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THE IMPACT OF JUNCKER PLAN ON REGIONAL DISPARITIES IN EUROPE

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To the family I have not chosen

and

to my friends, the family I have chosen

INTRODUCTION

On 26th November 2014, the European Commission's President Jean-Claude Juncker announced one of the biggest and most impactful economic measures ever launched in the European Union: the Investment Plan for Europe. The Juncker Plan, this is the other name used to refer to it, consisted of €21 billion serving as a guarantee to cover the risks for investments in the dramatic post-crisis environment and thus facilitate the mobilization of private capitals. This dissertation is therefore built around this central topic and strives to describe the Juncker Plan in all its features, consequences and critics. As I will try to demonstrate in these pages, the need for a public investment plan was desperately felt after Europe was badly hit by the 2008 financial crisis and the ensuing 2012 sovereign debt crisis. Finding a way to start over was a sort of imperative for the European citizens and the Juncker Plan seemed the best route to follow. But was the Investment Plan for Europe really so efficient? Did it effectively fix the main problems affecting Europe? How can we evaluate the Plan to know how it fared? Could things have been better designed? These are some of the questions that I dealt with in the writing of this paper.

Going from the reasons for its launch to its real effects in the economy, my purpose is to give an overview of one of the most important and debated measures in Europe. Assessing a proposal of this type entails specifying the things that worked as well as the things that did not work and trying to put them in perspective. Accordingly, I am first of all going to analyze the Investment Plan for Europe from the macroeconomic viewpoint, considering factors such as additionality, GDP and employment, and I will then consider its social effects and repercussions, considering factors such as the geographical and sectoral distribution of investments. It will become clear that while the Juncker Plan was vital to wake the economy up, its consequences at the social and regional level, in terms of equality of treatment and care for the most disadvantaged, were reproachable. An incredible EU GDP and employment growth combines with an excessive clustering of investments into a handful of wealthy States, a positive boost of the economy matches a total neglection for issues like poverty and social exclusion while the reduction of the investment gap and the increase in additionality are good but not up to the expected level. These are all the contradictions of a public investment plan whose importance for the European economy is unquestionable but of which we could have made, and can still make, better use by redressing some sectoral and geographic problems it presents.

Having this general prospectus in mind, the present dissertation is structured as follows. In the first chapter I will lay out the very general background that led to the announcement of the Investment Plan for Europe. I will analyze very briefly the earthquake produced by the 2008 financial crisis and

how it then spread into Europe producing two major long-lasting consequences: a wide investment and regional gap. I will present data showing an appalling scenario in which post-crisis investment levels dropped dramatically in practically all Member States and how European regions responded very unequally to the crisis according to their resilience and economic condition.

The second chapter is entirely dedicated to the structure and functioning of the Juncker Plan. I will talk about the three pillars composing the plan and focus more specifically on the first one: the European Fund for Strategic Investments (EFSI). This technical analysis will involve an in-depth description of the EFSI Regulation, the project cycle and the functioning of the financial leverage. I will also dedicate some lines to the evolution of the Fund overtime explaining how we got to EFSI 2.0, i.e. the two-year extension of the program until 2020. I will finally provide some statistics and information regarding what we have obtained after five years of Juncker Plan.

The third chapter is going to be the central one where the main thesis is stated. Here, I will carry out an assessment of the Investment Plan for Europe basing on a multidimensional investigation. It is in this session that I will look at the plan from different points of view to elaborate a clear judgement and identify what is improvable. The first is the economic dimension where I will have to prove that achievements were made in terms of GDP, employment and additionality, even though the investment gap is far from closed. The second is the regional dimension where I will demonstrate whether or not real benefits were yielded in terms of regional disparities and whether or not the geographical and sectoral distribution of the projects was unevenly concentrated. In short, I will try to show whether the Juncker Plan was an outstanding revolutionary accomplishment or a complete failure.

The fourth and last section will deal with the recent developments of the scheme and the shape it will have in the future. I will talk about the newest version of the Investment Plan for Europe, recently proclaimed by the new European Commission, whose name is InvestEU. Besides defining the new investment program, I will conclude the dissertation by advancing some proposals to make up for the weaknesses of the Investment Plan and to really be able to make the best out of it, both in terms of economic performance and in terms of regional recovery and equality.

1. EUROPE TO BE RESCUED: THE DAMAGES OF THE 2008 CRISIS

1.1. THE MAGNITUDE OF THE GREAT CRISIS

In 2008, the world was in utter shock. People had just experienced the most dreadful financial crisis since the times of the Great Depression. The epicenter was the United States where the uncontrolled deregulation of financial markets led many banks to lend high-risk mortgages even to non-trustworthy clients who were not clearly in the position to receive a loan at all. It was 15th September, 2008 when one of the biggest US financial institutions, Lehman Brothers, declared bankruptcy triggering discontent as it was the first time the USA was witnessing the disappearance of one of those institutions which were regarded as "too big to fail".

The crisis was initiated by the bursting of the housing market bubble in the US and precipitated with the diffusion of subprime mortgages, that is housing loans that were supplied to high-risk borrowers with a weak or a bad credit history. Deregulation of financial markets, low levels of interest rate that facilitated lending and, finally, the excessive recklessness of banks that set about securitizing mortgages and transferring them to third agencies were all supplementary factors giving a *coup de grace* to economic systems. In other words, in the years before the crisis the conditions were set for banks to exaggerate with the dispensation of subprime mortgages sheltering themselves from risks through securitization. This new approach called *originate and distribute* allowed banks to shift the default risk to Special Purpose Vehicles (SVP) while immediately retrieving the amount of the loan.[1] Banks were then encouraged to use the amount to expand credit even more and increase their profits. This system collapsed when the Federal Reserve increased interest rates in light of a booming economy and borrowing became more and more expensive. Many people winded up being unable to pay their debts back and the housing bubble burst producing devastating consequences on the real economy. The crisis did not hurt just the US economy but proved to be systemic and the fact that there was no public intervention to rescue a worldwide-operating investment bank like Lehman Brothers worsened the situation since it put into danger all the other participants to the market. Many European economies which were exposed to the subprime phenomenon were dragged into the crisis calling for suited countermeasures. What was worse is that the 2008 crisis was followed by another economic disaster with a totally European flavor, i.e. the European sovereign debt crisis. As a matter of fact, the financial earthquake of the subprime crisis deteriorated the public accounts of the less virtuous European countries, inflating national deficits and making their debt even more

[1] Consob, "La crisi finanziaria del 2007-2009", http://www.consob.it/web/investor-education/crisi-finanziaria-del-2007-2009

unsustainable. The first country to show signs of uneasiness was Greece when the country admitted that the debt and deficit figures it had previously submitted to European authorities had been falsified. After the revision of those figures, and severely hit by the global crisis, it became evident that public finances in Greece were unsustainable. After Greece, many other EU countries experienced the same imbalances and the Euro Area ended up being under pressure. The international markets panicked and the risk of insolvency was avoided only through the external intervention of European Central Bank, European Commission and International Monetary Fund by means of explicit conditionality – as in the case of Greece, Portugal and Ireland – or implicit conditionality[2] – as in the case of Spain and Italy. As Manuel Sanchis i Marco explains, once a country enters the Euro Area it loses control over monetary policy and exchange rate determination. Moreover, art.104B of the Maastricht Treaty specified clearly that it was prohibited for member states to take on another's risk.[3] Due to this fiscal dis-unity within the euro area, less virtuous countries were forced to adopt restrictive fiscal policies such as raising taxes, lowering salaries and cutting public expenditures to go back to a more sustainable economic path. It was the beginning of the austerity phase which turned out to be detrimental for peripheral countries and depressed their economies even more. The decision to bail out Greece in 2010 was taken fearing that a Greek default would have terrible consequences in Europe and generate contagion. And European policymakers found out they were totally right about it when the rescue packages for Greece proved insufficient and the crisis infected other peripheral countries. It was 2012 when the Eurozone witnessed the fiercest crisis of its short life which turned into a Euro crisis since the unity of common currency countries broke apart and Euro reached a historic low. At that point, European authorities perfectly realized what their main task was and ECB's then-president Mario Draghi understood it even more clearly when he pronounced his famous words: "within our mandate, the ECB is ready to do *whatever it takes* to preserve the Euro". In fact, the priority was to stop the crisis and prevent the various "exit movements" from undermining the European monetary project.

In general, one can say that the consequences of the crisis were felt on the economic and political sides. Economically, the 2008 and ensuing sovereign debt crisis triggered the typical effects of a prolonged financial crisis.[4] First of all, there was an overall decline of asset prices, and not just in the housing sector where it all began, which was contained through the launch of unconventional

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[2] This term is drawn by Sacchi (2015) and indicates that, unlike Greece, Portugal and Ireland, where the loan packages were subjected to explicit policies for a structural reform of their macroeconomic framework, Spain and Italy only received an implicit warning to undergo structural reforms to avoid the alarm of international investors

[3] Sanchis i Marco, M., *The economics of the Monetary Union and the Eurozone crisis*, Valencia, Springer, 2014, p.20

[4] Too learn more about this, see Reinhart, C. & Rogoff, K., The aftermath of financial crises, *National Bureau of Economic Research*, Working Paper n. 14656 (2009), p.3

monetary policies like Quantitative Easing (QE). The huge purchase of financial assets on European markets allowed to keep asset prices high and lower their yields to keep the spread in check. Secondly, the crisis was associated with profound declines in output and employment. It is no news that economic crises negatively impact output and growth as they weaken investment opportunities because of a sluggish demand, a high cost of borrowing and a scarce supply of credit.[5] Between 2008 and 2013 EU GDP dropped by more than 4% and has struggled to come back to pre-crisis level ever since. As for unemployment, the European Union was coming from a good performance in the labor market, stimulated by the Lisbon Strategy's target of 70% of workforce employed. However, with the crisis approaching, the labor market received a heavy blow, 6 million people lost their jobs and who bore much of the brunt of recession were low medium-skilled and young workers. Despite affecting all countries in the European Union, unemployment hit disproportionally with peripheries suffering the most and reaching unemployment rates as high as 12% in Italy, 26% in Spain and Greece.[6] Third and last, another aftermath of a crisis is the government debt value exploding and public accounts deteriorating. This came down to two factors. First of all, tax revenues fell abruptly while public spending skyrocketed to assist all those who were negatively hit by the recession. Secondly, EU governments sacrificed large resources to guarantee, recapitalize and resolve financial institutions.[7] All these expenditures were covered by means of debt-financed deficits that became unbearable for most of the least virtuous countries of the EU. In other words, the economic earthquake that we have recently experimented was a banking crisis, a sovereign debt crisis and lastly a Euro crisis as well, with the serious threat of breaking apart a monetary experiment that had lived only a decade. It was then a political crisis too since the fiscal rules and the austerity measures that caged peripheral countries led many people and governments to revolt against the monetary union and to undermine even the political foundation of the European project as testified by the rise of protest parties and Eurosceptic parties especially in Southern Europe.

This is the dreadful background in which we can insert one of the boldest European initiatives to respond to the crisis: the Investment Plan for Europe elaborated by former president of the European Commission Jean-Claude Juncker. Before talking about the Juncker Plan, it is necessary to dedicate the next sections to the most central issues that European leaders bumped into after the great crisis which are the investment gap and the widening of regional disparities.

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[5] European Commission, *Economic crisis in Europe: causes, consequences and responses*, Luxembourg, ISSN 0379-0991, 2009, p.43

[6] Data taken from Trading Economics website: <https://tradingeconomics.com/>

[7] Ibidem, p.56

1.2. THE AFTERMATH OF THE CRISIS: THE INVESTMENT GAP

A first serious problem that unfolded in the European Union in the post-crisis years was the lack of investments. Compared with pre-crisis levels, the value of investments had undergone an unprecedented decline and it was really struggling to get back on track. This was no secondary problem if one considers the importance of investments on economic growth. Investments contribute to increase productivity and output in the medium term and help improve wellness and living conditions when they are socially responsible and target backward regions.

All the economic statistics and reports of the European Commission cast a pretty dark shadow on investment rates in the EU. In the 2013 Investment and Investment Finance in Europe Report, the European Investment Bank (EIB) published that over the previous 20 years the average share of gross fixed capital in GDP was about 20% in EU-27.[8] This data can be better understood if one makes the distinction between Old Member States (OMS) – notably the most central ones and the founding fathers of EU -- and New Member States (NMS) – namely Central and Eastern European newcomers. Traditionally NMS have higher investment levels compared to OMS, which is explained by their low levels of development and their urgency for capital accumulation. The OMS investment-to-GDP ratio has traditionally been 6 percentage points lower than NMS and also different in composition, with OMS investing more in dwellings and residential constructions and NMS focusing mainly on non-residential constructions, machinery and equipment.[9] Right after the crisis this pattern changed. All the countries suffered from a shortage of investments and the EU-27 saw its investment rates drop by about 3% below its average. Just to give a more precise account, in 2007 the EU-27 average share of GDP devoted to investments was 22,87%. Six years later, in 2013, the share was down to 19,50%.

[8] Croatia is excluded from this calculation as it acceded the European Union in July 2013

[9] European Investment Bank, *Investment and Investment Finance in Europe*, Luxembourg, 2013, p.12

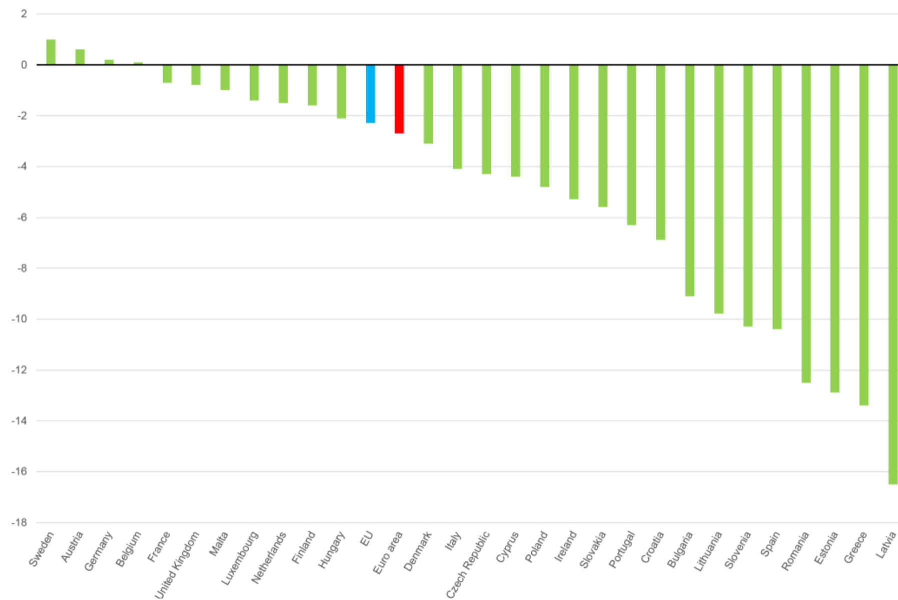

Figure 1 Change in investment-to-GDP ratio in the EU Member States, 2007-2017 (%)
Source: Eurostat

Figure 1 shows the intensity of the investment fall and puts into evidence that the reduction was far from uniform. Newcomers like Latvia, Estonia, Spain, Bulgaria and many others were clearly affected the most by the drop in investments. NMS witnessed the worst scenario so that, after sustaining a differential of about 6% of GDP for many years, gross investment rates in these countries practically converged with OMS. In the next graph it is possible to appreciate even better the trend of investments since the outbreak of the crisis. As a matter of fact, Figure 2, which is projected not in terms of investment-to-GDP but as a comparison with 2008 average levels, highlights that investment in EU-27 dropped by up to 17% compared to 2007 and it also illustrates how, after the great financial crash, there was another slump in 2011-2012 provoked by the sovereign debt and public account crisis which led to a second downturn. Moreover, the graph seems to match what was mentioned above, namely that the drop in investments was more strongly felt by NMS as the sector that precipitated the most was machinery and equipment which is mainly connected to former cohesion countries and new member states.

