III

(Preparatory acts)

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

544TH EESC PLENARY SESSION, 19.6.2019-20.6.2019

Opinion of the European Economic and Social Committee on ‘Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank Investment Plan for Europe: stock-taking and next steps’

(COM(2018) 771 final)

(2019/C 282/04)

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1. **Conclusions and recommendations**

1.1. Generally speaking, the EESC welcomes the Investment Plan for Europe for its contribution to the promotion of investment in the EU and more effective utilisation of limited financial resources for the purpose of strategic pan-European investments as a new type of EU financial redistribution. The EESC recommends setting an investment target in the EU as one of the criteria for a long-term and sustainable investment policy; the investment target could be a part of the European Semester's regular cycle and would be evaluated annually.

1.2. The aim of the Investment Plan for Europe and, more generally, publicly incentivised investment should be to support the EU's strategic goals, including: (a) the promotion of sustainable economic and social upwards convergence among Member States; (b) sustainable investment, in line with the United Nations Sustainable Development Goals (UN SDGs); (c) facilitating fair, green and digital transitions; (d) strengthening the economic resilience of the European economies; (e) developing strategic infrastructure; (f) promoting productivity, research, development, innovation, education and professional training; (g) increasing social investment; and (h) supporting the competitiveness of the European economy in a global context. The EESC considers that further guidance would be necessary to achieve these goals in geographical and sectoral terms.

1.3. The urgent establishment of a unified classification system and indicators to identify the degree of sustainable performance, based on the UN SDGs and the European Council's conclusions of 20 June 2017, would help investors to channel their investment flows towards sustainable activities ([1]).

1.4. The EESC is convinced about the huge potential of innovative financial instruments to accommodate the areas covered by the proposed InvestEU Programme. The Committee believes in synergies between the InvestEU Programme and the future centrally managed programmes (Connecting Europe Facility, Horizon Europe, for example), with a preference for the use of a return-based instrument. To achieve this, regulatory simplification is needed when combining several programmes or projects.

1.5. One of the most important added-values of the InvestEU Programme is the support of large- scale European projects (SESAR, ERTMS, EU smart grids) based on leveraging private funds, but whose realisation also requires Commission action to set up the appropriate regulatory and financial framework. The Commission should make an effort to get the Member States on board for these major projects.

1.6. The EESC believes the EU should be prepared, at this time, to bear a greater risk in order to achieve a greater boost to jobs and living standards. The Committee therefore recommends a higher MFF commitment be allocated for the purpose of this instrument.

1.7. The EESC very much supports the Commission's effort to identify the primary obstacles to more intensive investment activities in the areas of the Single Market environment, integrating infrastructure, education and skills requirements, and the alignment of State-aid rules.

1.8. Nonetheless, the Committee considers that overcoming the EU's investment deficit, one of the most serious risks to the future of the European economy, would require a greater financial effort from the EU, the Member States and the private sector. This is why it calls on the EU authorities to strengthen InvestEU's financial capacity within the Multiannual Financial Framework 2021-2027.

1.9. On the other hand, the Committee believes that it is necessary to make more effort and to establish a greater linkage between the EFSI (or InvestEU Programme, respectively) and the other investment programmes of the EU and the Member States, promoting the necessary synergies, avoiding duplications and overlaps between them and directing investments in such a way as to meet more precise objectives.

1.10. The EESC proposes to enhance the scope of the InvestEU programme in order to provide European companies with the necessary guarantees that enable them to invest outside the EU area and promote EU trade.

1.11. The EESC strongly recommends that the Commission step up its efforts to raise awareness among European businesses and citizens about the benefits obtained from the Investment Plan for Europe, especially with regards to SMEs, thus making them aware of the EU contribution.

2. General context of the proposal and key facts

2.1. This opinion draws directly on and follows on from the conclusions adopted in the InvestEU ([2]) opinion as well as other opinions on the EU's Multiannual Financial Framework 2021-2027 and on the EU's economic and investment performance ([3]). Consequently, the conclusions explicitly expressed in these opinions will not be repeated in this document, which by implication agrees with them.

