through rigorous interviews and tests to get his job at Ilunion. "When they picked me, I couldn't believe it. It was exactly what I was looking for," he says. Now he works on replacing old machinery with modern, energy-efficient alternatives to make Ilunion's industrial equipment more sustainable and less polluting. His work will contribute to Ilunion saving up to 60 gigawatt-hours of electricity each year.

"I am so grateful for this job. It has made me feel more optimistic," he says. "Often it isn't just about the money. It's about fulfilment, about feeling useful and being a person like anyone else."

There were a number of debates about whether the instrument was big enough or too small and whether the structure was right. There was also a lot of scepticism on the market about whether the instrument would work. I was confident at the time that de-risking was key to stimulating investment and that EFSI had the right structure for the challenge. For me, the question was, "Are we going to implement it the right way so that we can achieve our objectives and really support the projects that deserve support?" That was the biggest risk. My greatest concern was implementing it in the way that would achieve the best possible impact with public money.

Even though cohesion was only introduced as a separate EFSI eligibility criterion in 2018, four out of ten EIB operations directly benefit cohesion regions.

Borislav Bonev thought it would be hard to find a pharmaceutical manufacturing job in Bulgaria. But he found one at a company backed by EFSI

"If pharmaceutical manufacturing is your thing, like it is mine, it is hard to find a suitable job," says Borislav Bonev, 26, who lives in Plovdiv. "There aren't many factories doing this kind of work in Bulgaria or in other places around the world."

After studying biotechnology at Sofia University, Borislav worried about working in a field with limited opportunities for graduates. Fortunately, pharmaceutical maker Biovet, located in Peshtera, 120 kilometres southeast of the capital, was expanding, so he took a job as a trainee in 2014. Now he oversees the technological needs of a new fermentation plant at the company headquarters. "Every day, there is something new that I can learn and that raises my level of expertise on different topics," he says.

A €100 million EIB loan backed by the EFSI guarantee supported Biovet's expansion. The company, a unit of global pharmaceutical firm Huvepharma, is a leader in animal medicines and is adding over 200 jobs with the EFSI-backed loan. "Without the help of organisations like the European Investment Bank, I doubt that expansion projects like ours would be possible," Borislav says.

I can confidently say that the public support from the EU budget has been pivotal in sustaining risk capital across the European Union, when it suffered from investment gaps, both cyclical and structural. If there wasn't EFSI public support, we wouldn't have been able to support projects that created jobs and boosted the competitiveness of the EU economy. If we measure our contribution against the size of the economy, the countries that were hit hardest by the financial crisis, such as Greece, Italy, Portugal and Spain, were among the biggest recipients.

Were there sectors where the impact was surprisingly high?

Innovation finance in Europe got quite a boost thanks to EFSI, making significant headway as a result. If you look at our portfolio, you can see that one-third supports research and innovation. We tripled the capacity of the European Investment Fund, which plays an important catalytic role in the venture capital markets in Europe. At the EIB, we developed a range of new products to support high growth in innovative European companies operating in sectors like life science, robotics or artificial intelligence. Such investments will ensure that Europe is at the forefront of the digital and innovation age.

These investments will ensure that Europe is at the forefront of the digital and innovation age.

The second major gain can be seen among small and medium-sized enterprises, which are the backbone of the EU economy.

Through a wide range of guarantees, we have increased access to finance for these firms under better terms, such as reduced collateral requirements or lower interest rates. For some countries that have a smaller banking system, that was a game-changer.

The third point is really the climate, and the impact there is cross-sectoral–in transport, energy, manufacturing and RDI, we have investments that tackle the challenges of climate change head-on.

Projects and People

Ieva's job at the University of Latvia was created to attract more exchange students thanks to better study and research facilities

The University of Latvia set out on an ambitious plan several years ago to double the number of international students by building a state-of-the-art study centre and research facility—a plan now supported by a €30 million loan from the European Investment Bank and backed by the EFSI guarantee.

A graduate of the university, Ieva Gerge, works as an international coordinator, helping international students who come from as far away as Indonesia, Chile and China integrate into life at the university by assisting in practical and academic matters. "When students have problems, some of them call their mom," Ieva says. "Some come to the international office."

The new-look University of Latvia is an exciting place to work—and study. "We're building one of the most comprehensive leading research centres in the Baltics, which will eventually house more than 15 000 students, 13 faculties and over 20 research institutes. It's quite exciting," says Ieva.

Ieva is also doing a master's degree in financial analysis at the university. "I've been going to the lectures after work in the evenings, so I'm really here full-time. I love the place."

Inside EFSI: Confronting COVID-19

EFSI has demonstrated the significant potential harboured by the use of public financing via loans and guarantees, which are an important complement to direct grant financing. It also provides a blueprint for how to fight a crisis. The role it played in the EIB's response to COVID-19 is a telling example.

