THE 11TH EDITION OF THE INTERNATIONAL CONFERENCE
EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES

Instruments for the Financing Investment Opportunities in Post-Crisis Europe: The Investment Plan for Europe

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Abstract: The study is based on an analysis of the opportunities provided by The Investment Plan for Europe. The Plan, launched in December 2014, aims at stimulating additional investment at least EUR 315 billion in real economy in the 2015-2017 period and making the most of every public euro mobilized through both new and existing instrument, in order to achieve the high multiplier effect. The challenge for the Member States is to put the funds made available by these instruments to productive use in order to support sustainable jobs and growth in Europe. In this context, Romania is facing a major challenge: to promote projects of interest to investors, economically viable, sufficiently mature and consistent with EU policy priorities. According official sources, until the mid - March 2016, only two projects was selected for financing through The Investment Plan for Europe. The study contributes to the identification of the new innovative financial instruments that could improve the access to finance in general and to Romanian projects especially. The analysis uses the most recent official data, official documents published by the European Commission and other institutions in the field.

Keywords: The European Fund for Strategic Investments; financial instruments; the European Investment Bank

1. Introduction

The recent global crisis has brought deep changes on all levels of economic and financial activity, affecting strongly also the investments at European level. In 2014, six years after the global financial crisis started, the pace of economic recovery in the EU is still slow, weak investment has been one of the main reasons for the weakness of this recovery (Final Task Force Report, 2014). Although there is considerable variation between Member States and sectors, EU investment activity in 2013 was 15 percent or some EUR 430 billion below the pre-crisis peak in real terms; in the hardest-hit Member States the shortfall ranges from 25 to over 60 percent. (Final Task Force Report, 2014, EIB, 2015). It's important to mention that, for most of the euro area Member States which have been heavily hit by the crisis, both private and public investments have collapsed with the crisis and that low levels of public investment, if maintained over a prolonged period, may lead to a deterioration of public capital and diminish longer-term growth potential. (ECB, 2016). In the 2012-2014 period, for instance, the public investment- to- GDP ratio was between 1,9 in Ireland and 5,6 in Estonia while the private investment–to- GDP ratio was between 12,9 in Portugal and 21,3 in The Czech Republic (chart 1).

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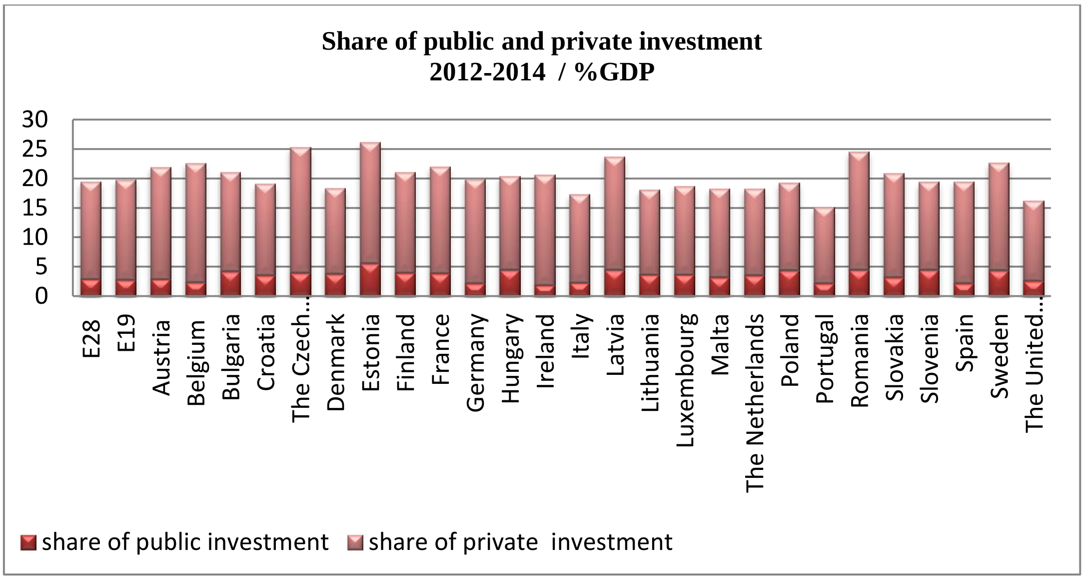


Chart 1.