2.2. The European Commission's Communication on an Investment Plan for Europe: stock-taking and next steps fully agrees with the conclusions of the adopted InvestEU ([4]) opinion, particularly the following points:

— investment activity is the only major macroeconomic indicator not to have reached its pre-crisis level of 2006-2007, and encouraging the use of all relevant instruments to support it is therefore fully justified and legitimate,

— the creation of a financial instrument to support investment, based on the guarantee principle, constitutes a significant innovation in the financing of major investment projects in the public interest,

([1]) According to the European Commission's Action Plan on Sustainable Growth Financing.
([2]) OJ C 62, 15.2.2019, p. 131.
([3]) OJ C 440, 6.12.2018, p. 106, OJ C 62, 15.2.2019, p. 83, OJ C 62, 15.2.2019, p. 90, OJ C 62, 15.2.2019, p. 126, OJ C 62, 15.2.2019, p. 312, and OJ C 159, 10.5.2019, p. 49.
([4]) OJ C 62, 15.2.2019, p. 131.

— involving private capital is very beneficial and desirable for this purpose. However, ill-designed public-private partnerships (PPPs) may end up costing more than direct public provision of the same services. Public investment in high-quality, affordable and accessible public services in the EU must be a priority,

— in addition to domestic investment, support should also be given to investment that has a significant cross-border dimension. The model can also be used to implement the EU's development investments outside the EU,

— the implementation of structural reforms at Member State level as well as across the EU as a whole may enhance the effects of investment activities,

— investments made should respect the needs of the Single Market, where appropriate, in all its dimensions, the functioning of the financial markets, transport and energy infrastructure, and the preparedness of human resources to meet these challenges.

2.3. The European Commission's Communication ranges more broadly than usual by addressing the need to remove the obstacles that hinder the recovery of stronger investment and the more efficient use of financial instruments to support investment.

2.4. While the draft regulation on the InvestEU programme deals mainly with the technical parameters of this instrument, the Commission's Communication focuses in particular on the economic, political and social backdrop, as well as an analysis and description of the environment in which the instrument will be used. The EESC agrees with this general view.

2.5. The first major priority for the Juncker Commission (late 2014 to early 2015) was to help remove or reduce the investment gap in the EU after the crisis. Without sufficient and profitable investment, Europe's future economic prosperity and its ability to compete economically at global level cannot be ensured. This is why the Investment Plan for Europe project, which after 2020 will chiefly be symbolised by the InvestEU Programme, was adopted and put into practice. At the core is a financial instrument constructed on the basis of a budget guarantee. The EESC feels that this instrument is not only suitable for securing investment within the EU, but can also represent a highly effective EU platform for developing and supporting investment projects outside the EU (in relation to the new objectives of the EU multiannual financial framework for the period 2021-2027 in terms of external action, globalisation and greater number of external projects).

2.6. The profitability and efficiency of investment depends on having a sound economic structure. Structural reforms are thus seen as a prerequisite for ensuring that investment brings about the expected impact. Significant structural failures result in a wide range of obstacles — regulatory, administrative, barriers to fair competition, etc. These obstacles are serious at both national and cross-border level.

2.7. The EESC appreciates the fact that the EU supports the most open environment possible for both investment and trade, provided that labour and social rights and the protection of the environment are respected. At the same time, however, it is paying close attention to the ever-deeper global political and strategic risk with which some foreign investment may be linked. The EESC welcomes and supports the introduction of a protective function for certain foreign investments, the purpose of which is not primarily business-related or economic, but related to politics and power.

3. **General comments**

3.1. The EESC appreciates the benefits of the Investment Plan for Europe, in particular in the following respects:

— at the time of the crisis, private financing came to a halt and financial needs were therefore not met. Investors began to consider risks much more carefully and thoroughly. The Investment Plan for Europe has proven to be an appropriate, safe, practical and carefully considered platform for boosting investment and enlisting private finance,

— the Investment Plan for Europe has positively contributed to the targeted and systematic monitoring of instances of market failures or adverse investment situations and helped to tailor perceptions of risk to the need to address them in a market-compatible way,

— the examples of supported projects mentioned in the European Commission's Communication clearly show that, in the absence of the Investment Plan for Europe and the European Fund for Strategic Investments (EFSI), private capital would never have been put towards this type of project without sufficient guarantees and adequate risk coverage (unless it was philanthropically motivated) and public resources for such ventures would by their nature be limited,

— the Investment Plan for Europe and the EFSI require projects to undergo a direct financial return test and thus meet the minimum quality standard imposed on them.

3.2. The total public and private investment in the EU was, in 2018, 20,5 % of EU GDP, still more than two percentage points lower than 2007. The slow recovery of the investment rate, from 2013, has been due to both public and private investment.

