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The Juncker Plan 2.0 : the Belgian view

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A few weeks after the presentation by the European Commission of 'Juncker Plan 2.0', it is high time to look back at what has so far been achieved by the earlier version of the Juncker Plan – and how well it has worked for Belgium.

Introduction

The investment plan for Europe was launched last year by the European Commission to provide public support for economically viable projects that could not have otherwise been supported because of a lack of interest from private investors. One year on, the EU executive heralds it as a major success. According to the latest data, the plan is on track to reach its goal of mobilising investments and the Commission has already proposed to extend it beyond 2018.

The aim of European Fund for Strategic Investment (EFSI), run by the European Investment Bank (EIB), is to finance projects that would have been deemed too risky for financing under existing instruments. EFSI reduces that risk by proposing a public guarantee for the projects, thus encouraging private investors to get on board. The fund currently includes a €16 billion guarantee from the EU and a further €5 billion from the EIB. This theoretically allows the EIB to issue bonds for three times this amount and use the cash to co-finance projects in partnership with private investors so that every euro spent by the investment fund attracts an additional €15 from companies and public authorities, leading to an overall investment of €315 billion.

One year on, did the results meet the expectations?

As of mid-October 2016, 361 projects have been approved for a total of €24.8 billion from EFSI financing. These projects are mobilising around €140 billion of investment. As the EFSI is about the hit the halfway mark, small- and medium-size enterprises (SMEs), research, development and innovation and energy are taking the lion's share of the investments with around 65% of the total.

The Juncker Plan – only for the largest Member States ?

One year after its launch, the Juncker Plan has reached 27 of the EU's 28 Member States – with Cyprus being the exception .

However, the majority of the approved projects has been launched in the most developed and largest EU countries, namely France, Germany, Italy, Spain and the United Kingdom. Indeed, the first year of the Juncker Plan has largely benefited the larger and western-most countries of the EU.

One explanation could be that biggest Member States benefit from a larger technical capacity. Also, the short time frame (one year) means most of the projects currently signed with the EIB were prepared well before the launch of the Juncker Plan, limiting the capacity of the advisory hub to support project development.

Finally, the structure of the fund and its reliance on existing national promotion banks as relays means that countries with well-developed financial infrastructures and strong national promotion banks will most likely benefit more quickly than the rest of Europe.

This highlights one of the weaknesses of the plan. The loose definition of its goals and objectives make it an instrument very much reliant on the pre-existing pipeline of projects. The Commission has voluntarily excluded all demand-shaping requirements (such as projects compatible with the Paris Agreement or with high social value added) from the regulation. It seems, however, that this will change in the EFSI 2.0 – a welcome change as otherwise the fund risks guaranteeing projects that will not provide the maximum value to investors in the long term.

The multiplier effect, a good surprise?

The multiplier effect – the capacity to attract private investments through public intervention – is central to evaluating the success of the plan. 'Junckernomics' focus very much on bringing private investment back to Europe while keeping public spending in check. The plan is the crystallisation of this train of thought: no wonder the plan is named after the Commission's president. Politically, this Commission will largely be judged by the success of the Juncker Plan.

Many questioned the capacity of the plan to leverage private investment. Even the very influential Bruegel think tank raised doubts about this ambitious leverage factor of 15, given that the EIB usually leverages three times the public share in a project.[i] Adding to this scepticism, the risk profile of the projects under EFSI – which should have been higher than under classic EIB financing – were likely to sap the appetite of private financiers.

One year on, the multiplier effect has proved a pleasant surprise for the plan.

One example has been the EIB-supported third-party financing companies for the energy renovation of private dwellings in France. This is an activity that is difficult to initiate, because the banking sector is now almost entirely absent.

The estimates are made project by project and based on actual results. The leverage effect can vary highly from one project to another.

Changes in governance, towards a more open and democratic tool?

The issue of the reluctance of the EIB in terms of project selection was also debatable. The institution, which can borrow at extremely attractive rates thanks to its triple A rating, could be criticised for the lack of additionality in the projects selected. It has certainly been established that the projects benefiting from EFSI financing are not additional enough to entirely fulfil the criteria set out in the legislation.

This profile is at odds with the objective of the Juncker Plan, which was precisely intended to support projects in need of funding due to their lack of profitability or lack of attraction to private investors. The Juncker Plan was meant to finance riskier projects.

For 2015, projects financed under the Juncker Plan were selected by the governing board of the EIB and approved by the European Commission. The launch of the plan took place before the formal establishment of the steering committee, which will meet for the first time in late January, and will be officially in charge of validating projects.

Any new validation process should also include the European Parliament. Indeed, the chairman of the steering committee and of EFSI will report every six months to the European Parliament. But is it the role of the European Parliament to control the selection process?

The Juncker Plan, only for riskier investments?

In a departure from its earlier conservative investment policy, the EIB's investment council is now actively seeking riskier projects to finance. It is clear that some projects financed under EFSI would have been financed anyway by the EIB. The risk profile of these projects matches the level of risks the EIB is usually ready to support.

This is one of the direct consequences of making the fund such a iconic item for this Commission's term. The quantitative target, widely publicised, is a goal the EIB is committed to, and will be held accountable for. The drive to meet this quantitative target, in the case of EFSI, has prevailed over the additionality of the projects selected.