> **"EFSI shows what can be achieved with scarce financing when public and private forces are combined."**
> **Wilhelm Molterer**

When the coronavirus struck, the European Commission joined forces with EU Member States and European institutions to prepare a swift and massive relief package for businesses devastated by the pandemic. EFSI was already at work, immediately delivering hundreds of millions of euros in financing for projects aiming to fight COVID-19.

With EFSI backing, the EIB financed a €50 million deal in May 2020 to fund the COVID-19 trials run by German-Israeli company

Pluristem for its treatment using placenta cells to fight infections. In June, the Bank used the EFSI guarantee to provide Germany's BioNTech with €100 million in financing for its COVID-19 vaccine programme.

"EFSI shows what can be achieved with scarce financing when public and private forces are combined," says Wilhelm Molterer. "This experience is becoming even more important, given the huge challenges ahead of us."

One such challenge is climate action. Despite the demands of COVID-19, EFSI is surpassing its targets on this front too. With its mandate extended and increased in 2017, **EFSI exceeded its final target of supporting €500 billion in investment six months ahead of schedule, even as it adapted to the impact of COVID-19 on Europe's economy.**

"EFSI has changed the way public finance is used."
Iliyana Tsanova

Tsanova adds, "I was excited to see how fast we managed to adapt our strategy and respond to the COVID-19 crisis. We were able to quickly provide urgently needed liquidity to support companies impacted by the pandemic as well as funding for companies working on the development of cures and vaccines. Flexibility is the key to success."

At a time when budgets are tight and public financing must make every euro go further, EFSI's structure—and its success—has been remarkable. Its record "will prove useful in the time ahead," says Molterer.

Before the COVID-19 crisis, Molterer might have expected that the "time ahead" would mainly include the investment components of the European Commission's European Green Deal and InvestEU, the investment programme planned in part as the successor to EFSI. Unexpectedly, EFSI had to show how it could cope with the devastating blow to Europe's economy delivered by COVID-19.

EFSI's immediate response to COVID-19 illustrates the careful thought that went into its original structure and governance, and how finely tuned its operations have become. Some of those best placed to observe these workings sit on EFSI's independent Investment Committee, which ensures that the European Investment Bank deals proposed for backing by the EFSI guarantee meet the criteria defined in the programme's regulations.

One member of the Investment Committee, Gordon Bajnai, a former prime minister of Hungary who heads global infrastructure at investment adviser Campbell Lutyens, describes a crisis such as COVID-19 as "like a tsunami. If you survive the first wave, you have a chance to rebuild. If the systems of industrial production are broken and collapse, it can take decades to rebuild—or they might be rebuilt somewhere else, not in Europe."

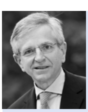
That makes EFSI's swift response to the coronavirus pandemic key. Bajnai, who led Hungary during the financial crisis, says that "in a crisis, money that is given fast is worth three times as much as money given later on."

Chapter 3

Criticisms of EFSI

Some of the first reviews of EFSI were undertaken very early—perhaps too early—when the portfolio was still small and not sufficiently diversified to draw general conclusions. Topics and issues that early reviewers said needed further analysis were often repeated by subsequent reviewers as if they had been proven, and frequently cited as increasingly severe negative inferences.

Throughout the programme, the EFSI team has examined its own operations critically and constructively and taken recommendations by third parties on board. Here are some of their thoughts on the process of self-evaluation.



EFSI is just one pillar of the Juncker Plan. The two others are the regulatory environment and the advisory component. I am a bit disappointed that the public debate is all about EFSI. Because EFSI can never replace an investment-friendly environment or a lack of governance and structure.

We can see that "one size fits all" doesn't work. Because you have an economy in country X that cannot be compared to the economy in country Y. Whatever happens in the future, such instruments have to take these regional situations into account, meaning that we have to engage with the national promotional banks and national advisory institutions.

A third point is that the plan was for EFSI to do more in blending [EFSI-guaranteed EIB loans] with structural funds. This has not been the case, at least not to the extent that I would love to have seen. There was a discussion about the Omnibus Regulation bringing the legal frameworks of EFSI and the Structural Funds a bit closer. To be honest, this did not really work. You need a regulatory push to bring these environments together legally, but a political push from the managing authorities in the Member States is also urgently needed.

The fourth point is that the EFSI regulation speaks about the ambition for more cross-border projects—crossing borders with countries that are neighbours of EU countries, but also crossing borders between EU Member States. We only have a few real cross-border projects. This cross-border issue might become specifically relevant in the future. If you look at the studies conducted by the EIB's economists, what you see is that administrative borders no longer have the same relevance for economic development as they used to.

These are the points where I see potential for the future.

Has the Investment Committee rejected any deals?

The Investment Committee may reject a request for the EFSI guarantee for many reasons (and is not legally required to justify any rejection). To avoid damaging an underlying project in the real economy, rejections are not published. But they have happened, and been duly reported to the European Commission and the European Parliament on a strictly confidential basis.