3.3. Public investment in the EU27 for the 2014-2018 period was, on average, 2,86 % of GDP (2,68 % in the euro area), compared to 3,4 % of GDP between 2009 and 2013 (3,2 % in the euro area) ([5]). In particular, net fixed capital formation was mostly negative from 2014 to 2017, indicating a falling public capital stock. As this contradicts on a macro-level the goals in the Investment Plan for Europe, the EESC encourages the European Commission to take measures to promote public investment at Member State level. These measures should be included in the country-specific recommendations along with the other relevant tools of the European Semester.

3.4. The largest part of the investment gap is due to private investment. In light of this, the total size of the Investment Plan has been too low from the start. Over a five-year period, the European Union plans to have mobilised investments of EUR 500 billion, amounting to EUR 100 billion or roughly 0,6 % of EU GDP per year.

3.5. The EESC is aware of the scope of repayable financial instruments for supporting investment activity in the EU and is also aware of their as yet untapped potential. For example, they lay the foundations for the much more efficient and convenient use of available funds. Unlike subsidies, they are repayable funds which can be subsequently and repeatedly used following turnover. In addition, the expected tightening of monetary policy and impaired credit availability may further increase their attractiveness. If they are handled appropriately from the point of view of economic policy and governance they facilitate the creation of a robust financial basis for very long-term (even several decades-long) support for public interest investments (it is essential to define what is meant by public interest; the prevailing view currently is that financial instruments are appropriate when it comes to remedying various kinds of market failure). The development of financial instruments also helps to encourage variation in the financial products available on national markets as well as on the pan-European financial intermediation market and to strengthen its diversity and the diversity of available financial products and solutions.

3.6. At the same time, the EESC emphasises that by no means every project is suited to support from financial instruments (the general criterion for relevance is the existence of a market environment and the risk of market failure in its many forms). Where the project has proven itself worthy of support through financial instruments, the effect is achieved in three basic ways:

— through support for a project that is capable of achieving additional and measurable benefits (for example, increasing profitability, productivity gains). In this case, the beneficiaries of the aid are almost exclusively individual businesses or their groupings, such as clusters,

— through savings in the performance of existing processes (such as lowering energy demands and costs, and reducing running costs by optimising processes). In this case, public sector bodies may be supported by financial instruments in the same way as business entities,

— through the establishment of financial participation for consumers of a given product or service. This participation may be further supported by a targeted subsidy or other national or regional support programme that enables a financial instrument to be repayable.

3.7. The EESC takes note of a fundamental part of the European Commission's Communication, which deals with identifying existing obstacles. These are primarily obstacles to the Single Market and the need to further deepen it and remove obstacles (both by overcoming existing administrative and regulatory obstacles and by undertaking the technological modernisation of the Single Market through the realisation of the Digital Single Market and the related implementation strategy). We are also thinking of the development potential of capital markets and their incorporation into the Capital Markets Union. There are also obstacles to and potential for integrating transport and energy infrastructure, either through the development of trans-European networks (TENs) or on the basis of an energy union. It is also important to bear in mind the human dimension and the education and skills requirements of the workforce (in line with the principles of the European Pillar of Social Rights) as well as the alignment of State-aid rules. From the point of view of optimising synergies under the MFF for the period 2021-2027, the EESC also notes that it is necessary to ensure maximum compliance with the ESI Funds.

([5]) European Economic Forecast. Statistical Annex. European Commission, November 2018.

3.8. The EESC believes that it is necessary to make more effort and establish a higher level of consistency between the EFSI (or InvestEU Programme, respectively) and with the other investment programmes of the European Union and those of the Member States. This will help in promoting the necessary synergies and avoiding duplications among programmes.

3.9. Publicly incentivised investment should be directed at precise objectives that are clearly and strategically set at the European level in order to fulfil the strategic goals of the Union. The areas that will be supported are set out in Section 1.2 of this document. In light of this, the EESC considers that it would be necessary to provide further guidance, specifically in terms of the sectoral allocation of credit to the EFSI and the future InvestEU programme.

3.10. More specifically, regarding the European Commission's Action Plan on Financing Sustainable Growth, the urgent establishment of a unified classification system and of indicators for identifying the degree of sustainability performance has to be underpinned by a holistic understanding of the impact of economic activities and investments on environmental sustainability and resource efficiency as well as on social and governance objectives, in accordance with the UN SDGs and the European Council's conclusions of 20 June 2017. This approach should help investors to channel their investment flows towards sustainable activities that allow for the implementation of the 2030 Agenda in a full, comprehensive, integrated and effective manner ([6]).