The Commission has recognised this weakness by reinforcing the additionality criteria in the proposal for a revised EFSI regulation in Juncker Plan 2.0.

Belgium, average student of the Juncker Plan?

Firstly, it is important to remember the investment gap in Belgium. Despite a sharp decline in growth in 2009 following the financial crisis, Belgium has been relatively resilient. The share of investment in overall GDP grew less sharply than in other countries in the eurozone: 24.3% of GDP in 2008 to 22.3% in 2013, against 23% and 19.6% respectively in the euro area.

According to the Commission, the main challenge for Belgium in the field of investment lies in the public sector. Over the years, public investment fell to 1.6% of GDP – almost the lowest percentage of all EU Member States. Since 1980 there has been a decline in public investment. This long period of limited expenditure on public investment projects has had a very negative effect on the long-term potential of the economy.

However, there is a need for public investment: investments in national energy infrastructure and interconnections with neighbouring energy markets would improve the security of the energy supply market and benefit the economy as a whole.

Three Belgian projects are already supported by the Juncker Plan to the tune of €380 million. They are expected to trigger a final €1,800 million of investment and create more than 3,200 jobs. These projects are two off-shore wind farms and an investment fund specialising in the rehabilitation of polluted industrial sites, the Ginkgo Multi-Strategy Fund. The shareholders are private and public investors including the EIB.

Moreover, two others projects are already approved but not yet signed. One with SONACA SA, this project covers investments in research, development and innovation (RDI), the other is a project of construction and operation of an offshore wind park.

It is worth asking if the Ginkgo Multi-Strategy Fund really needed the Juncker Plan as it had already benefited from EIB support in 2010, before the plan was launched.

More generally, one may also wonder whether the Juncker Plan should not support more innovative projects, more transnational projects and finally more projects in countries in economic difficulty.

In addition to the infrastructure component, 192 Belgian SMEs have benefited from the Juncker Plan, including 100 projects in Flanders and 92 in Wallonia. Of these 92 projects in Wallonia, 77 relate to classical economics and 15 are projects involving innovative economics. Of the 77 classical projects, about a third could not be financed without the Juncker Plan. Another third would have required more capital contribution, and the last third would have had to be scaled back to a less ambitious scope due to the lack of financial support.

European Investment Fund financing under the EFSI for the six approved agreements with intermediary banks or funds amounts to €57.6 million. This is expected to trigger €684.5 million in investments and benefit 2,021 SMEs and start-ups. Examples of the intermediaries include Sowalfin S.A., Participatiefonds Vlaanderen N.V., ING Belgium S.A./N.V. and Belfius.

If we analyse the report published by the Commission, we observe that the public sector was one of the biggest investment gaps. If we assess the Belgian projects funded by the Juncker Plan, we find that most of them are private initiatives.

The main obstacle the Juncker Plan faces in delivering on its full potential is inconsistency between policies. If the aim of the Juncker Plan is to facilitate investments, the way these investments are treated by the ESA 2010 rules hinders them dramatically in Belgium. The European System of National and Regional Accounts (ESA 2010) requires Member States to treat public investment as one-off expenditure. If a project includes public investment of €3 million over three years, the rules require Belgium to report €3 million of investment in year one rather than €1 million each year. Considering the limitation imposed by the Commission on budget balances, this accounting requirement seriously hinders the capacity of Belgium to scale up public investments.

At the same time, the Commission recognises in its analysis of the economy of Belgium that the country is suffering from a lack of public investment, which hinders growth and jobs creation. A more consistent approach focused on both the right diagnosis and on creating sufficient flexibility in the rules to deliver the objective would help the economy and bring more prosperity to the European citizen. The solution would be to apply the same treatment as that afforded to private sector investments, allowing for the amortisation of the investments over their length.

Conclusion

EFSI 1.0 has been placed very high on the agenda by this Commission, and it has proved both a blessing and a curse. On the plus side, the plan has been set up in record time, calling to mind the notion of Member States addressing their Christmas shopping list to the Commission and providing the institution with a solid list of new projects to support. The downside is that the EIB and the European Commission have both emphasised the need to reach a quantitative target – widely publicised but dwarfing the real added value of the fund in comparison with the usual EIB funding.

Lessons have been learned for EFSI 2.0. Scrutiny of the additionality the projects has been reinforced and the advisory hub will be tasked with proactively seeking projects for financing. Coming a few months after the EU ratified the Paris Agreement, the announcement that projects contributing to the goal of the agreement will be prioritised is also welcome.

The Commission now needs to focus on structural reforms – starting at home – for the plan to deliver its full potential and boost investments in Europe. As shown in the case of Belgium's problematic accounting rules, a better alignment between European Semester recommendations and the projects selected, together with a revision of rules currently hindering investments is the right formula for boosting investments in Europe. Indeed, so far, the public investment gap – the main investment gap in Belgium – has not been resolved by the Juncker Plan and will not be in the near future.

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[i] Bruegel, 'Juncker's investment plan: no risk – no return'. 28 November 2014. Available online at http://bruegel.org/2014/11/junckers-investment-plan-no-risk-no-return/