Dalia Dubovske, Investment Committee member, independent PPP expert and investment project development advisor

Additionality was quite a mystical word in the beginning. The concept was extensively discussed. There were several occasions when we made the decision not to support a project because there was a lack of evidence supporting additionality. Of course, we were assessing the social and economic benefits, alongside a discussion of whether it was appropriate to use the EFSI guarantee. Investment Committee members submitted enquiries for further information. Over these five years, we made extensive efforts to adapt the project presentation template to support the efficient exchange of information between EIB project managers and Investment Committee members. The people on the EIB side know all about the background. We were the final step. Sometimes we received information that was too general and we needed details to justify our decision. We asked questions that were relevant for us and this gave the EIB loan officers a different perspective, allowing them to see things in a new light.

Working on the Investment Committee strengthened my idealism about Europe. I gained experience in remaining constructive when there is disagreement on key issues. I support the idea of strong national promotional institutions to tackle market gaps. I will continue my career using this distinct experience to guide me.

Has the Investment Committee been too complacent in approving the EFSI guarantee?

The Investment Committee does not rubber-stamp EIB projects, or take guidance from the Commission, the EIB or other parties in its decision-making on the EFSI guarantee. Investment Committee members frequently question details of proposals and challenge EIB assertions in the guarantee requests. They vote on each proposal individually in their capacity as Investment Committee members, and they are not entitled to abstain from any decision (unless subject to a conflict of interest, in which case they are not privy to the Investment Committee's documents and excluded from all of its discussions and decision-making). Only if a majority of the Investment Committee members approve a given proposal can the EFSI guarantee be made available. The decision is binary (a yes or no vote, with no option for conditional approval) and it is final. Since the beginning of 2018, the Investment Committee has also justified each of its positive decisions in a public document explaining its rationale.

Andreja Kodrin, Investment Committee member and chief executive of Quintaum, Slovenia

The governance structure might look unusual, because it's not what you would expect from a typical fund's investment committee. But the structure was set up very prudently, in particular because it was a bridge between the European Commission's policies and the European Investment Bank's modus operandi as a financial institution. As members of the independent members of the Investment Committee, we brought to this structure an independent and agile perspective on the investment's rationale and additionality, while pursuing the ultimate goal of maximising value for EU citizens and taxpayers. In the end our diversity brought independence and market drivers to an otherwise institutional structure.

EFSI was intelligently set up at the initial stage, but it also evolved based on comments and questions from the Investment Committee. The extensive knowledge that came from every member of the Investment Committee gave us insight into the different perspectives of each project. In terms of my own background, I was able to combine my knowledge of corporate finance and how venture and private equity funds operate with the underlying need for all these projects to build competitiveness and resilience to climate change. At the moment of decision, I always kept in mind EU citizens, for example the working single parent somewhere in

EFSI was intelligently set up at the initial stage, but it also evolved based on comments and questions from the Investment Committee.

the European Union, struggling at work, coping with kids and the daily commute, but who at the end is the taxpayer and who contributes to the financing of the guarantee for all these new investments. EFSI is not only about how the economy can be more competitive; it's also about how the project might make life better for all EU taxpayers. If we don't have our citizens constantly in our minds, we create yet another bubble that's distant from those to whom the projects should be dedicated.

What happens to "rejected" projects?

A negative decision by the Investment Committee is binding. It prohibits the EIB from using the public guarantee for the proposed financing. Negative decisions are reported periodically and on a confidential basis to the Commission and Parliament. A negative Investment Committee decision does not mean that the underlying investment cannot proceed. It may still be financed at some point, potentially on other terms by other financiers, or even by the EIB which would then bear the entire risk without the backing of the EFSI guarantee.

One of the criticisms from outside was about what additionality actually means. Observers seemed to expect the EIB or the Investment Committee to produce a set answer, as if it were a mathematical formula. As if you could plug in the numbers and out the answer would pop. But the point of the Investment Committee is that it takes expertise to assess additionality. It isn't just a computer algorithm. You have to have experts debating and voting on it. The reason the Investment Committee is made up of people with diverse and profound economic expertise is rooted in the need to assess this less-than-clear-cut measurement.

Manfred Schepers, Investment Committee member and member of the supervisory board of Nederlandse Waterschapsbank

With my background in development banking, my focus was on additionality, on asking whether an investment really needed EFSI support and if it could not be handled by the private sector instead. That remains very much a grey area, I think. It's dependent on the price of the capital, because there's a price for everything. If we're going to have instruments like this, there comes a point in time—and this is more about the economic theory of public versus private finance—that we need to ask whether public finance is crowding out the private sector versus filling a gap. It's a really fundamental issue.

There were heated discussions on projects. There were definitely diverging opinions and debates on various aspects of project additionality. But that was our job. There was no easy formula that you could apply. This is a qualitative criterion and it was open to sometimes subjective interpretation by the individual members of the Investment Committee. But the criterion needed to be properly understood, based on the members' experience and knowledge. It was their different backgrounds in infrastructure investment, or research and development, or development banking, or all kinds of sectoral experience or market knowledge that helped each individual make their minds up.