Source: European Commission(2015) - Member States Investment Challenges, Commission Staff Working Document

In this context, for European countries, the main challenges to investment, which vary in terms of their restrictiveness, complexity and unpredictability are: low demand growth, low levels of capacity utilization, heightened economic and policy uncertainty, and, in some countries, the bursting of construction/housing bubbles, corporate deleveraging and financing constraints. (European Commission Staff Working Document, 2015)

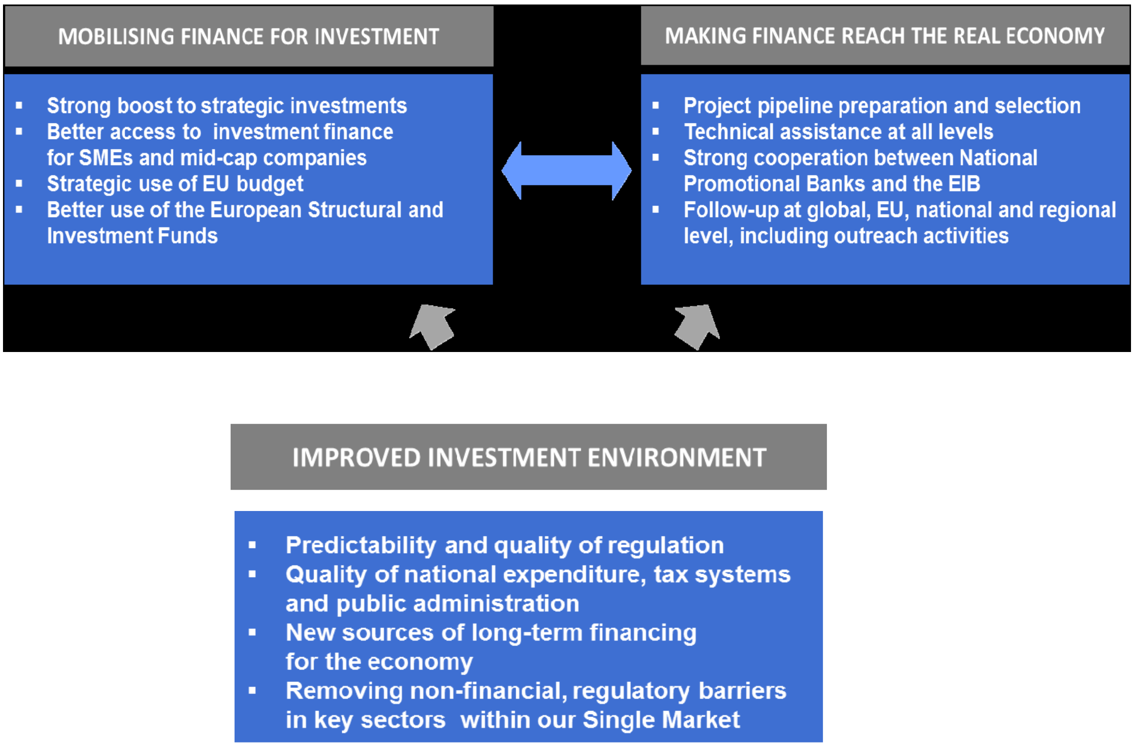
Removing those challenges to investment involves actions both at EU level and national level. The Investment Plan for Europe is a new instrument to boost competitiveness in UE and to mobilize public investment and private support growth.

2. The Investment Plan for Europe – a Paradigm Shift in Using Public Money for Strategic Investment

2.1. A new approach for financing the investments – a new challenge for Europe

The Investment Plan for Europe, announced by the European Commission in November 2014 to unlock over EUR 315 billion of investment over the next three years, deliver a powerful and targeted boost to economic sectors that create jobs and raise growth. This plan was promoted as a paradigm shift and as a new strategy that is needed to lead Europe out of the crisis. "Investing in Europe – stated The President of the European Commission, Jean-Claude Juncker - means much more than figures and projects, money and rules. We need to send a message to the people of Europe and to the rest of the world: Europe is back in business.

