

**Subject: The European Fund for Strategic Investments (EFSI) – The Investment Plan for Europe**

## **1. INTRODUCTION**

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*What is the European Fund for Strategic Investments (EFSI)?*

EFSI is an initiative launched jointly by the EIB Group - European Investment Bank (EIB) and European Investment Fund (EIF) - and the European Commission to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. EFSI is one of the three pillars of the Investment Plan for Europe that aims to revive investment in strategic projects around Europe to ensure that money reaches the real economy.

EFSI should unlock additional investment of at least EUR 315bn over a three year period (2015-2017).

*How does EFSI work?*

EFSI is a EUR 16 billion guarantee from the EU budget, complemented by a EUR 5 billion allocation of the EIB's own capital. EFSI has been integrated into the EIB Group and projects supported by EFSI are subject to the normal EIB project cycle and governance.

In addition, EFSI has its own dedicated governance structure which has been set in place to ensure that investments made under EFSI remain focused on the specific objective of addressing the market failure in risk-taking which hinders investment in Europe. In doing so, EFSI will also increase the volume of higher risk projects supported by the EIB Group.

EFSI has two specific windows: the Infrastructure & Innovation Window (IIW) and the SME Window (SMEW). The former is managed by the EIB whilst the latter by the EIF, through financial intermediaries. Each Window has a ring-fenced budget.

*What does EFSI focus its activities on?*

With EFSI support, the EIB Group will provide funding for economically viable projects where it adds value, including projects with a higher risk profile than ordinary EIB activities. It will focus on sectors of key importance where the EIB Group has proven expertise and the capacity to deliver a positive impact on the European economy, including:

- Strategic infrastructure including digital, transport and energy
- Natural resources, agriculture and rural development
- Education, research, development and innovation
- Expansion of renewable energy and resource efficiency
- Support for smaller businesses and midcap companies

*Where will EFSI support operations?*

EFSI is demand driven and will provide support for projects everywhere in the EU, including cross-border projects. There are no geographic or sector quotas. Projects will be considered based on their individual merits.

## 2. EFSI AND AGRICULTURE/RURAL DEVELOPMENT

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### *Broadband and smart villages*

Broadband coverage is significantly lower in rural areas than urban areas, and access to high-speed "next generation" technologies is particularly low (18% vs. 62%). Closing the digital divide between urban and rural areas is an important basic enabler for businesses to remain competitive and for rural communities to remain attractive.

Broadband is fundable under the ESI funds, including the rural development fund. It is also fundable under the Connecting Europe Facility (for which Member States, however, have not provided for any significant budget envelope) and via classical state aid. Despite this plethora of potential funding sources, rural broadband is lagging behind.

Broadband is not an end in itself. It provides a means to enable new services and solutions. Only the development, roll-out and adoption of such services will lift the concerned areas onto a higher plane and enable them to pursue a steeper growth path.

### *Precision farming*

Next to new types of information services, the classical parts of agricultural work are also modernising and increasingly digitised. Europe is a leader in automated farming machinery, i.e. automated milking or feeding installations.

Machinery to work the land is becoming, smarter and more autonomous. While driverless cars for general traffic are only beginning to show up on the horizon, robot farming is a hotbed for innovation. This concerns relatively simple settings such as equipping standard vehicles with the ability to drive without supervision or to be remotely controlled. Combined with data collection and data analytics, smarter machinery can begin to tap into the potential of micro-climates, i.e. exploiting the exact soil and climate conditions in each part of land (precision farming).

The benefit of enhanced investments would be two-fold, firstly via more productive farming and secondly via industrial growth fuelled by the farming sector's buyer power. In addition, this sector is so large that it can help the machine and tools industry to become an export industry with growth potential beyond the European market.

### *Bio-economy and resource efficiency*

The bio-economy offers important opportunities for supporting the EU's re-industrialisation, and a positive contribution to the climate agenda. Technical progress today allows the conversion of biomass into a broad range of products, ranging from food, feed and fibres to fuel and high-value substances for the chemical industry.

Resourcing biomass inside the EU benefits from short transport distances. The creation of integrated systems where raw materials, their processing and consecutive waste treatment result in final products or in input for other processing activities could lead to significant added-value and efficiency gains. This pattern would also imply strengthening rural-urban linkages and intra-industrial relationships, thus further stimulating the economic growth of the agricultural and forestry sectors.

Increasing resource efficiency is a win-win scenario for both economic and environmental interests. The sustainable management of soil, water, and biodiversity ensures, on the one hand, that farming benefits from eco-system services, reduces costs, and maintains its capacity to produce in the long run. On the other hand, it answers essential societal needs concerning environmental preservation and quality of life.

A particularly important potential can be developed by the sustainable intensification of land use and a more resource-efficient use of water and land, including marginal land.

This requires investments in agriculture and forestry in order to reap the available potential.

Horizon 2020 already adds to the necessary knowledge base. However, transposing results into practice requires actions targeted towards producers, including knowledge transfer, investment in physical assets and local infrastructure, as well as setting up concrete innovation projects stemming from the European Innovation Partnership for Agricultural Productivity and Sustainability (EIP-AGRI).

However, investments for resource-efficiency in agriculture and rural businesses face similar barriers and solutions as those in the traditional industrial domain. The introduction of new resource-efficient technologies in food-processing, energy, or agriculture is often associated with high capital intensity and economic risks.

#### *Water infrastructure*

Water infrastructure projects can develop their full potential through private-public partnerships. Projects could range from large-scale public works such as dams, or smaller-scale village level investments such as water treatment plants or irrigation projects for farmers.

Water consumption needs to be priced to avoid misuse of this limited resource, according to the Water Framework Directive. A smart pricing policy could generate attractive revenues to make the projects bankable for investors.

#### *Access to finance*

The Commission estimated in 2014 a financial gap in the agricultural sector of between EUR 2 and 9 billion<sup>1</sup>, which impacts differently in the Member States. The creation of jobs and growth through investments in the real economy is a common EU objective, also reflected in the Rural Development priorities.

EFSI can provide support, through the SME window, to financial intermediaries willing to deploy loans, guarantees and/or equity in a specific sector/region. The EIF is the body responsible in the EIB Group for the management of such facility.

### **3. RELEVANT POLICY QUESTIONS**

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1. How can EFSI support strategic investments in the agricultural sector?
2. How can a purely investment-driven tool ensure cohesion and even shares of funding opportunities among Member States?
3. How can EFSI be complementary to other CAP available funding?

### **4. READING LIST**

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Reading material is available in the following links:

- <http://ec.europa.eu/invest-eu>
- <http://www.eib.org/invest-eu>
- [www.eib.org/eiah](http://www.eib.org/eiah)

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<sup>1</sup> Ex-ante assessment of the EU SME Initiative, December 2013