Chapter 4

Lessons learned

This was the right instrument to tackle the challenge we were facing at the time. So what would I do differently? I would try to communicate more clearly to the public what this instrument is, and how companies could benefit from it. At the beginning, there was some confusion about what EFSI was and what the role of the EIB was. I would also try to work more closely with the Member States to ensure that they know how to fully benefit from instruments like EFSI.

Success factor #1

The design of the instrument was appropriate for the challenge to be tackled. Two clear and equally important objectives were laid out in the EFSI regulation and achieved by the programme: additionality and investment mobilised in the real economy.

Thierry Deau, Investment Committee member and founder and chief executive of Meridiam, Paris

We focused very much on additionality. All members of the Investment Committee were very conscious of the fact that if we were going to use taxpayers' money, there had to be a good reason. We relied on the pillar assessment of the documentation that was proposed. But everyone's experience came into play from a sector perspective. Obviously, there were a number of things—for example, market failure, which is quite well-defined and at same time not well-defined—that gave us an additional perspective on whatever the EIB staff were proposing as an analysis. We brought discipline and consistency to the assessment of additionality. The climate and the climate transition were a big topic, but we all shared the view that economic growth was not just about jobs. Access to social services was also pushed as much as research and development, even though R&D was a concern for everyone because there is a real market failure in this field in Europe. We focused on making sure every one of the projects could have real impact.

On additionality, we had two debates. Once with EIB staff, because they initially had a concept of additionality that was that if something fits the regulation, it's additional, and therefore let's move along. Then we had an internal debate to figure out what we thought was important, really assessing the impact. We came to a real consensus, I think, after the first year and half.

Professionally, this was a rewarding conversation that broadened my knowledge and understanding of sectors that I don't necessarily deal with every day. I'm on the investment side. I've known the EIB for 30 years. But things that were new for the Bank—SMEs, for instance—gave me a broader view of how financial products in the European Union were percolating through the economic framework via SMEs with various financial intermediaries, which is quite fascinating. It gave me a wider overview of the efficiency of EU instruments. From the outside, it can look a little complex. But it's not that complex.

For me, it was a truly European experience. I was pleased that there were ten of us from different Member States coming to a consensus on what was important in terms of supporting an economic programme and deploying this instrument. Europe is often caricatured, but when it comes to doing things in a concrete way, we can actually be quite efficient. That strengthened my belief that we probably need more Europe. And we need Europe to be more concrete.

Success factor #2

Clear roles and responsibilities at the institutional level between the European Commission and the EIB Group, and at the operational level between the EIB Group, the lender, and EFSI, the guarantor

Dalia Dubovske, Investment Committee

EFSI was not just another pocket of money. It came with the call for broad structural reforms and with the European Investment Advisory Hub. When formulating any economic programme, we need to understand how it will work and be implemented, and by whom—along with what is needed to make it happen. Policymakers have to think ahead in terms of how operations should or shouldn't be implemented and what actions they envisage. Sometimes the reality can deviate from what was intended by policymakers, if the policy decision was vague.

Success factor #3

Lean and efficient EFSI governance

Gordon Bajnai, Investment Committee member, former Hungarian prime minister and head of global infrastructure at Campbell Lutyens

It was almost like a psychological or sociological experiment. Find a group of eight independent experts who haven't met, all from very different walks of life and different parts of Europe, put them in a room and give them a task that's complex but which serves a higher mission. They have to work together for quite a few years. How do they learn to work together, driven by that mission? It restores your faith in mission-driven benevolence and people's capacity to see beyond narrow personal interests.

Professionally, the opportunity to see a broad aspect of European investment policy at work—SMEs or infrastructure and R&D—gave me unparalleled insight into where Europe is heading, but also where the problems are. I really enjoyed every minute of the experience.

Personally, I was always happy in my life and in my career to take on tasks that I felt were bigger than myself, that were about more than just me. This was clearly how each one of us on the Investment Committee felt. It was a role where we were working towards goals going far beyond our own interests or walks of life. It was an honour to be able to do that.

Success factor #4

Using the entire EIB Group machinery for implementation

Vicky Kefalas, Investment Committee member and head of investment and development projects at Consolidated Contractors Company, Athens, Greece

The Bank and the European Union have created an environment of impeccable diligence, and also of inclusion and diversity. These exemplary qualities were evident in everything the Bank did in relation to EFSI. Not only did a lot of effort go into everything, there was also an environment facilitating discussion and openness to finding areas where there was room for improvement.

A lot changed over time with EFSI. The application form itself looked very different in December 2015 than it does now. That's a result of [the Investment Committee's] contribution and the Bank's willingness to listen and improve. It was a very good environment that stressed collaboration. Willi Molterer had a very catalytic role. He's passionate about facilitating EFSI and respected members' opinions while providing a forum for discussion. The secretariat did a very good job. EFSI was a well-oiled mechanism. I regard it as a professional accolade to have been appointed to serve on the committee. I was there in December 2015 at the inception and I stayed through the extension of the term.