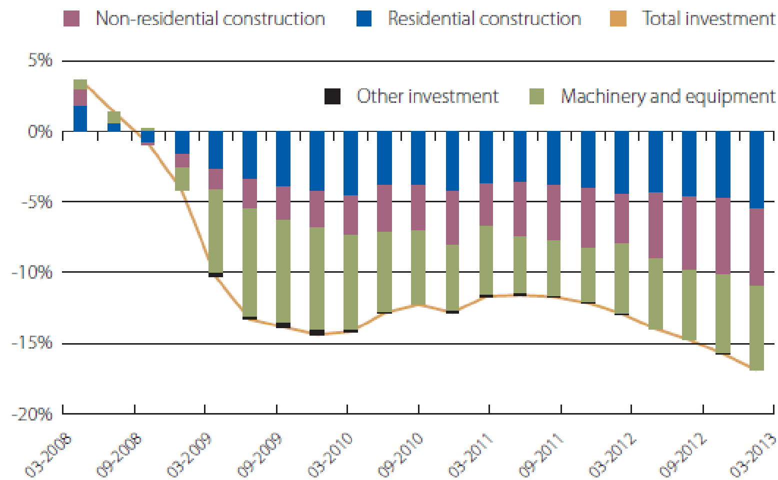

Figure 2 Decline in gross investment in the EU27 compared to 2008 average level (%)
Source: Eurostat

Aggregate statistics confirm that peripheral countries registered the largest declines with levels of investments being currently over 30% below the average. Greece and Cyprus appear to be the worst performing economies with a decline of over 60% of their investment levels compared with pre-crisis years while, on the other extreme, there are well performing countries like Belgium, Germany, Sweden and Poland that have recovered their 2007 investment levels.[10] This explains that the ability to bridge the investment gap comes down to the initial conditions and imbalances of an economy.

But how is the crisis linked to the investment gap? What are the main drivers behind such a sharp and evident decline of investment rates in EU? The economic literature identifies as a first contributor to the investment gap the low aggregate demand and poor output expectations. The decision of a private company to carry out an investment project depends on how much output produced with that investment the firm will be able to sell. The more the expected sales, the more the likelihood to invest. This creates a strong connection between the decision to invest and the expected demand. Undoubtedly, the economic crisis negatively impacted on the aggregate demand because it eroded a large part of public and private savings and wealth, thus reducing the propensity to consume. As long as demand does not show a positive upward trend, it will be very unlikely for companies to be motivated to open up new plants, boost their productive capacities and look brightly at the future. Uncertainty can then play a significant role too. Investments can thrive only when there is certainty and when the future is not too unpredictable. The riskiness of an investment can be conceived as the extent to which an investor can anticipate the cash flows he or she will accrue in a given future period

[10] Pellerin-Carlin, T. Rinaldi, D. & Rubio, E., Investment in Europe: making the best of the Juncker Plan, *Studies & report - Jacques Delors Institute*, 2016, p.29

of time. If he can quite correctly anticipate it, then the investment is considered to be low risk, with the obvious premise that there is no such thing as a zero-risk investment and sudden unmanageable events may occur in any situation. This is to say that in a very uncertain environment, where things may even get worse and worse, an economic actor is very unlikely to predict the success or the feasibility of his investment and simply gives up on it. This is even more true when one considers that one of the key features of an investment is its irreversibility. When it is activated, it almost impossible to fully unwind the process and that is a further reason why investments call for certainty and stability. Yet, certainty and stability have been blown away by the economic crisis which has created a sense of unease and has hampered optimism for the future. Political instability, policy changes and economic distress are all factors that can prompt a *wait and see* approach where people prefer postponing capital accumulation to safer and less risky times.[11] It is interesting to notice that some economists have attempted to measure uncertainty and, although this is a very complex goal and perhaps not immune to some statistical error, the finding is that the mean European economic policy uncertainty index shot up in correspondence of the years of the crisis (Figure 3). Given the negative correlation between investments and uncertainty, the investment gap can be accounted for considering the insecurity and vulnerability in politics, economics and society.

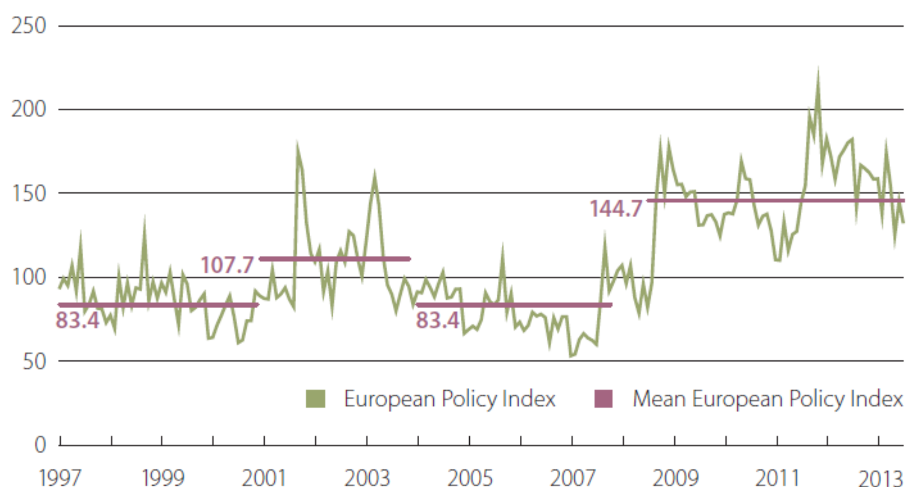

Figure 3 Economic policy uncertainty index for Europe
Source: Baker, Bloom and Davis at www.PolicyUncertainty.com

There is one last reason that drove to a serious shortage of investments and it has to do with the main subjects responsible to deliver credit for investments: banks and financial institutions. The 2008 downturn was mainly a banking crisis and financial institutions ended up with deteriorated balance

[11] Ibidem, p.88

sheets and a considerable number of Non-Performing Loans (NPLs). NPLs are bank loans that are subject to late repayment or are unlikely to be repaid by the borrower and this situation got worse after the financial crisis where the number of insolvent debtors has risen considerably. With liabilities almost exceeding activities and borrowers likely to default, banks are reluctant to finance investment projects until they are lent a hand from governments or a process of deleveraging is completed. The same process must be undertaken by governments with unsafe public accounts where the high level of deficits and public debt impedes them to spend in investments. Among other things, governments and banks are not the only ones grappling with fiscal and financial troubles because also households and firms do. It is what Richard Koo has called *balance sheet recession* in that after a crisis households and firms set about recomposing the value of their wealth which falls along with asset prices. This process of deleveraging, though, puts off consumption and investment because priority is given to debt reimbursement and saving.[12] The problem lies also in a changing attitude of European citizens towards saving. Instead of channeling them into the real economy, the propensity to save and postpone consumption has increased and recent studies have highlighted that Europe, after being a foreign capital importer for some years, has currently become a net capital exporter, with savings largely exceeding investments.[13]

Today the situation has improved a little bit, but many countries are still struggling to come back to normality. Many different research centers and think tanks have estimated the investment gap to be still ample and equal to €270-330 billion per year and if one considers the centrality of investments for growth and development then the urgency to fix this problem increases.

1.2.1. THE CASE OF SOCIAL INVESTMENTS

A parenthesis must be now opened to introduce the problem of social infrastructure investments. They are pretty relevant for this paper as social infrastructure investments refer to a subcategory of infrastructure investments having to do with local empowerment, social cohesion and inclusion and it is hence related to the problem of European regional disparities. Social investments are connected to many fields and are useful to combat poverty and social exclusion. They may concern hospitals, caring facilities, schools, laboratories, student lodging, affordable housing and everything else connected to the decent supply of services like clean water, healthy environment, cheap accommodation and so on. In many regions, social issues overshadow problems of economic nature and the bad performance of the health system, the educational system and the transportation system generates exclusion and marginalization. In such an environment it is impossible to fully enjoy the

[12] Fontana, O., Il Piano Juncker, la BEI e le risorse proprie, *Centro Studi sul Federalismo*, Policy paper n.9, May 2015, p.3
[13] Ibidem, p.5

traditional European standards of living and it is impossible to actively contribute to the European economic growth. That is why social investment gap must be a priority if the EU cares about social and territorial cohesion which is also a core objective enunciated in the Treaties. In terms of Social Infrastructure Investment (SII) things were even worse after the crisis. The major explanation of why SIIs performed worse than normal investments is that they are usually not very palatable to private investors and are thus mainly public in nature. Private individuals invest for their own profit and are unlikely to take on risks promoting the building of infrastructures which have more of a social than an individual impact. It happens that the anticipated cash flow for schools or hospitals is smaller than in the case of monumental projects like highways, bridges, airports or power generation plants because SIIs rely on public sector financing only whereas other huge economic projects collect revenues also from end users.[14] And, if it is true that SIIs are less volatile because payments from the public sector are usually agreed beforehand and are inflation-linked, it is also true that public sectors in Europe are saturated and are not in the condition to engage in many SIIs. Given the fact that 90% of social infrastructure is backed by public money, this depicts a depressing picture explaining the even wider gap in social investments. The picture is even more discomforting in the so-called lagging regions where the issue is more acute and where the backwardness is attributable mainly to this shortage. The High-Level Group on Social Infrastructure in Europe, chaired by the Italian Romano Prodi, examined the problem of social investment gap and asserted that the "EU is experiencing a chronic lack of investment in social infrastructure, which predates the 2007-2009 financial crisis […] Net public investment in the Eurozone periphery, with its critical need to catch up in infrastructure, has decreased from 2% of GDP to a negative -0.6%."[15] Overall, in the European Union the minimum gap in social infrastructure is estimated at €100-150 bn per year and represents a total gap of over €1.5 tn in 2018-2030.

The lesson was then clear: if the European Union wanted to have a say in the future it needed to retool its economy and find a suitable strategy to relaunch investments and productive capacity. Specifically, it became clear that EU needed to redress the financial sector to be able to channel capitals from savers to the real economy and from advanced to lagging regions to make up for the huge disparity that came up in the European Union and hurt some areas more than others. This gap will be the focus of the next section.

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[14] Fransen, L., del Bufalo, G. & Reviglio, E., Boosting investment in social infrastructure in Europe, *European economy discussion papers*, n.74, January 2018, p.viii
[15] Ibidem, p.36

1.3. THE AFTERMATH OF THE CRISIS: REGIONAL DISPARITIES

1.3.1. GENERAL THEORIES OF ECONOMIC GEOGRAPHY

The second major issue that was brought about by the economic crisis was the widening of regional disparities. This problem is somehow connected with the previous one in that the fall of investments as well as other major consequences like the sluggish growth or income reduction were not uniform across the European Union but created inequalities reflecting the fact that there are regions which were capable of recovering and taking off after the crisis and regions which were uncapable of recovering and lagged behind. The problem I am referring to here is not much inter-country inequality, but most of all intra-country inequality. The European Union can be seen as a mix of incredibly advanced regions cohabiting with extremely poor regions. As a matter of fact, it seems that European integration "has led to a narrowing of income equality across nations, but an increase in inequality within nations" and the economic crisis has worsened this scenario making regional disparities another obstacle for growth and prosperity.[16] This is because regional disparity produces areas that do not contribute to the economic growth and wellness of Europe leaving the burden just to advanced areas. Moreover, that also becomes a moral issue of social justice because it is important to ensure that all citizens have the same opportunities and enjoy the same level of development and progress. Not to forget that this is also an explicit mandate of the European Union as expressed in art.3 TEU -- "the Union […] shall work for the sustainable development of Europe based on balanced economic growth, […] it shall combat social exclusion and discrimination, and shall promote social justice and protection, […] it shall promote economic, social and territorial cohesion and solidarity among member states" – and in art.174 TFEU – "in order to promote its harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion, […] the Union shall aim at reducing disparities between levels of development of the various regions and the backwardness of the least favored regions, […] particular attention shall be paid to rural areas, areas affected by industrial transition".

Economic geography shows that in large economic areas and under a competitive single market there is likely to be regional disequilibria as economic activity and investment tend to concentrate in already affluent areas. This applies to the European case as well where EU regional imbalances worsened since the material conditions of production in less affluent areas are below the average.[17] This occurs because when in an open market labor and capital are free to move, they will flee from less affluent areas where there is high unemployment and low returns on capital and will relocate towards more

[16] Baldwin, R. & Wyplosz, C., *The economics of European Integration*, Maidenhaead, McGraw-Hill, 2009, p.413

[17] Sanchis i Marco, M., *The economics of the Monetary Union and the Eurozone crisis*, Valencia, Springer, 2014, p.11

affluent countries where there is more employability and a higher remuneration for capital. Another explanation given by economic geography has to do with the so-called agglomeration forces. Agglomeration forces are when "the spatial concentration of economic activity creates forces that encourage further spatial concentration."[18] The strongest agglomeration force is demand-linked. Firms tend to relocate where the market size is bigger and where demand for goods and services is consequently higher. In a hypothetical area with two regions, where North is economically the smallest and South is economically the largest, many firms have no incentive to settle in the North because consumption is lower and they would incur high shipping costs to supply goods and services in the South. Accordingly, they are incentivized to open up directly in the South and this creates a circular movement. Relocating in the South expands employment and brings new jobs, which creates more demand and a bigger market which in turn attracts more firms and strengthens the demand-linked agglomeration force. This mechanism has been reinforced with European integration because, as it is possible to understand from Figure 4, in Europe there is a core area where productivity and demand are particularly elevated and this engenders a centripetal force for which most of the economic activities concentrate in this central bloc. European integration has thus incentivized a clustering of economic activities which worsens the conditions of lagging regions and improves those of already strong ones. Therefore, the scheme of European regional differences follows a clear pattern: "rich regions are located close to one another and form the core of the EU economy. Poor regions tend to be geographically peripheral.[19]

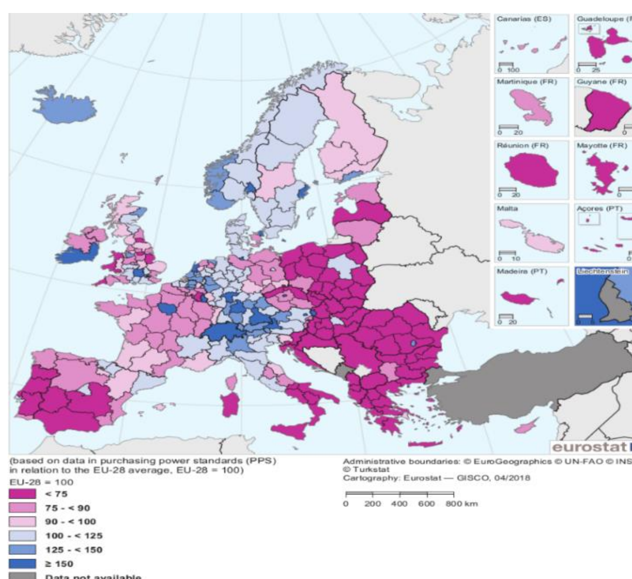

Figure 4 Gross domestic product (GDP) per inhabitant, 2016
Source: Eurostat

[18] Baldwin, R. and Wyplosz, C., *The economics of European Integration*, Maidenhead, McGraw-Hill, 2009, p.395
[19] Ibidem, p.382

As already mentioned above, Figure 4 shows that there is a peculiar spatial distribution for which rich regions converge towards the center and are contiguous harnessing the comparative advantage of being directly connected. These areas form a huge bloc of highly productive regions encompassing Western Germany, Benelux nations, North-Eastern France and South-Eastern England. This “heart of Europe” hosts a third of EU’s population and a half of its economic activities. The figure also illustrates that there is a massive concentration of economic activities in Northern Italy and in some spots of Iberian Peninsula and Nordic regions. In general, economic activity, progress and development tend to diminish the more one moves away from the core. This description corresponds to the analysis of *Business Insider* which reported in an article the 10 best European regions to live and invest in according to the Regional Competitiveness Index which includes more than 70 indicators.[20] The article portrays a picture where big urban areas with high accessibility to the central heart are still leading the way. Examples of top areas standing out from the rest are London with its surroundings, the central area of the Netherlands delimited by Amsterdam, Rotterdam and Utrecht, the Stockholm county, the Danish Hovedstaden region hosting Copenhagen, Luxembourg, Paris and the whole the Ile-de-France area, West Germany and the Land of Bavaria. To put it simply and concisely, when we talk about bridging regional disparities we mean intervening on those areas like East Europe, the Balkans, Southern Italy, South Portugal and Spain where, as shown in the previous section, the level of investments has dropped more substantially and the economy has failed to recover. The Northern extremes of the continent would also have very low income if it were not for the massive fiscal transfers that take place in Scandinavian countries like Norway, Sweden and Finland. This is even more urgent in a context like the EU where the absence of a fiscal unity makes it impossible to make up for inequality through automatic stabilizers or other forms of fiscal transfers from affluent to lagging regions.