This is not the moment to look back. Investment is about the future" (2014). According to the Communication from the European 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, the Investment Plan for Europe is an ambitious one which "comes on top of existing measures and will make the most of every public euro mobilized through both new and existing instruments" (EC, 2014), mobilizing finance for investment, making finance reach the real economy and improving investment environment (Graph 1,) in order to put savings and financial liquidity to productive use in order to support sustainable jobs and growth in Europe.



Graph 1. The objectives of the Investment Plan for Europe

Source: European Commission (2014) – An Investment Plan for Europe

Conceptual novelty, the Investment Plan consists of three mutually reinforcing strands (EC, 2016, Peter Schulze, 2015) regarding:

I. Mobilising finance for investment European through **Fund for Strategic Investment (EFSI)** which aims to mobilise at least €315 billion in additional investment in 2015-2017. According to European Commission, (2016), the EFSI Regulation entered into force in July 2015 and the EIB Group started the pre-approval of projects in April 2015.

II. Initiatives to make sure that the extra investment meets the needs of the real economy, aiming

a) *Transparency on investment opportunities in Europe* through **The European Investment Project Portal (EIPP)**, a transparent pipeline of investable projects in the EU. The novelty is that investors can see what opportunities exist. It is important to mention that the EIPP is independent of EFSI, so there is no guarantee that projects which appear on the EIPP will receive EFSI or other EU financing support.

b) Strengthening advisory services through **The European Investment Advisory Hub (EIAH)**, operational since September 2015. The EIAH provides a single access point to a wide range of advisory services in support of project identification, development and implementation, access to finance, the use of financial instruments, and capacity building.

III. Measures to provide greater regulatory predictability and to improve the investment environment

a) Improved and more predictable regulation at all levels

***b) Making the most of the Single Market* :** Capital Markets Union, Single Market Strategy, Digital Single Market, Energy Union

c) Structural reforms in the Member States

d) Openness to international trade and investment

Chart 1.

A recent study, led by acad. Lucian Albu, conducted under the auspices of the European Institute of Romania (2016), reveals the distinctive features of the new approach to financing investment opportunities compared to those offered by the structural funds and European investments:

• Although the same priority areas are kept, the new plan involves large investment projects with a high degree of risk, unfunded usually, either from the perspective of risk aversion to potential financers or lack of financing sources;

• It does not require the mechanism management by each Member State, which assumes only the role to ensure:

- An attractive framework for conducting investment projects;
- Appropriate legislation for public-private partnerships to be functional;
- Availability of a national promotion bank;
- Launching an investment platform.

• The access to these investment funds is allowed to both public sector entities, companies, funds and investment platforms;

• Substantial reduction of bureaucracy, by enabling each project promoter to be able to upload the online funding request;

• Providing technical assistance from the EC and the EIB for investment projects, which facilitates cooperation between entities from different countries, including investment projects at regional level.

Recently, the European Investment Bank announced on its official site, a European Commission appraisal, according to which the Investment Plan has the potential to add between EUR 330bn and EUR 410bn to EU GDP and to create between 1 and 1.3 million new jobs in the coming three years.

2.2. Innovative financial instruments in the context of the Investment Plan for Europe

"Strategy of Investment Offensive", The Investment Plan for Europe was designed to radically transform both public policy and financing instruments underlying the investments in Europe, with the stated aim of getting the highest economic and societal return on every spent euro." (EC, 2014). In fact, the establishment of a European Fund for strategic investments (EFSI), through the partnership of the European Commission with the European Investment Bank (EIB), as an essential tool in developing the Investment Plan, pursued the experience bank in taking risks with financial measurable effects. It is estimated that the global doubling of using the financial instruments, added to the initial capacity of the Fund to assume risks, in a position to enable it to provide additional funds and to attract more investors to join, it will induce a multiplier global effect 1:15 in the real investments in economy, with an estimated effect based on previous experience of EU programs and EIB, meaning that 1 euro risk protection by the fund can generate, as average, investments of 15 EUR in the real economy. The functioning mechanism of ESIS is shown schematically in Chart 2