3.11. The original Juncker Plan used to guarantee or backstop EUR 21 bn to leverage up to EUR 315 bn. In InvestEU the Commission proposes a backstop of EUR 38 bn (+ EUR 9,5 bn from financial partners) in order to leverage up to EUR 650 bn. On the face of it, the InvestEU initiative doubles the firepower of the Juncker plan, plus it enables Member States to pledge up to 5 % of their cohesion policy allocations to the four guarantee compartments. The EESC welcomes this enhanced instrument but considers that the commitment of EUR 15,2 bn, which represents 1,2 % of the next MFF, is not adequate to achieve the goal of boosting investment back to pre-crisis levels. A 2 % commitment (EUR 25,5 bn), for example, could leverage additional public and private investment of over EUR 1 trillion.

3.12. There is a need to promote and support the participation of European companies and consortia in international tenders and public procurement. The scope of the InvestEU Programme could be extended to cover all geographical areas and to provide guarantees to European companies investing outside the EU. This could be the first practical reaction to the Belt and Road Initiative.

4. Specific comments

4.1. The EESC recommends that appropriate attention be paid to ensuring the removal of obstacles at national and regional level, in line with the principle of subsidiarity.

4.2. The EESC calls on the European Commission to clearly and unequivocally determine the possibilities for integrating the EFSI, the future InvestEU Programme and the ESI Funds. The proposal for a regulation refers in many places to synergies between the chapters and the programmes of the MFF, but the reality is far less accommodating to these synergies. Current practice shows limitations to the possibility of combining the EFSI with the ESI Funds. The EESC does not consider this to be desirable going forward and suggests setting clear rules that make it possible to use the ESI Funds (in the form of a subsidy) and the EFSI (in the form of a financial instrument) for the same project.

4.3. The EESC calls on the European Commission to take a comprehensive view of investment when advocating an extension of EFSI. Member States must be enabled to have the necessary fiscal resources for public investment. As expenditure is invariably linked to tax revenues under the current fiscal rules of the European Union, the European Commission must be the leader in determined action with effective instruments against tax fraud, tax avoidance, money laundering and the illegal activity of tax havens. This includes eliminating the unfair tax competition that is practised today by some Member States that favour the aggressive tax planning of multinational companies.

4.4. Certain types of investment, such as public infrastructure, can be provided more efficiently and with less cost to society using the public sector rather than Public-Private Partnerships. Where this is the case, the European Commission is encouraged to enable Member States to invest sufficiently without cutting social expenditure. Following long-standing rational public finance theory and practice, future generations that benefit from current investment should pay a fair share in its financing through the issuing of government bonds in the present. If public investment were to be financed solely by the current generation through higher taxes or lower government expenditure, it would be left with an unduly high present burden. In practice, this means making the Stability and Growth Pact (SGP) more flexible through the so-called Golden Rule: public investment expenses will not be accounted for purposes of calculating public deficit objectives. A flexible approach to the implementation of the newly adjusted SGP, introduced by the Commission in 2014, has had positive effects on growth. It should be maintained and targeted at investment that are of high public interest.

([6]) See European Parliament legislative resolution of 28 March 2019 on the Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment (COM(2018)0353 — C8-0207/2018 — 2018/0178(COD)).

4.5. EMU reform can provide the needed governance for an adequate investment policy. In particular, the completion of the Banking Union and the Capital Markets Union, putting into operation their instruments, can help the financing of companies, especially SMEs. The EESC considers this an emergency and regrets the delays coming from the European Council in this respect.

4.6. The EESC considers that it would be necessary to provide further guidance regarding the sectoral allocation of EFSI aid and the future InvestEU programme. In the opinion of the Committee, investments should have priority in three sectors: (a) the construction of a European green and digital economic model; (b) research, development and innovation; and (c) education and training. To ensure a fair transition to a viable green and social model, investments of a social nature should be promoted along the lines indicated in the recommendations of the High Level Group on investment in social assistance and support ([7]).

4.7. Audits by the European Court of Auditors (ECA) and the European Investment Bank (EIB) on samples of projects in the Infrastructure and Innovation Window (IIW) have suggested that about one third of projects could have been entirely financed from sources other than EFSI. Project promoters mainly choose EFSI due to a lower cost of funding and partially because of a longer maturity of the loans.

4.8. Counting a project that would have been realised through non-EFSI sources of finance as additional with regard to EFSI squares with the common, non-technical understanding of additionality. It raises questions about the relevance for the real economy of the definition and practical application of additionality in the EFSI regulation and practice. This may undermine the credibility of the much needed EFSI. The EESC therefore considers that the EIF should primarily focus its activities on projects that are truly additional in the sense that they would not have been realised in the absence of EFSI financing to ensure the maximum effect on the real economy and to encourage trust in the EFSI by the general public.