[20] Liberatore, L., “Le dieci regioni d’Europa dove è meglio vivere, lavorare e investire”, March 2017, https://it.businessinsider.com/le-10-regioni-deuropa-dove-e-meglio-vivere-lavorare-e-investire/

1.3.2. AN ANALYSIS OF POST-CRISIS EUROPEAN DISPARITIES

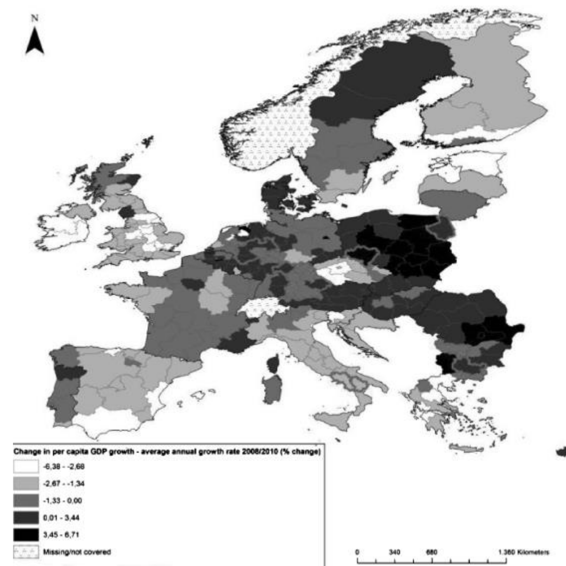

Figure 5 Change in per capita GDP growth, 2008-2010 (%)
Source: Eurostat

That regional disparity after the 2008 crisis has become an evident reality is by now taken for granted. Figure 5 speaks for itself and it displays how heterogeneous the effects of the crisis were not just across the member states but especially across EU regions. Within each state the crisis impacted differently and, in some cases, alongside regions where per capita GDP dropped by more than 3 percentage points, there are regions where the situation did not precipitate that much or where per capita GDP even rose by a few points. This is mostly the case of Spain, United Kingdom, France, Greece and also some Eastern European member states. The figure is thus a reliable proof of the fact that regional disparity is a prominent issue in the European Union.

To begin with, a correct analysis of European regional disparities can only start by defining what regions we are taking into account and what they are characterized by. The European Commission's report *Competitiveness in low-income and low-growth regions*, also called *the lagging regions report*, states that around one in six EU residents live in a less affluent area and, although the report makes a distinction between low-income and low-growth regions, I will consider them jointly under the unique label of "lagging regions".[21] These areas I am referring to are those colored in figure 6.

[21] European Commission, *Competitiveness in low-income and low-growth regions*, Brussels, April 2017, p.2

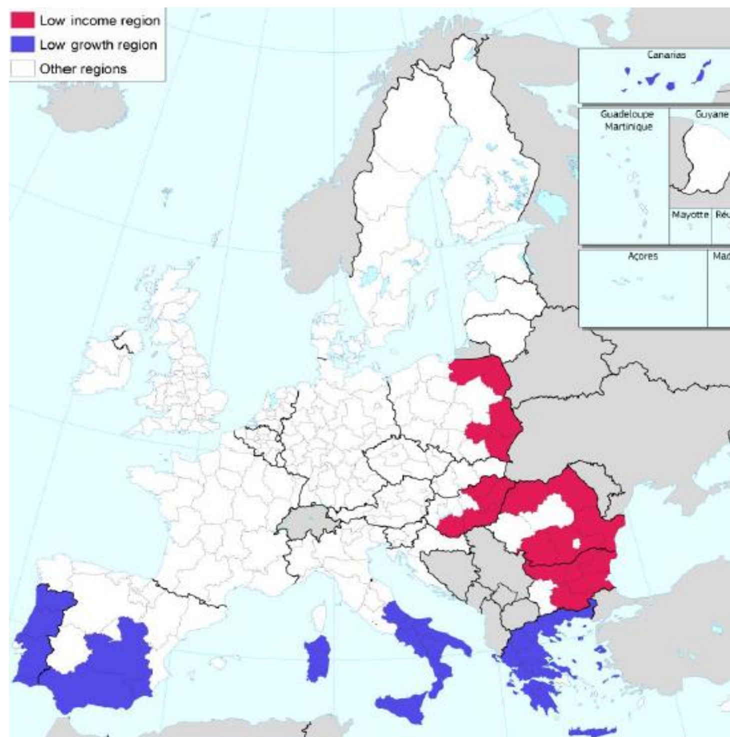

Figure 6 Map of the main lagging regions in Europe
Source: DG REGIO

The lagging regions are characterized by macroeconomic indicators scoring well below the EU-27 average. This is true for employment, income, tertiary education, innovation, investment, government quality and social development. Some of them also show high levels of indebtedness, public deficits and a very flat productivity which is the real impediment for convergence. All these indicators have further crumbled after 2008 and while virtuous areas have managed to fully recover and proceed along a path of growth, lagging regions have either stagnated or even deteriorated. The reason why the global crisis hit these regions the most making the regional gap even more ample comes down to the fact that resilience is strongly associated to the overall macroeconomic soundness of a place. A healthy economy can indeed contribute to mitigate the contraction of regional economies and shelter them from the most brutal consequences.[22] A stable economy with contained public debt and current account surpluses is, for example, an economy where the consequences will be felt only in the short-term because its soundness will allow her to curb the negative impact of the recession in the long-term. Whether the region fares well in terms of innovation, research and employment is another paramount indicator of its capacity to be resilient and recover quickly from economic downturns.

[22] Crescenzi, R., Luca, D. & Milio, S., The geography of the economic crisis in Europe: national macroeconomic conditions, regional structural factors and short-term economic performance, *Cambridge journal of Regions, Economy and Society*, vol.9, n.1, March 2016

This is how the pre-2008 regional economic performance is connected to post-2008 economic consequences of the crisis and this is why the interregional gap has widened with affluent regions holding back the recessionist wave pretty soon and lagging regions lacking soundness and protection and therefore deteriorating even more.

One suitable example to snapshot the post-crisis trajectories is Italy. As a matter of fact, Italy is a European country with worrying levels of regional inequality with the "Mezzogiorno" falling behind and lacking investment and productivity. Initially, Northern productive regions were hit more strongly by the recession because of their closer international ties which exposed them more to the negative global juncture. Southern regions, on the contrary, were initially protected by a stricter closeness and employment in the public sector. But then, the differentials in several key indicators made it possible for Northern regions to recover and for Southern regions to feel the worst medium and long-term consequences. Italy is also a very appropriate example to snapshot the features shared by EU lagging regions. What makes it possible to have such disparity between North and South is a lot of factors starting from access to finance. In the Mezzogiorno, access to finance is more expensive and more complicated and the interest rates charged by banks are significantly above the standard interest rates that are applied in the rest of the country.[23] This is how, for example, regional disparity connects with investment gap since these conditions influence private investments. High interest rates mean that a firm is less prone to borrow money and that is why innovation and productivity do not rise. Another aspect which places Southern Italy near all the other lagging realities is the bad potential road accessibility and therefore the below-the-average infrastructural transportation and connection of the territory which is probably a reflection of the low urbanization and historically low infrastructure investment. The European Commission's report identifies as other factors to be kept under scrutiny the university record in terms of R&D. Even in this specific dimension, low-competitive zones underperform with Southern Italian regions like Calabria, Sicilia and Basilicata at the bottom. This implies, in turn, that human capital is limited and this is an obstacle for growth because qualified people are more likely to find innovative solutions to adverse economic shocks. On the contrary, in most of these regions, qualified citizens tend to leave due to a lack of employment and opportunities that would otherwise force them to take up under-qualified jobs not representing what they have been studying for. A final element for which Southern Italy is an embodiment of lagging regions is the shortage of social infrastructures. In the previous section, I described the importance of SIIs for growth and development. Failing in building decent social infrastructure results in lower standards of living which impacts directly on the rate of progress and economic activity that

[23] European Commission, *Competitiveness in low-income and low-growth regions*, Brussels, April 2017, p.12

are attainable. Without digging too much into Italy’s differentials, any database will show that the capacity of the health system, the functioning of health facilities, the solidity of the school system and educational buildings and the connection of the places through roads and railways are by far not comparable to the same structures in the North. This is the exact picture that one can find in many other backward regions like Andalusia, Regiòn de Murcia and Castilla-La Mancha in Spain, all of the regions of Portugal and Greece, most of the small islands in France like Mayotte, Łódź, Opole and Silesian in Poland, all the regions of Bulgaria and Romania, the Dél-Alföld and Észak-Alföld regions in Hungary and a large portion of Latvia.[24]

It is crucial to let these facts be known so that one can understand where it is more necessary to intervene and what investment projects would be needed to reverse the situation. Given the most pressing issues of these regions, this also helps analyze better the role of Juncker Plan and assess whether the initiatives and projects that were presented were useful or not. As inferable, the urgency to find an instrument or a strategy to carry out investments in lagging regions is felt not merely because it is important and it is in the mandate of the EU to ensure equitable development and opportunities but also because these were the areas where investment levels dropped the most and therefore bridging the gap means intervening where the gap has been more substantial. There is then another element. In order for an economic union and a currency area to work properly all the units should show similar economic conditions for this makes it easier to absorb asymmetric economic shocks once member states renounce to exchange rate and fiscal unity. Accordingly, the EU must make sure that lagging regions enhance their levels of innovation and productivity and make sure citizens enjoy better living conditions.

So, in the end, where is the connection, if any, between investment gap and regional disparities? The two aspects are linked by the fact that after the crisis investments fell more significantly in already debilitated areas where structural problems impeded a full recovery, and this is even more true when considering social infrastructure investments. Consequently, the investment gap exacerbated regional differences in the EU and hurt backward regions because it deprived them of what they need the most to catch up with advanced regions: socially impactful capital accumulation. The reason why some areas lag behind is due to the fact that low levels of SIIs led to social exclusion and poverty cutting these regions off the most productive and lucrative ones. If strong regions can endure a drop in investments thanks to their resilience and soundness, weak regions cannot hope to keep up and approach the former without adequate investment projects boosting their productivity, innovation,

[24] These are the areas with very low record in terms of social competitiveness index according to the European Commission. Look at the map on <https://ec.europa.eu/regional_policy/en/information/maps/social_progress>

employment, poverty reduction, citizens' empowerment and access to appropriate and efficient services. That is why the two matters should be tackled jointly. A bold and convincing strategy should be designed to ease capital collection and, at the same time, to facilitate investments in difficult areas. The two issues are linked together and a huge plan to bridge the investment gap is the prerequisite to help lagging regions, provided that the plan be projected in such a way as to facilitate a uniform diffusion of projects and not a concentration of investments in the usual affluent areas. The strategy that was envisaged and later implemented to drag Europe out of the quagmire was the Juncker Investment Plan that was bound to mark Jean-Claude Juncker's entire presidency. What the Juncker Plan is and whether it was an effective policy or not is the subject matter of the following chapters.

2. THE JUNCKER INVESTMENT PLAN

2.1. THE RETOOLING OF THE EUROPEAN ECONOMY

The European Union has long been aware of the troubles generated by the crisis. However, the difficulty to leave that period behind is attributable to weak decisions made by European institutions during the first post-crisis years and to a very unusual context that seemed to wear out all the conventional tools. That Europe needed a retooling of its economy was quite evident when the conventional policies turned out to be unsuccessful and no European course of action proved to be effective in relaunching member states' economies. That is the reason why in his 2015 State of the Union speech, Jean-Claude Juncker claimed that "this is not the time for business as usual" to indicate that Europe had to look for new instruments and a bolder reaction to counter a sluggish economic growth that looked like a steep mountain to climb.[25] But where did the need for new initiatives come from? And why did the conventional measures not work in relaunching EU economy? What is the point of a huge investment plan?

A first conventional tool available for the European Union to carry out investments while also supporting disadvantaged regions was cohesion funds. The main idea is that these funds must be channeled towards less affluent areas in order to create the conditions for a catch-up. Most of the funds are devoted to the purpose of convergence and a tiny fraction also for regional competitiveness, employment and territorial cohesion. The economic literature is quite undecided and fragmented about the effectiveness of those funds in fulfilling their goals. Even though some studies claim that cohesion funds did their job and they account for the bulk of public investments in many regions, there are many other researches highlighting the opposite. Over the years, cohesion funds have certainly been a valid instrument to combat backwardness, and it is true that several were the regions which benefitted from these aids. Yet, cohesion funds are alleged to have underperformed in that they did not lead to a full convergence and regional disparities are still quite wide. The problem with this conventional tool is that, first and foremost, the share of EU budget to be destined for cohesion funds and its utilization is a political matter. It is up to Member States to decide how much money to allocate and who is eligible. So, it turns out that some of the programs are not properly fair and equitable. Most of the funds are allocated by country rather than by region and all the regions in cohesion

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[25] Juncker, J.C., "State of the Union address", September 2015, https://ec.europa.eu/commission/sites/beta-political/files/state_of_the_union_2015_en.pdf (written version)

countries are eligible regardless of their wealth.[26] This means, in practice, that a good share of the funds goes to big cities or other urban areas which would necessitate the least so that, effectively, the amount of money actually channeled into struggling regions is less than expected. A second consideration is that the projects are not chosen at the EU level but by the single states and it is thus possible that many of them have just a limited impact on social development and an inadequate financial leverage. There is also the risk that some countries might take advantage of EU funds to economize on national resources. Accordingly, cohesion funds could not be relied on as a tool to fix the post-crisis European economy.

The second traditional way to boost investments was the increase in public spending so that governments could directly take on the responsibility to fix the gap. In the last years, even this trivial tool has become unworkable because after the sovereign debt crisis governments ended up having their hands tied. With disastrous public accounts to burden, most countries simply could not afford to let public spending loose and break the European fiscal rules. There were attempts to set governments free from excessively stringent fiscal impositions. The first attempt came before the great crisis, in 2005, when the Growth and Stability Pact was revised to grant member states higher discretion. European authorities decided to leave more room for relevant factors in public spending such as R&D and to take into consideration country-specific circumstances in order to assess the sustainability of its public accounts. A second attempt was later tried in 2012 with the introduction of the "investment clause" allowing to exclude co-financed public investments from the deficit-to-GDP ratio.[27] This was supposed to constitute an outlet for investments although it worked only for co-financed projects and its use was associated with restrictive conditions that in the end limited its use. The introduction of the clause has triggered a viral debate on the need for a golden rule excluding all forms of investment from the restrictions on public deficits and the rationale is that investments are too important for the economy and for future generations to be halted by some severe fiscal criteria. However, while this debate got inconclusive, not even more public spending and more public debt can be relied on as a tool to fix the post-crisis European economy.

Before the famous announcement of Jean-Claude Juncker, the strategy the EU was pursuing to bridge the investment gap was the use of several different new Financial Instruments (FIs). Given the governmental constraints, the only way to spur investments was finding a way to attract private and public capitals and help them get invested. It was a real shift from a logic of direct public financing to a logic of attracting private investments through palatable instruments promising for high returns.