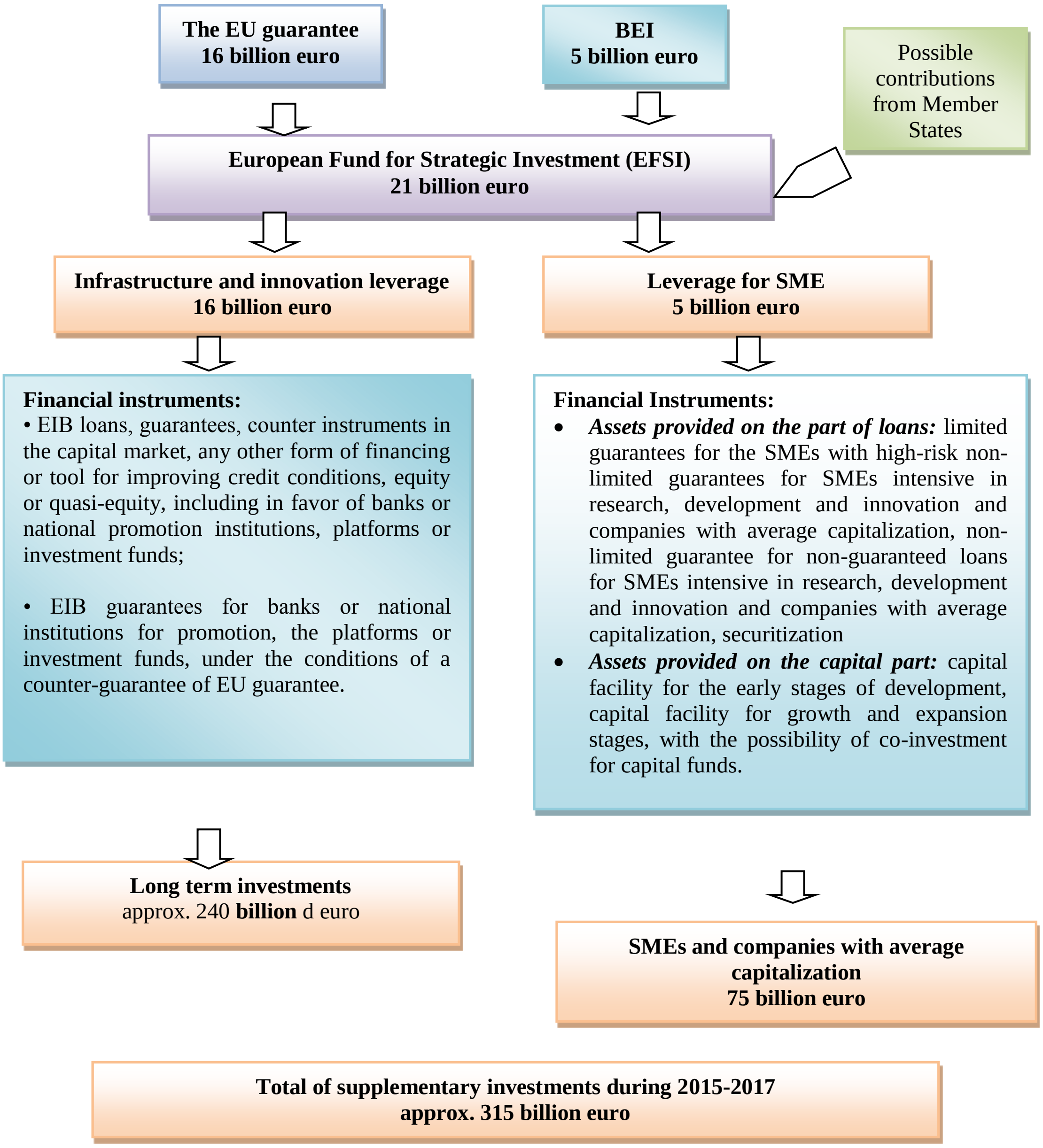


Chart 2

According to the European Commission estimates, the training of about 30 billion euros in the development of innovative financial instruments, such as loans, equity and guarantees, to the detriment of traditional grants, in key areas of the investment sector, such as support for SMEs, energy efficiency, information technology and communications, transport and research and developments sector it will lead to further investment in the real economy by 40 to 70 billion euros.

At the end of April 2016, more than 85% of the finance mobilised come from public and private sources outside the EIB Group.