4.9. As the European Court of Auditors has noted, the methodology used to estimate the investment mobilised overstated, in some cases, the extent to which EFSI support actually induced additional investment in the real economy. Furthermore, the EESC considers that the European Commission should follow the recommendation by the European Court of Auditors to develop comparable performance and monitoring indicators for all EU financial instruments and budgetary guarantees in order to increase transparency and the ability to assess their results.

4.10. As the ECA has noted, the EFSI has also partly replaced funding from other centrally managed EU financial instruments, in particular in the fields of transport and energy. We encourage the Commission and the EIB to consider potential future overlaps between operations under the EFSI Infrastructure and Innovation Window and the European Structural and Investment Funds financial instruments.

4.11. In order to ensure a proper evaluation of EFSI mobilised investments, the EESC encourages the European Commission to systematically conceptualise the data collection that is necessary to carry out the statistical *ex post* analysis in order to evaluate the multiplier estimates of individual projects. This may help to improve future *ex ante* calculations.

4.12. The EESC recommends that, in addition to the European Investment Advisory Hub (which is primarily intended to support large investment projects with a clear European added value), a network of national and regional advisory offices should operate, with a consistent methodology and interpretation across the EU, and providing advisory services in particular to SMEs and their more regionally focused projects.

4.13. The EESC reiterates the need to carry out an eligibility test on projects for repayable financing through financial instruments, and recommends that the European Commission set up an expert platform. In this, the three basic requirements for financial instruments must be respected: effectiveness (which is ensured by the manager of these funds performing his or her duties, thus satisfying the public interest in a qualitatively different way from subsidies); usefulness (which is based on the legitimacy of each programme or part thereof that is earmarked for repayable instruments); and sustainability in its economic, social and environmental dimensions (which is based on the definition of the principle that revolving instruments should be repayable).

([7]) Investing in Social Care & Support. A European Imperative.

4.14. The EFSI Regulation does not establish geographical distribution criteria for the guarantees it grants. It establishes that they are governed by demand. However, the Steering Committee of the EFSI established an indicative geographical diversification and a geographical concentration limit in the Framework for Infrastructure and Innovation. The Regulation does not set concentration limits for the Framework for SMEs. The Committee strongly believes that the Investment Plan for Europe and the future InvestEU programme must be instruments for economic and social convergence, and not divergence, between Member States. Although the information provided by the European Commission indicates that the trend towards geographical concentration has been partially corrected in 2018, the issue is sufficiently important for the adoption of political guidelines and regulatory changes necessary for this situation to end. As one avenue to improve the situation, the Committee welcomes the setting-up of National Promotional Banks and Institutions in countries that lack them to cooperate with EFSI and the EIB and encourages all Member States to do this.

4.15. The EESC points out that, particularly in the next programming period of the fiscal framework, it will be more important for financial instruments to have a specific function for a specific purpose and that the proposed rules assume a wide range of combinations between them, thus opening up space for providing 'tailor-made' solutions to individual projects. Financial instruments are not homogeneous in type and a loan, guarantee, direct capital input or project bond can be earmarked for a specific type of project. When using these instruments, preference should in practice be given to 'tailor-made' solutions because it is precisely through these that the potential of financial instruments can be fully exploited.

4.16. If structural reforms are deemed important in general to achieve a higher level of investment, they need to be spelled out explicitly and in a detailed manner. Several structural adjustments and reforms during the period of austerity policies in programme countries have worsened the weakness in private and public demand, driven up unemployment, increased uncertainty and lowered the income of households and the sales expectations of firms. They have therefore contributed to an increase in the investment gap. The EESC therefore recommends that reforms should be promoted that: (a) improve the business environment; (b) facilitate the financing of companies — in particular SMEs; (c) increase productivity; (d) promote research, development innovation and training; (e) promote the creation of quality jobs; (f) strengthen collective bargaining and social dialogue at the European and national level; (g) strengthen domestic demand; (h) increase economic resilience; and (i) enable an adequate level of public investment, for instance through the creation of effective planning capabilities within the public sector.

4.17. Along with the need to improve the synergies between the investment programmes of EU and Member States, there is also a need to promote the achievements of these programmes among citizens: around 945 000 SMEs are expected to benefit from EFSI and many more from the InvestEU programme. The benefiting SMEs must be made aware of the support received from the EU, for instance through a clarifying statement in the financing contract as well as via the use of the European Union's logo on the contract.

Brussels, 19 June 2019.

The President
of the European Economic and Social Committee
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