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[26] Baldwin, R. & Wyplosz, C., *The economics of European Integration*, Maidenhead, McGraw-Hill, 2009, p.407

[27] Pianta, M., Why Europe needs a public investment plan, *Intereconomics*, vol.51, November 2016, p.313

By financial instruments we mean “instruments providing financial support in non-grant forms that are backed by the EU budget” and they can take the form of loans, guarantees, equity participation and other risk-sharing facilities.[28] Coming up with several different financial products was a way to expand the investors’ possibilities and offer them the best options possible to mobilize their capitals. The advantages of such instruments were unquestionable: leave a wide range of choices for governments as to what product is the most convenient and produce a consistent financial leverage making it possible for small investors to yield returns higher than the capital originally invested. In the period 2007-2014 there were around 25 different types of FIs at work and some of them were then merged reducing the number to 6. The rationale of financial instruments is not that distant from the idea behind the Juncker Investment Plan but over the years they have also revealed some associated risks and weaknesses. In the report called *Investment in Europe: making the best of the Juncker Plan*, the authors recounted that FIs were often used in absence of clear market constraints, thus crowding out private investments. Another defect is given by the fact that many FIs overlapped targeting the same areas and beneficiaries and were hence disempowered. Finally, another aspect weakening the case for financial instruments is the great cross-country differences, which is a central dimension for the present dissertation. 75% of all structural funding contribution to FIs is estimated to come from Poland, France, Italy, UK and Germany while the real needy areas knew no contribution.[29] There is still a great variety of FIs at work for member states and their usage is still a viable option. However, due to their flaws, FIs could not be the only instrument available to accomplish such a strenuous effort like revitalizing investments and growth and they must be complemented by something bigger and bolder.

The need for a new innovative initiative to channel private and public capitals was also felt because of the large amount of liquidity that is currently circulating in our economic system. The unconventional monetary policy called Quantitative Easing (QE), inaugurated by the ECB in 2015, turned out to be quite successful in preventing the economy from further backsliding and in stimulating the market. On the other side, the large purchasing of financial assets generated an overdose of liquidity, most of which is passively stored in banks which are reluctant to lend it to finance investment projects due to the instability and uncertainty I was referring to in the precedent chapter. Since banks are not willing to take risks or venture into unpredictable situations, savings get stuck in their vaults instead of being used to relaunch the economy. We do not need to print more money or borrow from abroad because we already have all the liquidity we want in the system. What

[28] Pellerin-Carlin, T., Rinaldi, D. and Rubio, E., Investment in Europe: making the best of the Juncker Plan, *Studies & report - Jacques Delors Institute*, 2016, p.40
[29] Ibidem, p.41

must be designed is a tool enabling to attract those capitals and to constitute an alternative to recalcitrant banks.

To sum up, the European Union was expected to take the lead and engineer a plan going beyond the conventional measures and making up for the shortcomings of ordinary strategies. Need was felt for a bold new public policy because the experience of the 2008 crisis and the ensuing stagnation "reminded economists and policy makers that markets alone cannot be relied upon to make correct investment decisions" and that "the financial crisis resulted from major mistakes in financial markets."[30] The Juncker Investment Plan was the result of these considerations and was part of the retooling of European economy. Declared goal: reactivate investments and enable European countries to get back on track.

2.2. THE JUNCKER PLAN: WHAT IT IS AND HOW IT WORKS

2.2.1. THE FIRST PILLAR: THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS

The previous section explained why the EU got to a public investment plan and why its implementation was so urgent. The Juncker Plan represents probably the most ambitious economic initiative taken at the European level, but it was not actually the first one. The idea to count on investments and mobilize capitals to fight against downturns and revitalize Europe dates back to 1993 when then-president of the European Commission Jacques Delors proposed a public spending plan for growth and employment that never saw the light. In the same way, in 2000, the European Commission launched the Lisbon Strategy and opted for an increase of public spending devoted to research and development up to 3% of EU budget to meet the expected objectives but once again the project never took off. Finally, more recently, another attempt was tried in 2012 when EU leaders put forward an official agreement for growth and employment aimed at mobilizing €120 billion but it shipwrecked immediately like the previous.[31] That is why the announcement of the Juncker Investment Plan has created so many expectations as well as worries that this plan might turn out to be just empty words as in the case of 1993, 2000 and 2012.

Former president of the European Commission Jean-Claude Juncker presented his plan in November 2014 and during his announcement speech at the European Parliament he voluntarily used solemn tones as to emphasize that a credible public investment plan was finally on the table. He talked about the package as "a question of getting some new winds blowing through Europe", "some fresh air into

[30] Pianta, M., Why Europe needs a public investment plan, *Intereconomics*, vol.51, November 2016, p. 316

[31] IlSole24ore, "Dal piano Juncker nuovo ruolo per gli stati", November 2014, https://st.ilsole24ore.com/art/notizie/2014-11-02/dal-piano-juncker-nuovo-ruolo-gli-stati-081055.shtml?uuid=ABgGlS9B

the structures", "to get some oxygen into the institutions". He talked about a plan being "attractive for investors" and producing "effects on the regions where it will be carried up."[32] "We need to send a message" - he went on in another occasion where he was asked about the giant plan, - "to the people of Europe and to the rest of the world. Europe is back in business". And, again, "we are offering hope to millions of Europeans disillusioned after years of stagnation. Yes, Europe can still become the epicenter of a major investment drive. Yes, Europe can grow again. Yes, the European social model will persevere". The solemnity of the speech embodied the importance of the moment and the ambition of the initiative on which the European commission, and specifically Juncker, had pointed everything.

Let us start from the objectives. The Juncker Plan had three main goals. The first purpose was to make a smarter use of financial resources. The plan was supposed to facilitate capital mobilization and overcome all the traditional barriers for investment. The idea is that of getting public capitals to be backed and complemented by private capitals and garner as many resources as possible through a substantial financial leverage. This had to be used as an incentive to dive into riskier investments that would not otherwise have been undertaken owing to the instability and uncertainty of present times. The second objective was to provide visibility and technical assistance to investment projects. After all, the only way Europe can stand out from the other world economies is by relying on its social model and furnishing high-quality services to a larger segment of the European population. Having a technical supervision guiding the single member states through the normative quagmire and supporting the projects becomes an extremely valuable tool. Third and last purpose of the Juncker Investment Plan was to remove obstacles for investments. This implied, for example, harmonizing the norms regulating capital markets, giving every European country equal access to finance and turning the resources into investment projects without weighing on public debt. In the end, the role of the plan is not to create resources but channel them towards productive investments. One may also add a fourth, often uncited, purpose which was to reduce bureaucracy and, therefore, decrease the cost of borrowing. The investment plan was supposed to considerably decimate the bureaucratic procedures and make the eligibility and assessment criteria for investment projects as smooth as possible.

The three objectives correspond to the three pillars on which the strategy is built. The first pillar of the Juncker Plan, matching the goal of capital mobilization, is the European Fund for Strategic investments (EFSI) which is by far the most important component of the strategy, the one through

[32] BBC news, "Juncker reveals giant EU investment plan", November 2014, https://www.bbc.com/news/world-europe-30205776

which attaining the ambitious and controversial goal of mobilizing €315 billion worth of investments. EFSI is a creature of the European Commission and the European Investment Bank and it was designed to become the main investment promoter. Despite its name, EFSI is not a real and proper fund but it represents a guarantee provided by the EU budget plus a capital contribution from EIB. The Fund presented an initial allocation of resources equal to €21 billion. €5 billion taken from the balance sheet of the EIB and the remaining €16 billion coming from the EU budget. The European Union allocated part of such resources subtracting them from other projects among which €3 billion were extracted from *Connected Europe Facility* program, €2,4 billion were obtained from *Horizon 2020* and other €2,5 billion were taken from the margins of the residual budget.[33] To help in its goal, "participation in the EFSI should be open to third parties, including Member States. Other third parties such as regional governments, national promotional banks or institutions regional banks or public agencies owned or controlled by Member States, private sector entities, and entities outside the Union, should also be able to contribute directly to the EFSI."[34] The idea of the Fund is that of harnessing public resources and the credibility of EIB to get from the initial amount of 21 billion to the target of 315 billion worth of investments through a system of leverages: the first one being an internal leverage - in that the Fund increases its resources by getting financed on financial markets thanks to the emission of bonds with an EIB credit rating which means they are very safe and trustworthy – and the second one being an external leverage – in that the Fund does not finance the whole project but only a small part of it and it lures the rest of the money from third parties. So, in other words, EFSI is expected to raise €315 billion in investments by means of financial leverage, which is a central concept to understand the plan and it is worth explaining. The financial leverage is the use of borrowed money to finance the purchase of assets for an amount which is superior to that initially available. It gives the possibility to invest more than what it is actually possessed and potentially increase profits. Let us make an example showing how the system works. EFSI may decide to approve an investment project and to finance that investment partly with EIB money and partly by attracting private capitals. Let us assume that we start with €100. We then borrow €900 to be able to make a more robust investment and purchase a €1000 worth asset. Let us suppose now that the asset value increases by 30% and the asset price gets to €1300. So, we started with a capital of €100 but we managed to arrange a €1300 investment. Considering that we have to pay €900 back to our lender and considering our original sum, we profited €300 from the asset purchase, namely we yielded a

[33] Marengo, U., Il piano Juncker per gli investimenti: potenzialità e problemi dell'implementazione, *Documenti Istituto Affari Internazionali*, n.15, July 2015, p.5
[34] Recital 36 of the Regulation (EU) 2015/1017 of the European Parliament and of the Council, 25th June 2015

profit of 300% on an asset with just 30% return.[35] In the specific case, the financial leverage amounts to 3:1 because for every euro invested you get three more out of it. This is exactly the rationale of EFSI as well: exploiting the financial leverage to carry out investments which are worth more than the initial capital. It goes without saying that the benefits of this instrument are accompanied by terrible risks. Just like the leverage amplifies investors' profits, provided the return on investment exceeds the cost of borrowing, in the same way it amplifies losses as well. The multiplication effect triggered by the financial leverage works even in the case of a depreciation of the asset and, thus, a negative yield. All considerations on the leverage notwithstanding, passing from 21 to 315 billion is a huge and almost unprecedented effort and it presupposes a financial leverage of 15:1. The European leaders intend to do so by relying on the credibility of the EIB which was able even in the past to mobilize a great deal of resources. This has given rise to controversies and attacks attempting to undermine the validity of the plan because such achievement was deemed impossible, but I will discuss the weaknesses and critics to the Juncker Plan in another suited section. Be it as it may, it is now clear that the main purpose of the Juncker Plan is to mobilize the largest portion possible of private finance with the smallest portion of public finance and to take on some of the risk to increase promoters' appetite to invest. In other words, EFSI satisfied the need to do more with less and to respond to a very serious issue such as the cutting of the size of the Multiannual Financial Framework and therefore of the EU budget compared with the turn of the century. The scarcer resources available made it even more complicated to spur growth and employment and called for the creation of funds and guarantees to attract capital and facilitate its usage outside the EU budget. Appetite for investments is fostered by the credibility of EIB which is reflected by the triple A rating making it a very trustworthy partner.

Figure 7 The structure of EFSI
Source: Marengo (2015)

[35] For the sake of calculation, I intentionally omitted the reimbursement of interests that obviously the borrower owes to the lender

Getting now into details, Figure 7 illustrates more schematically how the Fund works and how it is structured. EFSI consists of two windows where to allocate the funds. Three-quarters of the capital is destined to the “Infrastructure and Innovation” window whereas one-quarter of the capital gets devolved to the “SME” window. The latter provides support to small and medium enterprises which are those traditionally with more difficulty in accessing finance and finding resources. The SME window grants approximately €5 billion and is implemented by the European Investment Fund (EIF). EIF belongs to the EIB group and is the provider specialized in risk for small and medium enterprises across Europe. The governance and characteristics of EIF are of great help to accomplish the goal of SMEs support especially since the fund is AAA rated and enables financial institutions to apply a 0% risk-weighting to assets guaranteed by EIF. On the other side, the “Infrastructure and Innovation” window is the biggest one, comprising around €16 billion, and is managed by the EIB. Through this branch, and backed by the credibility of the European Investment Bank, EFSI is tasked to revitalize investment projects such as building infrastructure to connect European cities, expand the capacity and effectiveness of research in labs and universities, promote social inclusion and the delivery of basic fundamental services like access to Internet, clean water and clean energy.

Since EFSI is both a fundamental and an articulated organism, governance becomes a key factor to steer the Fund in the right direction. That is why EIB governance structures remain applicable to EFSI operations and procedures, but the Fund has also developed its own specific governance structures which are the *Steering Board*, the *Investment Committee* and a *Managing Director*. The Steering Board, as the European regulations setting EFSI up explicate, governs the implementation of the fund to ensure the appropriate use of the guarantees. The organ then determines the strategic orientation of EFSI, the policies and procedures necessary for its functioning, rules applicable to the operations with investment platforms and national promotional banks and EFSI risk profile. The Steering Board is composed by four members, three appointed by the Commission and one by EIB. The Chairperson and vice Chairperson are elected among the voting members and remains in charge for a three-year renewable term.[36] The second governance pillar is the Investment Committee, which is responsible for the examination of potential projects, the approval of the EU guarantee for EIB projects and the approval of the operations with investment platforms. The committee comprises eight independent members plus a general director. The eight experts are appointed by the Steering Board following an open and transparent procedure and they remain in charge three years. The mandate is renewable only once and its composition seeks to be as representative as possible, featuring an expert in research and

[36] Regulation (EU) 2015/1017 of the European Parliament and of the Council, 25th June 2015, art. 7.2 and 7.3

development, an expert in infrastructure and transportation, an expert in environmental safeguard and protection, in health and medicine and so on so forth.[37] Each of the two bodies is accompanied by a code of conduct underlining the moral principles that should guide the members focusing specifically on the independence of the organs and the avoidance of the conflict of interest. Finally, European policy makers also envisaged the presence of a Managing Director responsible for the day-to-day management of EFSI and the preparation and the chairing of meetings of the investment committee. The Managing Director is elected by the members of the Steering Board with the support and consultation, at every stage of the procedure, of the European Parliament and of the Council.[38] The current director of the Fund is Wilhelm Molterer.

2.2.2. THE SECOND AND THIRD PILLAR

The second pillar of the Junker Investment Plan matches its second key objective. This pillar is constituted by the European Investment Advisory Hub (EIAH) and the European Investment Project Portal (EIPP) providing for technical assistance and greater visibility of investment opportunities. These two tools are supposed to give economic actors a compass to orient themselves through the various investment possibilities across Europe. Starting with the first one, EIAH, which is a partnership between the EIB group and the European Commission with the management formally assigned to the former, is like a targeted support to identify, prepare and develop investment projects. In sum, anyone who wants to plan, create and develop an investment that could receive funding from EFSI can address the Hub. This service works as a single point of entry to a range of programs and initiatives of technical assistance provided by experts guiding beneficiaries through all the necessary steps to give birth to an investment. The idea is for the Hub to become a facilitator giving even marginal actors the possibility to navigate through the stormy ocean of bureaucracy and complexity which is typical of today’s financial markets. EIAH supports project promoters since the first steps and guides them through the end of the process until the implementation and evaluation phase. In other words, the technical assistance furnished by the Hub encompasses all the typical five basic stages of a project. First of all, there is programming. The Hub helps identify the vision, strategy and objectives that a public authority or private firm has in the long run and sets up the framework within which to work taking into consideration the *acquis communautaire* or any kind of restriction and conditionality. The second phase is identification. The Hub helps identify project ideas that are most suitable and assess their feasibility. At this point, ideas are collected and examined trying to answer some pivotal questions like who your customers will be, what distribution channels work best,

[37] Ibidem, art. 7.7 and 7.8
[38] Ibidem, art. 7.5 and 7.6

whether the project is really going to bring development and live up to your expectations. Third, there is formulation. In this case, the Hub looks into the project's viability using data and information gathered via relevant studies. Experts carry out technical analyses accounting for factors like the environment, the law, the economy and the policies and estimating their impact on the project. It is the step of the cost-benefit analysis and the preparation of the first legal forms and documents. Fourth, there is implementation. EIAH accompanies clients through this phase supporting them from the signature of the contract to the take-over of goods and services. This is the stage where the project takes shape and gets visible from the outside. Lastly, the Hub supplies assistance in the post-implementation phase as well. As a matter of fact, after the project is over, one can still call for the advice of EIAH for evaluation and audit.[39] At this point, what the Hub does is assessing the effectiveness, impact, compliance and sustainability of the project and understanding whether the planned benefits are achieved, there are some lessons to be learnt, rules were complied with and so on. In the last years, EIAH has also promoted new specific initiatives targeting single sectors aimed at raising awareness of the products and opportunities investors can take advantage of. Just to make some examples, there is the Safer Transfer Platform (STP) – Road Safety Advisory providing advisory services for projects improving road safety. Since there exists many sources of financing available for projects contributing to improved and safer transports, the Hub helps identify these sources and updates promoters on the regulatory framework and all the policies disciplining the sector. Similar initiatives concern the circular economy, investment programs for cities and urban areas and the delivery of services for local communities.