You read about and are exposed first-hand to current investments in projects in different sectors across the various Member States, so that you know what companies will invest in, even in times of economic crisis. I had access to the Bank's background references along with its outlook on risk, compliance and sustainability. We had distinguished guest speakers from within the Bank coming to give presentations at almost every session. We had presentations at the opening of the committee and during lunch. For example, the chief economist, Debora Revoltella spoke. We heard from the head of compliance, from the president many times and from members of the Steering Board. This created a very open environment.

Personally, I take away a lot of satisfaction knowing that I was able to help make hundreds of projects across Europe a reality, providing jobs, heating and access to finance for SMEs, at a time when Europe needed it the most. The effect will be long-lasting. A real structural contribution was made. EFSI supported a large financing package for 14 regional airports in Greece, for example. This, for Greece, is huge. For me this is the greatest source of satisfaction.

Success factor #5

Engagement with national promotional banks

Member States willing to engage, for example through their national promotional banks or other dedicated structures, benefited more and earlier from EFSI support. Those that thought EFSI undermined grant systems benefited less. The European Court of Auditors surveyed and interviewed national promotional banks as part of its

2019 EFSI report and found that "the majority of NPBIs appreciated the increased cooperation with the EIB Group."

Not all the Member States responded to and maximised EFSI's benefits to the same extent. If I look back, there are a few reasons that could explain this outcome. First of all, it took some time for the new concept of EFSI funding as a financial instrument to be fully understood by the market. Second, if we look at Member State level, the proper implementation of EFSI requires a mature, knowledgeable and well-established banking sector because local banks and national promotional banks are a key partner for us in providing funding to SMEs. Countries that have strong national promotional banks were more successful in benefiting from EFSI—Poland, France and Italy are among the top performers. Third, government initiatives to promote investments in priority sectors are very, very important. If you look at innovation investments, the countries that benefited most have a strong industrial footprint and well-developed national programmes to support research and development. The same goes for the climate. Countries with well-structured national programmes to achieve the objectives of the Paris Agreement are those that have benefited most from investment in renewable energy, energy efficiency and other investments in that area. Last, it's a well-known fact that countries that have a good environment for doing business attract more investments. Here the role of government is important. Unless you have a fair or good regulatory system in place and the rule of law, you cannot be attractive to investors.

Thanks to EFSI, the EIB has strengthened its cooperation with national promotional banks massively. Through the European Investment Advisory Hub, we also helped these banks to improve their capacity to fulfil their mission on the ground. Many Member States understood that national promotional banks are really key to helping them tackle country-specific investment gaps and design tailor-made products that are not always sufficiently available at the central level. One of the legacies of EFSI is that the national promotional banks are very important players. They have local presence, the mission and local market knowledge and they have a huge role to play going forward.

Projects and People

A bridge between policy and profit

When a European research institution or company sends data to South America, the digital information has to make the trip along cables that go through the United States. That is a journey with data security—and even political—implications. A direct digital cable requires a large investment with significant construction and commercial risk, because it has to cover 6 200 kilometres of ocean floor, crossing submarine mountain ranges and deep chasms, with most clients only willing to buy capacity after the cable is laid.

But that's the kind of investment Marguerite II was made for. So the €745 million fund backed EllaLink, a cable connecting the Portuguese mainland, Madeira, Cape Verde and Brazil that's due to be completed in 2021. “Marguerite is quite unique,” says Nicolás Merigó, the former head of Santander Infrastructure Capital who is chief executive of Marguerite. ”We’re doing challenging greenfield projects that may not get the same attention from private funds.”

Marguerite Fund II invests in greenfield infrastructure, in most cases before projects are fully developed, when most infrastructure funds prefer not to risk their money. The fund backs projects in any EU country (and pre-accession countries), including some that are less developed and might not otherwise find investors. It helps bridge the gap between the policy goals underlying public investments and the profit motive behind private finance by targeting commercial returns with a more flexible risk profile than most privately backed funds.

The key to Marguerite’s unique approach is its investors. Marguerite is backed by the European Investment Bank and five national promotional banks. Infrastructure, particularly at an early stage of development, is a vital need, but doesn’t always find sufficient investment. That’s why the national promotional banks joined the European Investment Bank to create Marguerite. For Marguerite Fund II, the national promotional banks that have invested are:

- Bank Gospodarstwa Krajowego of Poland;
- France’s Caisse des Dépôts et Consignations;
- Cassa Depositi e Prestiti of Italy;
- Instituto de Crédito Oficial of Spain;
- Germany’s KfW.

Even though the national promotional banks each put €100 million into the fund, there is no obligation for Marguerite to invest in the countries represented by these banks. The fund can back projects all over the European Union.