<table>
<tr><th></th><th>Number</th><th>Financing under the EFSI</th><th>Total expected investment triggered</th></tr>
<tr><td>Infrastructure and innovation projects approved</td><td>64</td><td>€9.3 billion</td><td rowspan="2">€100 billion</td></tr>
<tr><td>SME financing agreements approved</td><td>185 agreements benefitting 141,800 start-ups, SMEs and mid-caps</td><td>€3.5 billion</td></tr>
</table>

Source: European Commission – The Investment Plan for Europe. State of play, 2016

Romania, in the Context of the Investment Plan for Europe

The Investment Plan for Europe, launched in late 2014 attracted not only praise, but also some criticism on a landing between saying “The Magician Juncker speaks of money which does not exist” of the Eurosceptic and Green Group, opinions that compares with a pyramid scheme Caritas type (Victor Negrescu) until “Critical Analysis of Financial Instruments and Large Infrastructure Financing", conducted in May 2015 by Georgi Medarov, Jana Tsonev with the financial assistance of the European Union which revealed a number of obstacles in the way of achieving the ambitious targets proposed by the European Commission for re-launching the European investments, out of which we mention the following:

- The projected multiplier effect was called “overly optimistic” by some financial experts, be even if the 315 billion were reached, that is still not enough, ”(Bernadette Ségol) because it would fill less than 40% of the annual investment shortfall since the crisis”;
- A more serious pitfall of the plan is that it does not provide enough fresh money; out of the budget-provided 16 billion, only 8 will actually be fresh funds used to guarantee the other 8. Furthermore, the EC was accused of relying on “fake money” 8, that is, recycling funds from already existing programs;
- There is a novelty, however, which it relates to what will count as public deficit. The Commission asserted that when “assessing respect of the debt criterion, contributions to the EFSI will not be taken into account”. The upshot is that state provision for public needs still incurs deficits, while Member State contributions to the EFSI and political guarantees against private losses do not. Juncker stated that contributions to the EFSI by individual member states will be deducted from the public deficit and debt under the Stability and Growth Pact

- The projects identified by the Task Force are solely "a first step towards creating a critical mass of projects for the EFSI", There is no standard for the kind of projects to be proposed and the individual proposals are often incommensurable.
- Democratic participation, transparency and in-depth research are not merely formal requirements, but should be at the core of any *efficient* economic planning that is to achieve environmentally and socially sustainable results.
- If in the past, entrepreneurship, risk and volatility were depicted in positive light, today, the Commission speaks against them and disperses risk by socializing it. The expectation is that if risk is transferred to the public, it will be easier to attract private investment. However, this takes away the risk only for the investor and not for the public.

Romania proposed at the end of 2014 to April 2016, of more than 200 projects with an estimated value of 62.5 billion euros, which aims at the construction of highways, in the energy infrastructure or educational institutions, from the rehabilitation of theaters, libraries and museums in photovoltaic parks and retrofitting power plants and they are divided into several categories and domains: energy union, transport, digital knowledge and economy, social infrastructure, resources and environment are public projects and private projects. Unfortunately, despite press speculation, at the end of April, the Romanian Minister of Finance stated that there were "well over 220 transactions already approved under the European Investment Strategic (ESIS) in 25 of the 28 member states. Romania is not among them, but it is important to know that already had been committed resources totaling over 11 billion EUR. These represent loans and the value of projects and investments mobilized in total, which passes 80 billion EUR, already representing 26% of the total target assumed in the plan. According to data posted at the end of April 2016 on the European Commission website, only Romania, Malta and Cyprus are not listed among the countries that will benefit from the funds in this investment plan.

Instead of conclusions, we use the deterrent figures: the study developed under the coordination of Academician Albu reveals the Romanian economy's potential to access funds provided by the investment plan based on the growth rate of the capital stock:

• current 1%, which would lead to GDP growth of 0.95 percentage points / year;

• increase of the capital stock by 3 percentage points (pp), which would sustain the current trend, so from the sustained increase in GDP of about 2.85 to 3 pp / year Romanian economy;

• the increase of capital stock by 5 percent, which would lead to a growth rate of GDP of 4.75 percentage points annually.

In this context, the situation of the investments in the Romanian economy and development gaps compared to the neighboring EU states, sustain the need to value the ESIS in our country.

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