What requests were concretely submitted to the European Investment Advisory Hub? And what projects did the Hub exactly contribute to? Over the years, the Hub has received more than 1000 queries and most of them have turned into concrete projects that EIAH has managed to usher through all the relevant steps. The Irish Ministry for Business, Enterprise an Innovation asked for EIAH's help to detect the barriers to the digitalization of small enterprises and the organ's intervention was key to take down those obstacles and promote digitalization. The Flemish Ministry of Mobility and Public Works addressed the Hub to realize the conversion of the transportation system of the region into a greener one using cleaner energy. The advises provided by the platform made it possible to analyze the issue and accelerate the transition. Finally, the Hub proved useful for environmental purposes too. The Italian city of Milan requested EIAH's advisory service to finance projects leading to the finalization of an Air Quality Plan and to the improvement of the living conditions of citizens.

[39] Information on the stages and assistance of the Hub were found on its website: <https://eiah.eib.org/find-support/project-lifecycle/index.htm>

Milan is currently leading the way in Italy in terms of environmental sustainability also thanks to the EIAH's support that helped Milan find suitable sources of finance to fulfill its ambitious plan.[40]

The second platform belonging to the second pillar of the Juncker Plan and flanking the Hub in its role of technical assistance and project visibility is the European Investment Project Portal (EIPP). The Portal was conceived as a platform to garner all the present and future investment projects financed by the European Union. It is hence supposed to serve as a way to increase the visibility of investment projects and of the work carried out by EU agencies. Whenever a project is designed or implemented it can be uploaded on the Portal which is officially the largest publicly accessible database in the EU containing relevant information on each investment program. EIPP is a fundamental piece of the second pillar of the Juncker Plan because it benefits both investors and European institutions. On the one side, the Portal is meant to show and advertise the activity of EU investment-supporting agencies by listing the proposals they contribute to execute. On the other side, it also caters to investors who can look at the ongoing projects and decide to join them according to the most palatable areas and opportunities such as transport, healthcare, renewable energy, broadband infrastructure and others. The idea is that when a project is proposed, it usually fails to receive financing or attention because single investors do not know its potential or simply do not want to invest alone given the high intrinsic risk of the operation. The Portal is a way to be updated on all the investment opportunities and guided in the selection process. Both the platforms do not provide for any form of financing; nevertheless, they have had a huge role in fostering investments and making sure financial resources could reach the real economy through the sharing of information and important advises regarding the investment opportunities in the European Union.

The description of the Juncker Investment Plan cannot be complete without the definition of the third last pillar that has to do with improving the business environment by removing regulatory barriers to investment both nationally and at the EU level. Therefore, the Juncker Plan included a whole set of actions that did not aim at directly mobilizing capitals or supporting projects but aimed at indirectly influencing investments by giving birth to simpler and more predictable rules. The Plan was meant to act on the wider framework to create better conditions for capital mobilization and resource accumulation. These measures were likely to create an investment-friendly environment besides continuing on the path of financial integration. Among the main actions envisaged in Juncker Plan's third pillar there was the proposal to establish a Capital Markets Union (CMU) to reduce fragmentation in financial markets and increase the supply of capital to businesses.[41] It goes without

[40] European Investment Bank, *European Investment Advisory Hub Report*, Luxembourg, June 2019, p.14-16-22

[41] European Council, "Investment plan for Europe", https://www.consilium.europa.eu/en/policies/investment-plan/

saying that putting into effect such measures and removing barriers to investments was supposed to boost the effectiveness and the results of the Juncker Investment Plan and that is why such proposals were part of the package. I will not open a discussion here on the Capital Markets Union because it is not the focus of the present dissertation and because it would require way more scope and attention. I would just briefly describe here what CMU is about and how it is connected to the Juncker Plan and to investments more generically. In a May's speech at the European Parliament in 2014, Juncker launched the idea of a capital markets union for the first time before inserting it into the broader package of the Investment Plan. The Capital Markets Union is an EU initiative to deepen and further integrate the capital markets in Europe. In other words, along with Banking Union (BU), CMU is the other attempt to get to a deep and credible financial integration whereby the market for a given set of financial instruments or services is fully integrated

> *if all the potential market participants with the same relevant characteristics:*
>
> 1) *face a single set of rules when they decide to deal with those financial instruments and/or services;*
> 2) *have equal access to the above-mentioned set of financial instruments and/or services; and*
> 3) *are treated equally when they are active in the market.*[42]

To put it simply, it is an initiative to make it possible for firms to get financing and break all hurdles slowing down investments. An integrated capital market within the European dimension would complement and reinforce the Juncker Plan enabling it to fulfill its function more appropriately. But why would CMU unlock capital accumulation and investments? When there are no barriers, the law of one price can apply to the case of financial markets in that "assets with identical risks should be priced identically regardless of where they are transacted."[43] In this way, if asset prices and accessibility are independent from national factors, firms benefit from lower cost of capital because competition drags prices down and allows for a better allocation of cash. With no barriers, individuals can choose among a larger variety of investments pointing to more productive and more remunerative opportunities and can further diversify their portfolios. There is another reason that prompted the design of CMU during Juncker's presidency and that is introduced by Figure 8. Although referring to 2014, Figure 8 displays the main sources of financing characterizing the European and the American market and reveals that the two financial markets are built on two very different cornerstones. Even though there is much heterogeneity within the European Union, it is known that

[42] Baele, L. et al., Measuring financial integration in the Euro Area, *ECB Occasional Paper*, n.14, April 2004, p.6
[43] De Haan, J., Oosterloo, S. & Schoenmaker, D., *Financial markets and institutions*, Cambridge, Cambridge University Press, 2015, p.197

while in the US firms get resources via capital markets and other non-bank intermediaries like investment and pension funds, in the Euro Area firms depend heavily on bank loans.

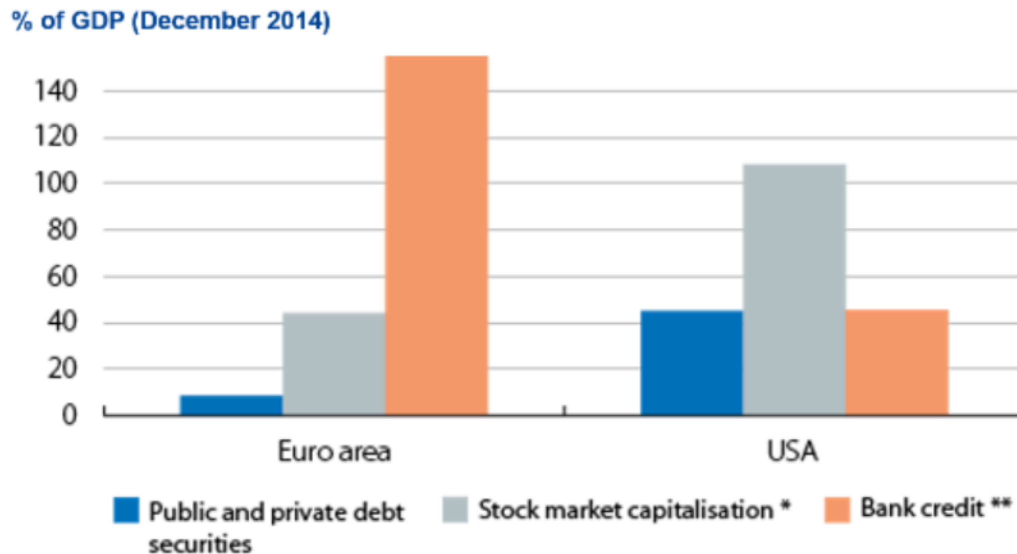

Figure 8 Sources of financing Euro Area vs USA
Source: World Economic Outlook

Until the outbreak of the global crisis European policymakers had praised Europe's reliance on banks as a sign of soundness and stability in comparison to other unfamiliar systems like in the USA with the surge of "shadow banking". However, after the crisis, European leaders' opinion has changed and, as confirmed also by former ECB's president Mario Draghi, Europe's overreliance on banks and on bank-centered lending models has shown its weaknesses, especially after the abuses and misconducts of such intermediaries. Accordingly, need was felt to create a viable alternative to the banking system and the capital markets union goes clearly in that direction. Attention was specifically drawn to SMEs, the latter being the ones relying more on bank loans for their financing. This is why the new policies, from the Juncker Plan to its incorporated proposal of a Capital Markets Union, take into careful consideration the condition of SMEs and try to allow them to obtain resources as easily as big firms do. It goes without saying that CMU cannot be a short-term project because financial ecosystems tend to change very slowly. It must be regarded as a long-term project necessitating precise and appropriate measures.[44] In the framework of the Investment Plan, the Juncker Commission outlined an Action Plan with the main measures to put in place to advance in the

[44] Véron, N. & Wolff, G., Capital Markets Union: a vision for the long term, *Journal of Financial Regulation*, vol. 2, n.1, March 2016

realization of the CMU. Here are some of the ideas that were written down. The Commission reported it would encourage the development of alternative forms of financing like *venture capital* and *crowdfunding* to be extended EU wide. It would support a stricter regulation and supervision of financial markets in cooperation with the European Supervisory Agencies (ESAs), which was comprehensible since revolutionizing financial markets implies a meticulous control. It would favor the rigid execution of new regulations like Basel III, Solvency II and MiFID II for the transparency and soundness of the market. It would set about publishing a Green Book collecting opinions on how to increase the choice and supply of financial products. It would urge the elimination of national barriers by harmonizing legislation and filling evaluation forms on the performance of each member state.[45] These are just some of the many proposals which were expected to be put into effect, but they are probably the most important ones.[46] Of course, the project is still under way, but the Action Plan exhaustively reported the general strategic guidelines to follow and the major purposes to accomplish.

2.2.3. *THE PROJECT CYCLE*

The Juncker Plan was meant to be the response to the sluggishness of the last years. The idea was building a tool with the capacity to attract all the capitals that had been remaining locked into banks' vaults and use them in a proper way. Projects which had been ignored for lack of funding or excessive uncertainty could now find new financing channels and finally see the light. There are two main reasons why EFSI was expected to be so powerful and successful. The first one is that the European Fund was supposed to function as a Public-Private Partnership (PPP). PPPs involve the collaboration between a public entity and other private third parties to co-finance a project. The advantage of such arrangement is that it greatly increases the amount of resources employable for a project since the initial public resources get multiplied by the private resources. This is, in sum, how the European Commission intended to reach the €315 billion investments and to generate a financial leverage of 15:1. PPPs are therefore able to mobilize more money and finance more valuable large-scale projects, most of which would never have even been considered if it had not been for the partnership. There is another strong benefit though, this being that such public-private collaboration impacts not just on the quantity but also on the quality of the investment. What happens typically is that the private actor provides for the bulk of the money and bears much of the risk whereas the public actor gives guarantees and certainty to the project with its trustworthiness and makes sure the investment project complies with some central guidelines and objectives. Therefore, projects will be likely chosen according to their compliance with some major goals like social development, sustainability,

[45] European Commission, *Action Plan on building a Capital Markets Union*, Brussels, September 2015

[46] Other similar proposals include for example the fostering of the Single Market, the creation of a digital single market and an EU Action Plan for the circular economy

innovation and many others. A second reason for the presumed success of EFSI lies in EU guarantee. As I already stated above, EFSI is not properly a full-fledged fund but it works more as a guarantee to improve the financing power of the European Investment Bank. As a matter of fact, EFSI regulation talks about the platform as having the purpose to support investment and access to finance through the supply of risk-bearing capacity to the EIB.[47] This is what pushes EIB to take on riskier investments and projects in a phase of great uncertainty where capitals are quite rigid. The EU guarantee is a fundamental element to explain the capacity of EFSI to fulfill its task because it is what permits the so-called *additionality*. This is how the Juncker Plan distinguishes itself from the conventional Financial Instruments. While the latter operated in absence of market restraints or failures and crowded out private investments, EFSI is designed to operate in suboptimal sectors, furnishing a guarantee and crowding in private investments. While a whole section will be dedicated to explain how investment projects should look like and whether they actually took this shape, it suffices here to claim that additionality is one of the key elements that the Fund was supposed to realize, meaning that the investments triggered were supposed to be riskier in nature so that they would not have been possible through standard financial means. During the evaluation process the Investment Committee takes into consideration these guidelines to pick up really innovative projects that would have never existed without the Fund either for their high risk or for the non-coincidence with EU and EIB purposes.

However, accessing the Fund is not so immediate and the Juncker Plan bases on some rules and steps before an investment project be backed. To begin with, there are several different actors who can apply for EFSI's financing. Accession to the Fund is given first of all to large businesses and midcaps – namely medium-sized companies with up to 3000 employees. They can benefit from project loans or loans for research and innovation. Among the private entities, small companies of less than 250 employees too can apply for heartier finance or intermediated lending provided by financial partners. The Plan is extended also to public sector entities like local authorities or government-related entities which may receive financing. In the case of smaller projects, they may also be financed by EIB's intermediated lending provided by partner institutions. As a matter of fact, EFSI and EIB do not always back projects directly, but sometimes they act indirectly through national promotional banks and other financial institutions. This is typical of the SME window where especially small projects are likely to be indirectly supported via this intermediation. An element that is frequently neglected is that other actors coming into play within EFSI are investment platforms. Investment platforms operate within EIB and EFSI and play a key role especially in backing small and localized projects.

[47] Regulation (EU) 2015/1017 of the European Parliament and of the Council, 25th June 2015, art. 3

These platforms contribute to finance micro projects and are thus more connected to the small territorial realities entirely or partially. Anyone can create investment platforms, from public to private entities which are also typically the main shareholders, and they are also very flexible both in terms of juridical structure and in terms of financing structure.