The Investment Plan for Europe steps in

Marguerite I launched in 2010, right after the financial crisis. At that time, investors were reluctant to put their money into greenfield infrastructure. But the €710 million fund was a success, with investments around Europe from German offshore wind farms to French broadband. By the time the European Investment Bank and the national promotional banks started to put together Marguerite II, the European economy had changed and a different market gap needed to be filled. There was now plenty of money looking for mature infrastructure investments. But new infrastructure—known as "greenfield" projects—in certain sectors and locations was still seen as too risky. So the banks set Marguerite II's sights on just that.

The fund had commitments of €705 million by November 2017 from the European Investment Bank and the national promotional banks. It added a private investor in 2018 with another €40 million. The EFSI guarantee allowed the European Investment Bank to double its investment in Marguerite II to €200 million, by far the EU bank's largest investment in an infrastructure fund. "Marguerite also brings another element to EFSI," says Barbara Boos, head of infrastructure funds at the European Investment Bank, "because it's a project supported by five national promotional banks as a genuinely cross-border investment with a European vision."

More lessons...

Articulating the need for EFSI support, i.e. market failure/suboptimal investment situation

Fabio Pammolli, Investment Committee member

Additionality cannot be easily embedded in deterministic algorithms. I do not see any easy solutions beyond the methods we adopted that would allow us to achieve more than we did. The assessment of additionality is a combination of expert behaviour, data analytics and evidence-based analysis. Using independent experts on the Investment Committee is a very intelligent way to address this topic. The probability for us on the Investment Committee to have false positives was relatively low, because of the quality of the work from the services of the Bank. They took our advice into consideration from the very first iteration of the process. They even modified the way they collected information and presented the dossiers.

Some ambitions of the legislators have not been fully met and warrant reflection for the future:

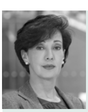
Investment platforms designed as a new form of intermediation to facilitate the support of smaller and local projects. Once the rules for investment platforms were codified, a significant number of them were established. However, the investment platform model has been most successful in Member States where there is a strong local national promotional bank as the implementing partner. Expectations that investment platforms could be a substitute for Member States having a strong national promotional bank have not been fulfilled.

Very few cross-border operations. This is true of both intra-EU deals and cross-border deals with non-member countries. With hindsight, the main obstacle to these projects is rarely ever the availability of financing. Rather it is red tape and diverging national legal or regulatory requirements. Here the third, regulatory Pillar of the Investment Plan for Europe is much more relevant than EFSI.

Blending of EFSI with EU or national grants and structural funds. This has been a qualified success, but is still hampered by diverging legal, reporting and other requirements between the different sources of public funds. The Omnibus Regulation—introduced in 2018 to clarify the way the Investment Plan for Europe interacted with other EU financial instruments—helped to some degree, but is not a silver bullet.

The European Investment Advisory Hub has provided hands-on support to many prospective project promoters, but has not had a strong link with EFSI financing. Linkage from project preparation to financing support with the public EFSI guarantee could be strengthened, if that is the political intention.

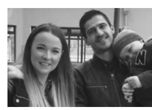
Geographic concentration



Nieves Rodriguez Varela, Investment Committee member and independent investment project advisor

Although we were from different countries, the country itself was never a topic for discussion, when we were deciding on the guarantee. We didn't push our own country's perspective. You see a project and not the country. I would like to see some additional criteria, because some countries are clearly more favoured than others, and not necessarily those in the greatest need. The most developed countries are better prepared to access the guarantee. If the real aim is to develop Europe as a whole, we should focus on countries that are the most in need of the guarantee, the countries that are the most in need of the funds. This would, of course, be possible if Europe could do something about the regulatory frameworks in these countries and monitoring the use of the funds.

Projects and People



The EFSI guarantee gives affordable housing a boost in Poznan—and baby Szymon gets a room of his own

Karolina and Sebastian shared a flat with their parents until their son Szymon was born. They needed more space, but they couldn't afford high city rents. After a one-year wait, they were overjoyed to move into a two-bedroom flat in a new neighbourhood of affordable housing called Strzeszyn, north-west of Poznan. "We are over the moon," says Karolina, as she enters the new flat. She shows the keys to Szymon, who will have his own room. "Now we are here."

In a few years, Strzeszyn will feature 1 100 flats in similar four-storey blocks. Backed by the EFSI guarantee, the European

Investment Bank is financing local affordable housing company Poznanskie Towarzystwo Budownictwa Spolecznego with a loan of PLN 147 million (€34 million).

Poznanskie Towarzystwo Budownictwa Spolecznego was the first social and affordable housing company established in Poland after the fall of Communism. It was created in 1995. "We have built a lot of experience over time," says its chairman, Andrzej Konieczny. "When the national housing fund stopped financing, we looked for alternative funding sources and became aware of the European Investment Bank."

"Our goal is to make Poznan an attractive centre, where people on all budgets can call the place home, commute easily and enjoy a level of municipal services that is both modern and ecological," says Grzegorz Ganowicz, chairman of the city council.