Now another point of discussion must be the following: how are projects selected for EFSI financing and what investments receive the EU guarantee accordingly? Here, article 6 of Regulation (EU) 2015/1017 of the European Parliament and of the Council comes to rescue. It lists the eligibility criteria for the use of EU guarantee which is granted to projects which:

a) are economically viable according to a cost-benefit analysis following Union standards, taking into account possible support from, and co-financing by, private and public partners;
b) are consistent with Union policies and objectives;
c) provide additionality;
d) maximize where possible the mobilization of private sector capital; and
e) are technically viable

The guarantee must be supplied regardless of the size and the geographic concentration of the investments and applies to all those EIB-backed operations carried out within the Union or involving entities located in one or more member states and extended to one or more third countries falling within the scope of the European Neighborhood Policy.[48] According to EFSI regulation the EU guarantee cannot exceed €16 billion, which is exactly the amount coming from the EU budget, and it shall be used as a coverage for the following instruments:

a) EIB loans, guarantees, counter-guarantees, credit enhancement instruments, equities, investment platforms or funds;
b) for EIB funding or guarantees to the EIF enabling it to undertake loans, guarantees, counter-guarantees, credit enhancement instruments, equities, investment platforms or funds;
c) EIB guarantees to national promotional banks or institutions, investment platforms or funds under a counter-guarantee of the EU guarantee.[49]

In order to safeguard the EU budget from potential losses in EFSI's operations, it is mandated by the regulation the establishment of an EU guarantee fund representing a liquidity cushion to pay the EIB in case of activation of the guarantee. The guarantee fund shall be fed mainly with contributions

[48] Ibidem, art. 8
[49] Ibidem, art.10

coming from the general budget of the European Union and with returns on guarantee fund resources invested.[50]

The selection of the project and the activation of the guarantee are just a small part of the work the EIB does. Any project which reaches the attention of the EIB must undergo a project cycle, i.e. a series of steps ranging from the proposal of the plan to repayment after the successful implementation of the project.[51] Somehow, the steps resemble the process of technical assistance of EIAH. The project cycle starts with the *proposal*, i.e. the submission of the application to the EIB describing the prospective financing arrangements and the forms of financing requested. Applicants may choose over a large variety of products put at disposal by the EIB according to the objectives of the project such as loans, equities, guarantees and advisory services. The project cycle goes on with the *appraisal* of the investment project carried out by a team of experts comprising engineers, economists and financial analysts. In fact, the assessment must be performed looking at various dimensions for which a heterogeneous team is needed. The feasibility of a project is given by several factors like technical soundness, risks and mitigation measures, promoter's capability to implement the planned project, compliance with applicable legislation, environmental impact assessment, comparison of cost with other similar projects, economic profitability and many others. One should not forget about the eligibility criteria that I listed earlier and that remain the main compass for the activation of financing and of the guarantee. The third step is the *approval* once the project examination is over and it is connected to the fourth step which is the *signature* officializing and kick-starting the project. The cycle then includes *disbursement* of the funds by EIB and *monitoring and reporting* throughout the whole program. In particular, the Bank monitors the dispensation of loans, that the funds are used in line with the projections and that everything develops as planned. Reports are a way to keep track of progress and issues, but the promoter as well must play his part and is obliged to inform the Bank in the event of deviations from the original scheme. Monitoring and reporting have evolved over time and are now performed also after implementation to draw lessons from the past and help improve future operations. The conclusion of the project cycle comes with *repayment* where the promoters are asked to pay lenders back with interests as a compensation for their financing.

Apart from the eligibility criteria and the steps of the cycle, the Juncker Plan does not impose any requisite for the project selection in terms of sector or location. Insofar as the proposed plans fit the sectors and objectives listed in the EFSI regulation and are carried out within the European Union, it does not really matter how and where precisely they are implemented. This means that the Fund does

[50] Ibidem, art.12
[51] European Investment Bank, "Project cycle", https://www.eib.org/en/projects/cycle/index.htm

not envisage any quota neither per sector nor per country, but it is simply demand-driven, i.e. EFSI allocates resources to anyone who demands financing and presents a valuable plan sticking to the eligibility criteria without any further consideration. It is like saying "the best project takes over" regardless of the area and the place where it is promoted. There would be now need to explain the potential downsides of this approach going against some major EU objectives and arousing experts' criticism, but I will talk about that in the next chapter dedicated to the strengths and weaknesses of the Juncker Plan.

2.3. *FIVE YEARS OF JUNCKER PLAN*

The Juncker Plan is officially going to expire in a few months. It is not going to vanish forever though. Convinced by the success of the Plan, the new Commission built on that fortune to create the direct prosecution of the European Investment Plan which is InvestEU. This project is bound to start in correspondence of the new Multiannual Financial Framework 2021-2027 leaving the Juncker Plan just a couple of more months to go. Yet, since it is about to end, this is also the perfect moment for experts to draw conclusions about the Juncker Plan and have a look at its overall performance. In analyzing the numbers of the Juncker Plan I am not giving a judgement and am not assessing whether it was positive or negative. This will be the task of the next chapter since the numbers and the performance of the Plan must be kept separated from a moral judgement. What I want to state here is that, even though figures are optimistic and some purposes have been brilliantly achieved, this does not automatically lead us to conclude that the Plan was totally successful or that we made the best of it and no corrections are needed. What I will do in this section is simply to provide for some data and information about what five years of Juncker Plan have bequeathed to us.

First of all, the original idea was to make the Investment Plan operative in the 2015-2018 timeframe. But then, thanks to the positive results it showed in the first years of life, the European Commission proposed an extension and agreed on the launch of the so-called Juncker Plan 2.0. As a matter of fact, the development of the Plan in the first years of its life was impressive and this made everyone hope for the better. What impressed people the most was the fact that the Investment Plan reached immediate success despite coming to life and being made operative in a very short period of time. The announcement came on 24th November 2014 and in 2015 the system was already operative, and the first projects were already under scrutiny. There was therefore very little time to set things up and properly organize the entire structure. The fortune of the Plan is well described in Figure 9 reporting statistics as of mid-June 2016. In just one year and a half cooperation with National Promotional Banks (NPBs) and investment platforms had increased, almost 270 transactions had been approved in practically all Member States and a lot of capital had already been mobilized. The almost 270

transactions had triggered €106.8 billion worth of investments with €17.7 billion of approved EFSI financing and that constituted more than a third of final objective.

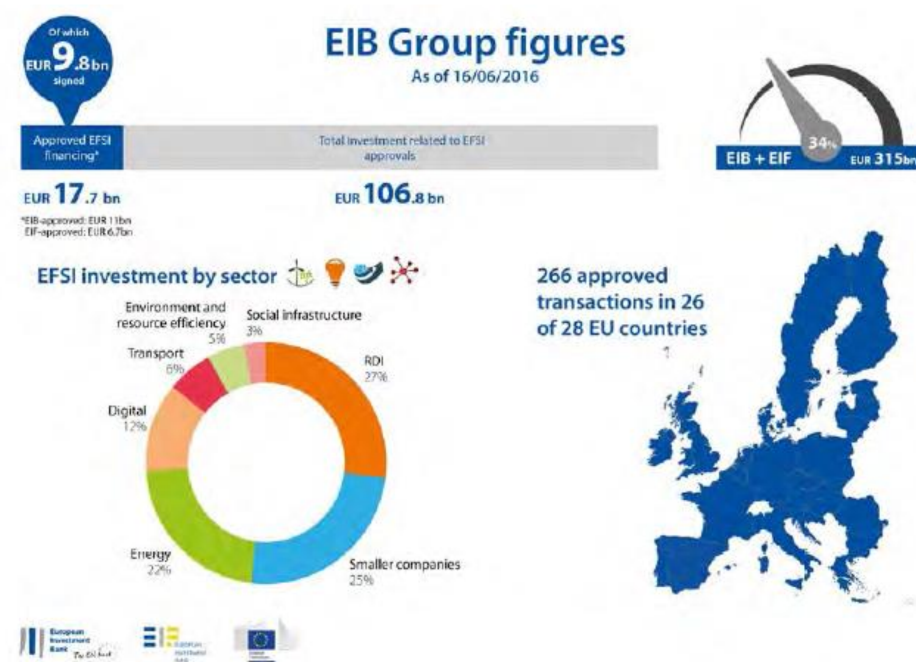

Figure 9 The Juncker Plan's date as of June 2016
Source: 2015 EFSI report

Even in terms of sectors it emerges from the picture that the first year after the launch of the program was significant. EFSI financing was allocated very heterogeneously between SMEs, energy and RDI. The most incredible results came from the SME window with many projects signed demonstrating once again the need to make up for market failures leading commercial banks to refrain from providing funding to smaller realities. On the Infrastructure and Innovation window side, ten operations were signed in the first year resulting in more added value and strategic investments. With these achievements of which to brag about, it is quite understandable that in 2016 the European Commission thought about extending the program and making it last until 2020. EFSI 2.0, which was enacted by EU Regulation 2017/2396, was characterized by both a temporal extension – two more years until 2020 – and a financial extension – a new target of €500 billion, 200 billion more than the previous 315. In economic terms, this meant approximately €100 billion per year to spur strategic investments, economic recovery and employment.[52] Moreover, the European Commission took

[52] Chiellino, G., "Verso un piano Juncker 2.0 da 550 miliardi", August 2016, https://st.ilsole24ore.com/art/notizie/2016-08-25/verso-piano-juncker-20-550-miliardi-063718.shtml?uuid=ADbC4w9&fromSearch=

advantage of the moment not just to expand the Investment Plan but also to upgrade it with new tools and provisions. EFSI 2.0 was accompanied by

a) an increase of EU guarantee from €16 bn to €26 bn and of EIB contribution from €5 bn to no less than €7.5 bn (see Figure 10)
b) a new definition of additionality along with more stringent additionality justification
c) a stronger focus on environment and sustainability with at least 40% of infrastructure and innovation financing components contributing to climate action
d) a stronger commitment for smaller projects to be bundled together to attract more investors under advice of NPBs and investment platforms.[53]

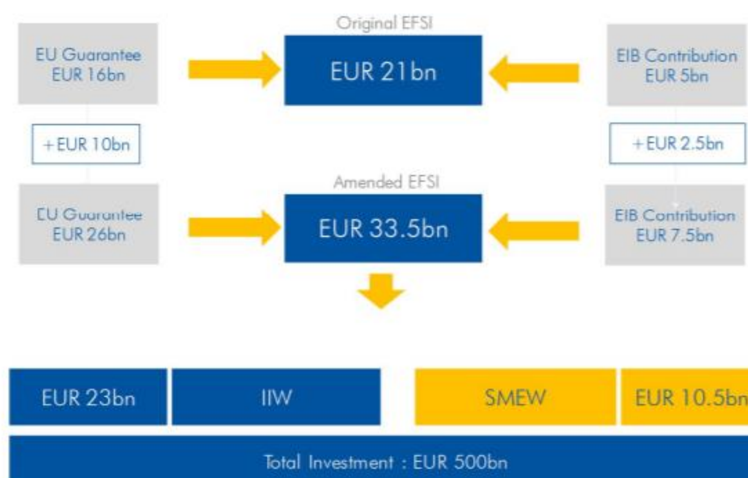

Figure 10 EFSI 2.0
Source: 2018 EFSI report

Figure 10 synthesizes how the new Juncker Plan looked like after the increase of managing to devolve €23 bn to the first window and €10.5 bn to the second window. It is interesting to notice that by 2018, when EFSI 2.0 was about to be announced, the total value of investments was more than half of the planned target. Investments related to almost 900 approved operations amounted to €335 bn. That was a great accomplishment in that the original purpose of mobilizing €315 bn of investments had been largely achieved and the project stood in a good position to accomplish even the new extended purpose since the 2018 total value already accounted for 75% of the total €500 bn investments. The latest data available are published on the European Commission's website and are revealed in Figure 11 marking that, with its end approaching, the program has moved €462 bn of investments of which

[53] European Commission, *Independent evaluation of the EFSI Regulation*, Brussels, June 2018, p.24

84.6 bn come from EFSI financing. It seems like there has been a little slowdown in the total value of investments since 2018 and the €500 bn target to be realized by this year seems to be still distant, though not out of reach. Moreover, the Plan is destined to go on some more months, and it is hence too early to declare it incomplete. All considerations notwithstanding, and regardless of the future vicissitudes, the amount of resources attracted is still impressive with the first 2018 financial goal abundantly accomplished and the second 2020 financial goal in sight.

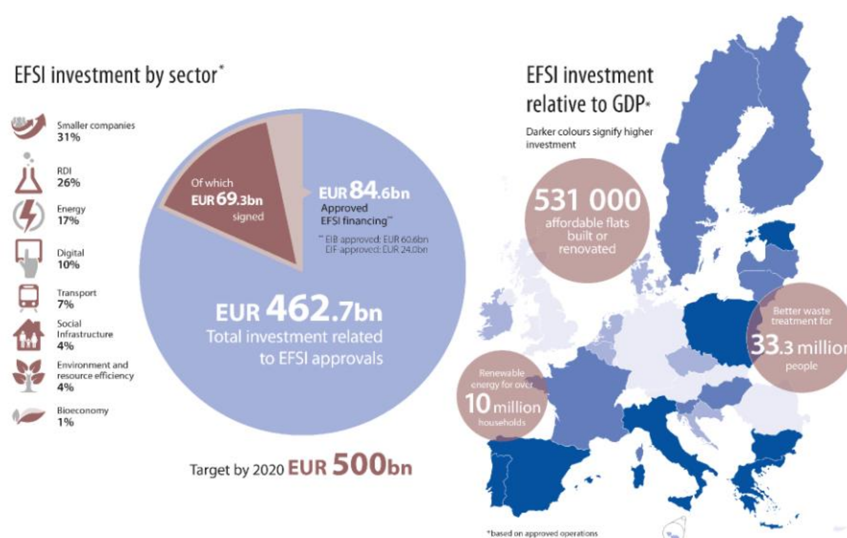

Figure 11 The Juncker Plan's data as of February 2020
Source: European Commission

Figure 11, adjourned to today's statistics, is interesting because it enables us to make a comparison with the situation in 2016 and understand the evolution of the Juncker Plan over time. Since the onset of the initiative, there has been a steady increase in the mobilization of capitals. Each year the amount of resources has shot up by approximately 100 billion as was expected by European experts and that is why it was calculated that at the end of the fifth year the amount supposed to be collected should have been around 500 billion. As described above, there is just a negligible decline in capital growth in the last years which is not a big deal because it does not impair the attainment of the final target. The share of resources allocated to SMEs has increased to 31% while the remaining two-thirds refer to the Infrastructure and Innovation window encompassing projects in research and innovation, energy, digital, transportation and environmental efficiency. With these projects, the European Union has managed to improve the life of many citizens, for example through the creation and renovation of thousands and thousands of affordable flats or improving waste treatment and recycling or through the better enjoyment of rail and urban infrastructure.

2.3.1. SOME APPORVED PROJECTS

In this final part of the chapter I will proceed to provide some examples of projects backed and completed thanks to EFSI intervention. The idea is to understand in what way, if any, the Juncker Plan has impacted on the economy and on the lives of European citizens, what the Plan has concretely achieved through all the funded investments and what these investments were about. The initiatives that were financed are too many to be listed but focusing briefly the attention on some of them can raise awareness on the colossal effort the EU is undertaking to spur growth and employment. In this way, one can also have an idea of the impact of the projects on real life and of where five years of Juncker Plan has led us to.