The extension of the EFSI regulation and its refinement are an indication of what happened in the first two and a half years, because the extension was not just an increase in the investment volume, it was an increase in the ambition for transparency. It introduced the climate target and added cohesion support as a self-standing eligibility criterion. Already here, a lot was introduced on the basis of the evaluations, where the regulators added these points to the regulation's amendments. This was an important first step.

The second important step is the fundamental idea of InvestEU as the successor to EFSI after 2020 with 75% of the InvestEU guarantee deployed by the EIB Group, but 25% by national promotional banks. I find this a fascinating idea, this link between an EU-wide, active financial institution like the EIB with the national promotional banks acting on the ground. Here you can really combine knowledge of the market, this regional knowledge, with the very fundamentals of European strategy.

The third aspect seems to be that the legal environments of EFSI (and InvestEU) and the structural funds are being brought closer together. It is easier to combine structural funds with financial instruments, and that can achieve much higher leverage from the structural funds.

For me, these are the three main lessons learned. Additionality and transparency remain the name of the game. I think sooner rather than later, the standards introduced on these issues—impact and transparency—thanks to EFSI will be the standards for the EIB as a whole.

Last but not least, one of the lessons is that the EIB Group has to act as a group. What we saw more and more in these years was that at the beginning, you had EFSI deployed by the EIF through the SME window while the infrastructure and innovation window was handled by the EIB. But over time, the two windows became more closely integrated with each other, and you see more and more interlinkages between the EIB and the EIF in terms of financial tools and instruments. Acting as a group is one of the most critical lessons that our teams will have learned over the last couple of years.

Chapter 5
Legacy

EFSI shows the importance of ambition. This high level of ambition—aiming for €315 billion and then for €500 billion—really pushed everybody into making it happen. The effort was so fantastic, even among those who were rather sceptical at the beginning. If you look at the forecasts based on the coronavirus crisis response, you will see that the level of ambition for pushing the European economy might be even higher than it was for EFSI. But if you want to do something big, then you have announce something big.

A wider range of financial products and services offered by the EIB Group to support businesses and other beneficiaries that could not be supported before EFSI. The knowledge and expertise built up during the past five years with EFSI will be available for the future, either with new guarantee instruments or the EIB's own risk capacity.

Increased transparency and improved public communication on projects and their impact

There will be better articulation of "additionality" and focus on areas of market failure or suboptimal investment situations in all future EIB projects, explaining why the EIB is engaging in the project and how the Bank makes a difference, using terminology that is accessible to third parties (including the Bank's own Management Committee).

Thierry Deau, Investment Committee member

Don't wait until the end to carry out impact studies—that's an important factor in this kind of programme. There should be tools to manage deployment and measure impact immediately as you go along.

There's some timidity in communicating on what these things bring. They are the backbone of what Europe can do. Even in my own country, would people even know what EFSI has done for them? I'm not sure. Measuring the impact should be thought of as the economic programme is prepared and having the tools to measure and communicate on this impact is important.

Deepening the "group approach" of the European Investment Bank and the European Investment Fund in activities, reporting and communication

European Investment Fund invests in France's first academic spinout fund, backing Angelita Rebollo's cancer research

In her laboratory at Université Pierre et Marie Curie near the banks of the Seine in central Paris, Angelita Rebollo has developed a technique for blocking specific functions of proteins that turn a healthy cell into a cancerous one. The treatment could help people with a range of illnesses, though initial results suggest it will first be used to treat ovarian cancer and severe types of breast cancers. While chemotherapy causes numerous side-effects by destroying many healthy cells, Rebollo's targeted therapy kills only the cancerous cells.

Her research into the topic started 17 years ago in Madrid and led her to found a company, PEP-Therapy, with a number of other scientists working at prestigious French research institutions. The company name comes from the molecules at the heart of Rebollo's research—cell-penetrating and interfering peptides—and the company's role is to convert this scientific breakthrough into a medicine that can save lives. "The reason we created the company was to take the research from the bench into the hospital," says Rebollo. "The objective is to develop a molecule that will help many, many people."

PEP-Therapy received €1 million of support from Quadrivium 1, the first French investment fund to provide seed funding for life sciences and digital technology projects that start out at—or are linked to—a dozen French academic research institutions. It's a model that was pioneered by US universities and has been taken up in the UK. It hasn't been done before in France. "It has been challenging to introduce this concept to France," says Philippe Tramoy, the Quadrivium 1 partner who manages its life sciences portfolio. "We're the first one, so everybody is watching us to see if this is something they can follow."

The European Investment Fund provided Quadrivium 1 with a €20 million injection that was backed by the EFSI guarantee.

The economics of scientific research are not lost on Angelita Rebollo. After all, she left her post in Madrid because funds for research were scarce in Spain and she settled in Paris only after stints in Germany and Belgium. "Quadrivium's investment helps us pay for the development stages," she says. "We needed funds to find this molecule—this molecule which will hopefully save lives."