One of the first sectors deserving attention is agriculture. Agriculture has been under the spotlight of the European Fund because innovating and fostering productivity in agriculture is the first way to improve the life of citizens by acting on food production, food quality, sustainability of natural resources, fishery and forestry. Many EFSI loans are delivered to agriculture also because this sector is comprised of many modest realities like smallholdings that in most cases are relatively small and to which banks are reluctant to grant loans especially after the mess of 2008. Among the many initiatives, one that drew attention was the expansion of the famous *Biovet*, a global animal health company headquartered in Sofia, Bulgaria. The company received a €100 million loan by EFSI to execute its ambitious plan of boosting production levels and research and development. With the resources allocated, the Bulgarian company set up two new facilities to ameliorate its services: a fermentation plant and a manufacturing site for animal vaccines. The two buildings proved important to deepen microbiological research and product implementation that in turn helped to cure animals and get the most products and benefits out of them. This project thus aimed at enhancing animal treatment following the idea that the more animals are healthy and survive, the best for national agriculture and everyday life. At the same time, 210 jobs were created in rural Bulgaria.[54]

Five years of Juncker Plan have delivered benefits in the field of energy too. The European intervention in this sector proved to be vital to help Member States in the by now famous transition towards renewable and more sustainable sources of energy. The Paris Climate Agreement set the alarm for the entire world and the European Union committed to make sustainable greener transition one of the core objectives of the future. Projects in this sector were thus intended to promote decarbonization of Europe through power grids and interconnectors and diffusion of alternative and less polluting sources of energy like solar and wind power. It is no surprise that EFSI 2.0 insisted

[54] European Commission, "How has the Juncker Plan benefited the agriculture sector", October 2019, https://ec.europa.eu/commission/sites/beta-political/files/agriculture-sector-factsheet-oct19_en.pdf

much on the compliance of investments with environmental standards trying to support especially those approaching the COP21 climate targets. The financing pumped into the energy sector triggered almost €76 bn in total investments and touched on several initiatives concerning renewable energy, energy efficiency and energy infrastructures. A project drawing EIB attention for its ambition was *Talasol*'s proposal of building one of Spain's largest solar energy power plants in Talavàn, Càceres. The initiative got the approval of the Strategic Fund and a €70 million loan was released to back the project. The plant is supposed to start operating in 2020 and it will bring tremendous benefits on the environment because it will prevent the release of 263,000 tons of CO2 per year which will be replaced by the solar powered electricity generated in the plant. At the same time, 500 more jobs were created for the construction and 15 for daily permanent supervision.[55]

As displayed in the above figures, one of the sectors mostly touched by EFSI financing is research and development. A great deal of money is needed to turn research and development into concrete innovation, and this is fundamental because progress in innovation and technology is what drives productivity. Moreover, advancement in innovation and technology are the keys to bridge income and regional gaps since the only way to have backward regions catch up is to strengthen productivity and social services. On average, one-quarter of Investment Plan projects have been in R&D. Europe produces one-third of all high-quality scientific publications and has a world leading position in industrial sectors. Funding research and innovation means turning these publications and ideas into reality and bringing them to the market. Germany is a leading country in the field of innovation, and it improved its position when the state received a €35 million loan to improve brain cancer treatment. *Magcorp*, a medical device company, used that money to develop a new approach to treating the most aggressive type of brain cancer, glioblastoma. Thanks to the project and the EU loan, many patients in Germany are already treated using this innovative approach which is spreading fast in other member states such as Poland.[56]

Five years of Juncker Plan have also bequeathed to us some less enthusiastic and more questionable results. For example, the performance of the Investment Plan in terms of social infrastructure is very scarce, probably because the Plan relies heavily on private capitals and the private sector is less likely to opt for socially impactful investments. Figure 11 highlights that the percentage is worryingly below the others (just 4% for social infrastructure and only €8 bn mobilized) and, even in those cases where EFSI financing went to social investments, they were mainly located in affluent regions which could

[55] European Commission, "How has the Juncker Plan benefited the energy sector", October 2019, https://ec.europa.eu/commission/sites/beta-political/files/energy-sector-factsheet-oct_19_en.pdf

[56] European Commission, "How has the Juncker Plan benefited research, development and innovation", October 2019, https://ec.europa.eu/commission/sites/beta-political/files/rdi-sector-factsheet-297x210-oct19_en.pdf

count on the efficiency and development of their financial markets.[57] A second controversial point is that five years of Juncker Plan have left us a sort of geographic imbalance in the distribution of the investments. Half of the projects under the II window was concentrated in three Member States and the same three Member States also accounted for 30% of SME window investments. Data from the European Court of Auditors point to the fact that EU15 countries ended up absorbing most of the resources of the Fund while almost none was destined to EU13.[58] The top of the class in the total value of EFSI investments are Italy (10.97 billion), Spain (8.97 billion) and France (8.50 billion). At the bottom of the ranking is the whole group of Eastern countries all scoring below 1 billion.[59] I am not going to comment more on these disappointing figures because I will have the next chapter talk about the weaknesses of the Junker Investment Plan and make an assessment about its impact within the member states of the European Union.

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[57] Two key examples of this fact might be the EIB support for the reinstatement of military personnel in the labor market in the Netherlands and the construction of a new hospital in Treviso, one of the wealthiest cities in one of the most affluent regions of Italy

[58] European Investment Bank & European Commission, *Study in response to ECA recommendation 5: improving the geographical spread of EFSI supported investment*, Document n.13, July 2019, p.5

[59] The United Kingdom is excluded from this ranking because the country started to receive the funding of the European Fund for Strategic Investments but dropped out of it after its decision to leave the European Union in 2016

3. OUTSTANDING ACCOMPLISHMENT OR MISSED OPPORTUNITY? AN ASSESSMENT OF THE JUNCKER PLAN

3.1. THE JUNCKER PLAN UNDER EXAMINATION

It is never easy to conduct an in-depth analysis and assessment of a public policy. The task is even more troublesome when it comes to evaluating a colossal initiative like the Juncker Investment Plan where so many factors and dimensions come into play. Setting a strategy to judge the Juncker Plan is all but easy and perhaps it is not even possible to provide a credible final response about its performance. What I think is that, given the impossibility to give an overall judgement, the assessment must be carried out on different levels distinguishing the various objectives and the various dimensions. Accordingly, mine will not be a mere objective-based analysis because the effectiveness of the Juncker Plan cannot depend just on the growth and investment rate attained. The Plan had such a vast scope and importance that its analysis must include many another parallel factors and one should not claim to measure it like it was a standard and conventional initiative. Although I believe that the macroeconomic element is of vital importance, I am not going to praise the Juncker Plan for the billions and billions of capitals mobilized if those capitals have only contributed to produce low-risk basic investments. I am not going to speak well of the Juncker Plan for the growth and the many projects it triggered if those were unfairly distributed across EU regions. And I am not going to applaud the Juncker Plan for all the jobs it created if employment arose in low social-return sectors which did not impact on the social inclusion and development of European citizens. In other words, evaluation will be carried out looking at a broad range of economic, social and geographical factors to ascertain that we made the best of the Juncker Plan without conflicting with other major EU objectives or without creating duplicates of other already existing initiatives. A specific focus will then be vouched to the issue constituting the main subject matter of the present dissertation which is regional disparities. A whole section of the present chapter will be dedicated to the impact of the Juncker Plan on European regional disparities and to the distribution of EFSI projects across the EU territory.

This first section of the chapter is thus intended to be a map displaying the main guidelines and the main principles that will drive my evaluation. First of all, I believe that a proper assessment of the Investment Plan should start from a generic comparison with the results that were expected by the European Commission. In his inaugural speech, Jean-Claude Juncker had clearly in mind what he wanted to achieve after five years.

"I have a vision of school children in Thessaloniki walking into a brand-new classroom, decked out with computers. I have a vision of a hospital in Florence saving lives with state-of-the-art medical equipment. I have a vision of a French commuter being able to charge his electric car along the motorway in the same way we fill up on petrol today. Households and companies want to benefit from technological progress and are crying out for action to become more energy efficient. Our energy sector needs to interconnect networks and markets, integrate renewable sources of energy and diversify our sources of supply. Our transport sector has to modernize its infrastructure, reduce congestion and improve trade connections. Our environment needs better waste, recycling and water treatment facilities. We need far-reaching and faster broadband and smarter data centers across Europe. And we need to invest in our education and innovation systems that are often underfunded and less equipped than those of our key competitors. Investing in people – this is what the social market economy is about."[60]

There is no doubt that Juncker's expectations concerning the plan were a bit too ambitious and if this is the benchmark with which to judge the program, then it is quite easy to discard it as a failure. It is difficult for us today to see schools decked up with computers, all citizens able to charge their electric cars as easily as they fill them with petrol, people enjoying broadband and equal access to internet or a Europe based on energy efficient resources and totally decarbonized. On the contrary, it still seems that, especially in lagging regions, social infrastructures are obsolete, sustainable and green transition is at a partial stalemate and the transportation system is not efficient everywhere. Although we have come a long way and the situation has improved compared to the crisis years, those ambitious results are not here yet. Fortunately, that is not the benchmark one should adopt, and the evaluation of the initiative must primarily consider how the situation was in 2013-2014 and how the situation is now.

Secondly, it should consider the collateral effects and unintended consequences of the Plan over other sectors. The idea is that in order for the Plan to be unique and positive it should not just facilitate investments such as any other program or financial instrument, but it should drive investments towards specific sectors and needy areas and address some paramount issues to ensure an equitable and inclusive growth in all EU member states. That is the way to make the best out of the Investment Plan and not to lose the chance to seriously make the difference. And therefore a correct assessment of this strategy cannot help but being qualitative more than quantitative in that it is not only a matter of how much money was earmarked but it is a matter of how, where and in what way it was spent. Following this reasoning, I propose a twofold account of the Juncker Investment Plan: one which is

[60] Jean-Claude Juncker's speech inaugurating the Juncker Investment Plan on 26th November 2014. Written version here: <https://www.crisisycontratacionpublica.org/wp-content/uploads/2014/11/SPEECH-14-2160_EN.pdf>

more quantitative in nature and connects with the economic dimension and one which is more qualitative and mainly concerns the social and regional dimension.

Third, the evaluation should take into consideration the main controversies and critics that were cast against the Plan. Many experts and policy makers were hesitant about the scope of the program and the effectiveness of its action. I reckon it is very important to review the literature on the topic to be able to respond to detractors and either agree with them or oppose them according to the real outcomes of the Plan. So, basing on the literature, I will bare naked the flaws of the Juncker Plan and verify whether its initial potential shortcomings were real or just imagined.

Fourth and last, I propose considering some basic indicators as unit of measure to better understand the efficacy of the strategy. Those indicators are supposed to be a compass to guide us in the evaluation because they represent the main elements that are required for the Investment Plan to stand out and be efficacious. Each dimension I will examine will require its own indicators and the projects and actions run by the Juncker Investment Plan must all be assessed in light of those indicators. In the first part, where the macroeconomic dimension goes under scrutiny, the indicators I am going to use as benchmark are additionality plus GDP and employment growth. This means that in order to label the Plan as economically impactful, I will analyze to what extent these two factors have been complied with. In the second part, dealing more specifically with the sectoral and regional dimension, the indicators I chose as benchmark are the geographic spread of investments and their sectoral concentration. Once again, it will be my duty to use these indicators to make an assessment of the Juncker Plan with regard to regional disparities. Additionally, I deem it interesting and useful to account for some of the projects that were signed and realized to corroborate my analysis and make practical examples.

To sum up, I will structure my evaluation as follows. I will break the analysis into two sections: macroeconomic factors and sectoral/regional factors. For each section, I will introduce the indicators and I will merge the existing literature with a concrete examination of the current reality and projects. What I plan to demonstrate in the end is that the Juncker Investment Plan was not a substantial game changer, but neither was it a vain attempt. It was not the greatest accomplishment ever but neither a completely missed opportunity. It must be regarded as a good starting point that needs to be empowered and corrected in its defects. It is like an asset of which we have not been able to extract the full potential and that should be better engineered to get the best out of it. The present evaluation is going to mainly focus on the first major objective of the Plan which is mobilizing and making smarter use of financial resources. The evaluation of the second and third pillars, coinciding with

purpose of technical assistance and removal of barriers to investments, is not part of this dissertation as it will require more space and attention.

3.2. *MACROECONOMIC ASSESSMENT OF THE JUNCKER PLAN: A STARTING ACCOMPLISHMENT*

Carrying out a quantitative macroeconomic assessment means looking at how economic parameters have evolved in the course of the years as a consequence of the Investment Plan. The main objective for which the Plan was established was bridging the investment gap which got exacerbated after 2008 and enabling national economies to kick-start again. In the minds of the promoters, the Plan was supposed to speed up the investment growth rate via a facilitation of capital mobilization and constitute a stimulus for a faster and more consistent recovery.

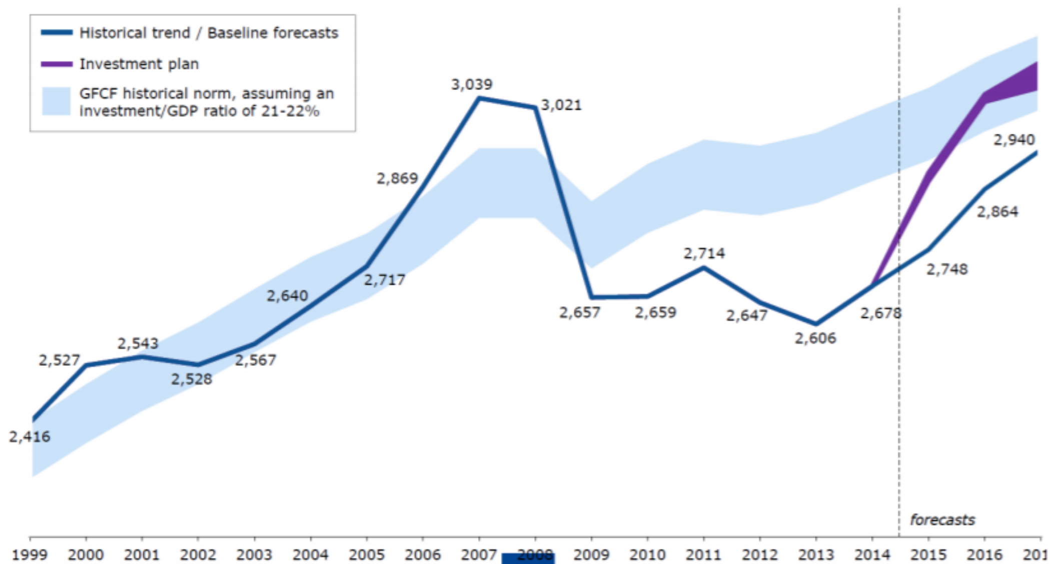

Figure 12 Investment as share of EU GDP, 1999-2017
Source: DG ECFIN

Figure 12 shows the expected effects of the Juncker Plan according to the estimates of DG ECFIN. The blue line represents the actual historical trend pinpointing the ups of the early 2000s and the downs of the post-crisis years. The thick light blue area represents the would-be performance assuming the trend would follow the historical norm of 21-22% investment/GDP ratio. It demonstrates that without the 2008 crisis the investment level as a share of GDP in Europe would be way higher and it would go on increasing after a negligible slump in 2009. The purple line is the forecast made in 2015 of how much the Investment Plan could have contributed to boost investments

and fix the gap. According to the graph, three years of Investment Plan would be enough to at least approach the pre-crisis levels. Are these estimates correct? In quantitative and aggregate terms, they are. The level of investment in the last years has come back to normality and, in some cases, it has even surpassed the historical norm. Since the launch of EFSI the average annual rate of growth of investments has been 3,2% vis-à-vis a 1995-2005 average annual growth of 2,7%. This means that through EFSI the increase in investments has been more substantial. The estimates in the graph are thus quite reliable. The fact that the purple line is steeper than the blue line is a signal that experts had already predicted an average investment growth higher than usual reflecting EFSI's ability to attract resources and channel them into the real economy. Another upside of former European Commission's strategy is the amount of resources mobilized. Contrary to many expectations, the size of the Plan was coherent with the hopes. In three years, the Plan attracted €335 bn which is more than what originally planned. Apparently, European leaders witnessed an impressive success in the first year and a half due to the fact that there was great enthusiasm in the market for the project kick-off. Two-thirds of the capitals mobilized were private capitals and this is another great victory since many detractors sustained it was impossible to attract so much private money. The fear was that investors might have been scared off being that investments in such a pessimistic environment do not typically guarantee safe and secured high returns because they are influenced by market performance. Nevertheless, results went beyond expectations and even the financial leverage proved to be quite close to what anticipated. Studies have calculated that EFSI's final leverage aggregated for both windows was around 13.5, thus almost identical to the target.[61] After all, this is not completely an unexpected surprise given that in the past the EIB reached even higher levels of financial leverage. All these aspects are all points in favor of the Juncker Investment Plan. On the other side, the bad news is that despite the impact on investments and aggregate demand, the strategy has not fully met the purpose of fixing Europe's investment gap. Any plan that was elaborated by European institutions seemed to be too small to fix such a gigantic investment gap and the Juncker Plan was no exception. Despite the convincing figures and results, "it is very unlikely that the EU investment plan alone suffice to close the investment gap in Europe. […] [T]his gap is of around €200-300 billion per year."[62] Considering that by 2020 the Juncker Plan is supposed to hopefully execute €500 bn of investments, the value is barely enough to cover half of the gap. The investment value reached through EFSI is approximately 1% of EU GDP vis-à-vis an investment gap of almost 3% of GDP which would require almost double the resources each year. Indeed, as of late 2019, the difference between pre-

[61] European Commission, *Independent evaluation of the EFSI Regulation*, Brussels, June 2018, p.64

[62] Pellerin-Carlin, T. Rinaldi, D. and Rubio, E., Investment in Europe: making the best of the Juncker Plan, *Studies & reports - Jacques Delors Institute*, 2016, p.45

crisis investment levels and post-crisis investment levels equaled around 2% of EU GDP. Accordingly, "it seems that the investment fund is just too small for the task it is designed to address."[63] Another problem frequently highlighted in literature is that the Juncker Plan has indeed attracted capitals and stimulated investments, but they were mainly private capitals and investments. Obviously, as stated above, the Plan had a specific focus on the luring of private capitals because stimulating governmental investments would have been an impossible mission given the deteriorated public accounts and the stringent fiscal rules that they must comply with. Yet, this fact might have slowed down growth and development in Europe and perhaps limited the impact of the Plan. First of all because public investments have declined more significantly than private investments and should be helped with a stronger effort. Secondly because private investments influence growth only when accompanied by efficient infrastructures and light bureaucracy which is commonly brought about by governments. Not to mention that public investors are those who tend to supply important social infrastructures to empower communities – like schools or hospitals – thus accounting for the growing intra-national disparity in the European territory.