The main message is to let the market speak. If, as a policymaker, you say you want to have policy targets, such as climate and cohesion, that's fine. Because this is something policymakers have to say. Fine. But stay away from the concrete proposals, from the concrete projects. Let the professionals do their work.

The main message is to let the market speak

The next piece of advice would be that if you have scarce resources—and taxpayers' money is always a scarce resource—do the utmost to achieve the highest impact out of every single euro. This is not to criticise grants. We need grants for basic research or culture or social affairs. But we have much more room for using financial instruments and combining their strengths with the firepower of budgetary instruments. We are still not where we could be, but the current situation and the difficult years ahead for the European economy might force everybody to go even further than we did with EFSI. But we do have to take the lessons of EFSI into account.

One of the lessons is keep it lean, keep it independent when deciding on the guarantee, use the capacities of banks—during the whole due diligence process—and use the capacity of the budget, meaning that you should dedicate budget money to this journey.

We should not forget that EFSI was an instrument to tackle a specific crisis situation. Today we are in a new economic cycle. COVID-19 has caused unprecedented economic shocks and the European Union needs bold action to get economies moving again, preserve jobs and recover confidently.

The two main points with any stimulus programme are to ensure that we have the right instrument in place and the flexibility to adapt the programme to the evolving economic situation. We live in dynamic times. If we set up a programme that will last five or seven years, we have to be prepared to change. Flexibility is key, because crises will emerge unexpectedly. Look at COVID-19—EFSI had to respond. Within a month, we moved funding from one pocket to another to develop crisis response measures for COVID-19 and provide urgent liquidity to businesses that were in trouble.

Vicky Kefalas, Investment Committee member

Historically, good economic programmes have managed to find the right balance between politics and the economic cost and benefit. Economic programmes need to address real market failures. To be able to do that you need politicians and policymakers to get a good regular dose of corporate business reality. One of the successful features of EFSI was the use of market expertise through the Investment Committee. I'm the head of investment for the number one developer in the Middle East, Consolidated Contractors Company. I know what looking for funds and equity partners is like. You can only know how it is if you've been there. After the crisis in Europe, most people (from a business and personal perspective) hated the banks, as they were associated with failing to give credit, with calling in non-performing loans and mortgages and with absorbing bailout money. Companies didn't want to dilute their ownership by looking for new equity partners and investors, but lacked options to raise debt under the circumstances. You can only know this if you're there. Economic programmes and financial tools need to be in touch with reality. The Investment Committee's role and benefit was this. Real people who are involved in similar transactions and can have a point of view. It's not theoretical. It's not textbook. It's real, tangible expertise reflected in the decision.

Chapter 6

Flagships

How to tell the story of EFSI's legacy

COVID-19 may have written a new chapter in the EFSI story even in the programme's final months. But, after all, there were already plenty of ways to tell that story, such has been the scope of the enterprise.

Tell it as we have done throughout this document, **in the personal stories of people across Europe** who owe their jobs to projects financed with the EFSI guarantee.

Or you might describe EFSI's legacy with a map of Europe. There are EFSI deals from Las Palmas in Spain's Canary Islands, where the EFSI guarantee backed EIB financing for new, cleaner buses, to Estonia in the north, where EFSI guaranteed finance for Skeleton Technologies's research into energy storage super capacitors. The map might even take you to outer space with the EFSI-backed investment in OHB, the Bremen-based company developing electric satellites.

You can tell it as the story of a human life, starting with EFSI-backed financing for Jennewein Biotechnologie's production of baby formula with the same natural sugars as breast milk, and Science4You, which makes educational toys in Portugal. Take the tale on through school projects like our backing for a Finnish public school public-private partnership right on to the battle to stay the hand of death with an investment in a PPP to build primary healthcare centres in Ireland. Or the story of a business's lifetime with some of the startups and young companies financed with the backing of the EFSI guarantee, like Winnow, a firm developing artificial intelligence tools to cut food waste at its research centre in Romania.

Or tell it from small to big, with a family metal-moulding firm in western Germany financed by the European Investment Fund with the EFSI guarantee, up to European Investment Bank deals with giants like Ericsson, Telefonica and Deutsche Telecom for their work on 5G infrastructure.

Then there are projects to finance electric car charging stations in Italy. Digitalising traditional businesses in Spain. Researching high-performance seeds for crops that resist pathogens in France. Constructing medical facilities in the Netherlands. All these ways to illustrate the EFSI legacy look to the future of a Europe with an innovative, sustainable economy.

These different EFSI stories are written from the same script, in which scarce public resources are used expertly to build jobs and growth for EU citizens. **The legacy of EFSI will be in the livelihoods it supports–and the lessons learned by policymakers as they confront the next crisis.**

EFSI

THE EUROPEAN FUND
FOR STRATEGIC INVESTMENTS

THE LEGACY

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