From a macroeconomic standpoint, the main indicator one should look at is additionality. The European Fund partly reached the goal of mobilizing large amounts of money and gave new life to the European economy, but it is also known that the success of the Fund must be judged basing on the quality of the investments and not just the quantity. Additionality (or added value) means "the support by the EFSI of operations which address market failures or sub-optimal investment situations and which could not have been carried out in the period during which the EU guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments without EFSI support."[64] This implies that projects financed through EFSI support are supposed to take on a higher risk profile than projects normally realized by EIB and that EFSI portfolio should contain an overall higher average degree of risk. This is possible because, serving as a guarantee, EFSI can ensure higher-return investments by offering a coverage for the higher risk. Therefore, additionality becomes the characterizing element of the European Fund differentiating it from all other EIB financial instruments. That is why making sure that EFSI-backed projects are additional is of paramount importance to make the best of the Juncker Plan and prevent the Fund from being a duplicate of something already existing. Furthermore, the regulation defines a project additional if it carries a risk corresponding to EIB special activities which are the highest-risk instruments employed

[63] Romaric, G., "Has the Juncker Plan really boosted investments in Europe?", July 2016, https://www.euractiv.com/section/euro-finance/news/has-the-juncker-plan-really-boosted-investment-in-europe/
[64] Regulation (EU) 2015/1017 of the European Parliament and of the Council, 25th June 2015, art. 5

by the Bank. Why is additionality such an important indicator to consider? EFSI can only work if it manages to promote investments that no other instrument or fund would have ever been able to do because in this way the amount of private capitals mobilized will be superior. In order for the Fund to mobilize €315 billion and close the investment gap the only way is to facilitate and simplify the funding of high-risk projects which are those calling for more resources and carrying more yields. Jean-Claude Juncker was perfectly right when he stated that it is no longer time for business as usual and indeed the idea of the European Fund for Strategic Investments was to be an extraordinary tool to attract more capitals through the facilitation of risky projects. Unfortunately, understanding whether additionality was present is all but easy and economic literature is not of great help since think tanks and consultancy firms themselves appear to be quite undecided on the matter. What emerges from a close reading is that EFSI projects turned out to be additional, but that level of risk and additionality is still not enough. The Belgian think tank Bruegel carried out an analysis of EFSI effectiveness and tried to assess the degree of additionality by means of a comparison between the projects financed by EFSI and other similar projects conventionally financed by the Investment Bank. The result of the analysis was that, out of 55 projects taken into account, 42 were labeled as highly similar and therefore not so different in terms of risk, socioeconomic impact and total cost from traditional EIB ones.[65] For example, in 2015 a project was signed with the intent of widening a 25.5 km section of the A6 motorway in Germany running from Wiesloch-Rauenberg to Weinsberg. The project fit the category of transport investments and the benefits were supposed to stem from reduced travel times and improved road safety and capacity besides ensuring a more effective connection of German cities. The estimated EIB financing was €250 million. In 2013, when EFSI was not operative yet, the Investment Bank had financed a similar project in the Netherlands aimed at widening and upgrading the A9 motorway running through the municipality of Amsterdam. The EIB financing was close to €201 million and was supposed to provide additional capacity to one of the most congested parts of the Dutch road network. Bruegel identified the two projects as very similar in nature. Both targeted transportation, both aimed at enlarging and improving the capacity of a motorway and both were worth almost the same. Consequently, experts claimed that the risk level and the returns yielded were very likely to coincide. Another clarifying example might be the case of Irish Water Investment Program that was signed to finance part of Irish water regulatory capital expenditure program for the period 2015-2018, to be undertaken in compliance with the EU Urban Waste Water Treatment Directive and Drinking Water Directive. For this project, the Investment Bank thought about disbursing around €200 million. Researches at Bruegel compared this initiative to a seemingly similar

[65] Clayes, G. & Leandro, A., "assessing the Juncker Plan after one year", May 2016, https://www.bruegel.org/2016/05/assessing-the-juncker-plan-after-one-year/

2008 project titled Enìa Eco-Utility Emilia Romagna. The EIB-backed initiative was meant to support Enìa, an Italian public service provider, with its investment plan in the provinces of Parma, Reggio Emilia and Piacenza regarding water and wastewater schemes to get the region to comply with the water quality and service standards set by EU Directives. The estimated amount to be provided by EIB was €90 million. Again, in both cases the protagonist is the sewerage and urban development sector with a very similar program to improve water quality and accessibility. The only difference here is in the total value of the investment which probably reflects the larger scale and size of the Irish investment compared to the more local and contained nature of the Italian one. Despite this, the two investments were very similar in nature and were declared to have comparable risk levels. The study of the Belgian think tank found out that only a few investment projects are profoundly different in nature from the traditional EIB-backed ones while most of them seem to reflect the conventional operations of the Bank. However dark and negative, the framework depicted by Bruegel should not frighten too much. In fact, the research was conducted only one year after the implementation of the Plan and the methodology of comparing projects has evident flaws which were recognized by the authors themselves. Although with some approximation such a comparison can sometimes come in handy, it is also widely recognized that similarity and additionality are not synonymous. Even when showing a high degree of similarity, it is possible that EFSI projects feature a higher intrinsic risk in virtue of particularly long maturity loans or because of a more junior role of the European Investment Bank. People may be willing to take on this risk because of the credibility of the Investment Bank and the assurance given by EFSI cushioning risks. In conclusion, similarity is a weak indicator to compare and assess investment additionality. Another more credible thesis emerging from other researches, such as Ernest & Young's independent assessment or the EFSI evaluation final report of the European Commission, is that most of the EFSI-backed investments gave additionality but the higher risk is not enough. EFSI initiatives risk profile corresponded to EIB's special activities but there is still a large margin of risk that may be taken on to give life to really additional projects. The problem is that while the EIB has lately increased the risk profile of its portfolio, this is not considered additional enough by the market as, according to the evaluators, these projects could have been financed by many other banks to same extent and within the same timeframe without EFSI support. The conclusion is that EFSI operations are additional for the EIB, especially considering its history of risk-adverse investments, but not additional for the market and other traditional financial institutions, most of which have committed in the present and in the past to more risk-inclined operations.[66] However, during an interview, the EIB underlined that if any other bank could have financed the same projects, it would be reasonable to think that borrowers would prefer to address

[66] Ernst & Young, *Ad-hoc audit of the application of the Regulation 2015/1017 – Final Report*, November 2016, p.38

national and promotional banks for the realization of their projects, at least due to the diligence requirements and strict compliance to rules imposed by EIB. The fact that people ask for the assistance of the Investment Bank and do not regret the choice is proof that it does bring some form of additional benefit. E&Y carried out a basic analysis to certify additionality by compiling a questionnaire to be submitted to borrowers. One of the questions was meant to ask respondents directly about the added value of EFSI operations. The question asked whether the same project could have been carried out without EIB funding and EFSI support to the same extent and within the same timeframe and therefore if they could have consulted any other financial institutions. While a minority denied any form of additionality, 21 out of 29 respondents confirmed the existence of additionality by claiming either that EFSI support made it possible to realize the projects on time or that it allowed to promote projects at a lower cost. Project promoters affirmed that two key aspects that helped to overcome market failures and produce additionality were the long-term funding of EIB and the immediately available volume of capital to be mobilized. As far as the SME window is concerned, the data is even more impressive. All the financial intermediates linking the European Fund to the local small and medium enterprises indicated that the projects were additional and could never have been considered had it not been for the Fund. This is understandable because the SME window deals with smaller projects that, in a time of profound uncertainty, private investors are unlikely to embrace and that would never see the light without the push of EFSI.[67] However, despite the research revealing the existence of some sort of additionality, the main thesis emanating from the various studies is that EFSI operations do not always add value and, even when they do, the added value and the associated higher risk is not enough to really exploit the full potential of the Plan and the soundness of the Investment Bank. This is brilliantly demonstrated by the European Commission's evaluation whose main conclusions are visible in Figure 13 and Figure 14.

[67] Ibidem, p.39

Figure 13 Increase in EIB special activities (in €bn)
Source: EIB

Figure 13 demonstrates that the number of EIB special activities, bearing a much greater risk and return, was in constant rise and the share of such activities has increased three times since the launch of the program in 2015 and almost five times since 2012. In other words, publicly available statistics show that special activities have boomed both in absolute terms, passing from 3.2 billion to 15.2 billion, and in relative terms, passing from 5% to 25% of EIB's total lending activities. It is also interesting to notice that nowadays EFSI operations make up virtually all EIB's special activities. The figure is a clear indication that the Investment Bank, particularly via the Strategic Fund for Strategic Investments, has increased the average risk of its portfolio of activities up to the point that almost 30% of its lending activities are constituted by high-exposure and non-conventional assets. This picture suggests that additionality for the Investment Bank has shot up significantly after the start of the Juncker Investment Plan. The question now is: is that additionality enough? Figure 14 tries to answer that question. The table shows EFSI and non-EFSI operations of the European Investment Bank with their grading. The grading indicates the degree of risk connected to the operation as exemplified by the expected losses. The grading goes from A+ which is the safest type of loan with very low expected losses and secure returns to E2- and E3- which are the riskiest types of loans with estimated losses up to 25% of the initial capital. The so-called special activities of the Bank start with a loan grading of D- signifying the perilous nature of the operation. What appears evident in the table is that the EIB tends to focus on low-risk operations given that all the non-EFSI operations lie in the white part. This is also accounted for by the extremely low levels of non-performing loans compared to other development banks which elucidates the fact that the Bank relies on a prudent project selection and only opts for high quality assets.

Loan grading	A+	A-	B+	B-	C	D+	D-	E1+	E2+	E3+	E1-	E2-	E3-
Expected losses	<0.10%	<0.20%	<0.30%	<0.50%	<1%	<2%	<3%	<5%	<7%	<10%	<15%	<20%	<25%
Debt					Non-EFSI			EFSI					
Banks				Non-EFSI					EFSI				
Commercial company					Non-EFSI			EFSI					
Leasing companies				Non-EFSI					EFSI				
Other financial institutions			Non-EFSI					EFSI					
Public administrations					Non-EFSI		EFSI						
Public sector entity			Non-EFSI			EFSI							
Regional or local authorities				Non-EFSI				EFSI					
Special purpose vehicles							Non-EFSI		EFSI				
Special purpose vehicle issuing ABS		Non-EFSI											
Hybrid									EFSI				
Banks								EFSI					
Commercial company										EFSI			
Other financial institutions								EFSI					
Regional or local authorities							EFSI						
Special purpose vehicle issuing ABS								EFSI					
Special purpose vehicles							EFSI						

● Non-EFSI operations ● EFSI operations ■ Special activities

Figure 14 EFSI and non-EFSI operations grading
Source: EIB

Another evidence stemming from the figure is that, as abundantly explained before, EFSI operations tend to incorporate more risk as they all coincide with expected losses and with a grading comparable to EIB special activities. Since I have demonstrated that the number of special activities has increased overtime and that EFSI operations constitute the virtual entirety of the special activities, this highlights that the overall risk of EIB investments has gone up together with added value and private capitals mobilized. However, the table puts into evidence the downside as well. In fact, it shows that the degree of additionality provided by EFSI operations is not elevated enough and it would be better if the riskiness of investments went up to really make up for market failures and give a real thrust to the economy. It is not difficult to figure out that the riskiest investment promoted by the Fund had approximately a 10% of expected loss while there are other higher-exposure activities in the right side of the table that are completely blank and should be filled out. EFSI cannot limit itself to finance projects comparable to those promoted by EIB special activities because the Fund has the potential to do more thanks to the coverage granted by EU guarantee. The conclusion that can be drawn is that the parameter of additionality applies in a partial way. On the one side, it would be wrong to claim that there was no additionality at all as the projects backed by EFSI are certified to have more risk and a "higher" grading than the usual EIB ones. On the other side, it would be even more wrong to claim that additionality was reached at its fullest because EFSI projects lacked the grading that was expected and it could and should have done something more because the Fund had all the chances to do so. In sum, it is very unlikely for EFSI to have crowded out private investors because most of the

operations promoted could not have been realized in the same way and with the same timing had it not been for the EIB financing. It is also true, though, that EFSI is very unlikely to have crowded in as many private investors as possible as it would have probably done through a higher level of additionality.

The second indicator to understand the macroeconomic importance of the Investment Plan concerns growth and employment. While with the financial crisis the unemployment rate skyrocketed in all European countries, the Investment Plan was implicitly tasked to reverse the trend. And the same goes with economic growth. Promoting investments and facilitating capital attraction were believed to lead to a new phase of growth overshadowing the precedent economic recession. It is important to state that growth and employment are never mentioned in the EFSI Regulation and that therefore they were not regarded as primary objectives. However, it seems straightforward that a macroeconomic assessment of the Juncker Plan includes evidence of growth and unemployment and they should be conceived as indirect or parallel effects of the Plan.

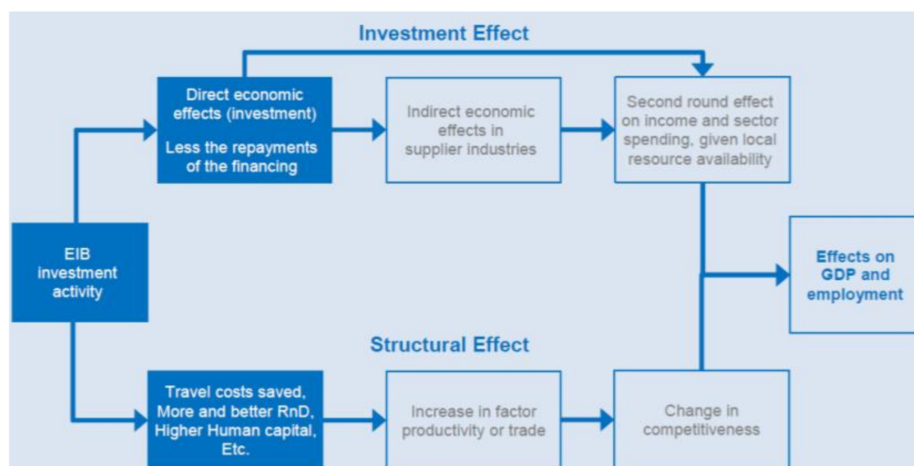

Figure 15 Impact of EIB operations at the macroecnomic level
Source: EIB

Figure 15 displays that the EIB projects, especially when incorporating additionality through the European Fund, impact the economic system in two ways: there is an Investment Effect and a Structural Effect. The Investment Effect refers to the short-term consequences of an investment reflecting not just the indirect benefits for suppliers but also the higher demand for goods and services which arises as the projects take place and the income of those involved increases. The Structural Effect refers to the long-term consequences of an investment whose realization triggers a series of important benefits. The projects are likely to have an impact on the structure of the economy itself

improving for example factor productivity, economic competitiveness and innovation. All these factors further impact on GDP and employment.[68] It is not easy to assess the real benefits of the Plan in terms of growth and employment because no appropriate studies have ever been released and because it is not easy to establish a causal relationship between the Investment Plan and macroeconomic indicators. To be more specific, it is hard to understand whether economic growth or increased employment rate is caused by the Investment Plan or by other independent factors. Yet, it is undoubtable that, since the Plan has been effective in boosting investments and in turning capitals into the real economy, part of the successful economic performance of the European Union must be attributed to it. At the end of its action, the European Investment Bank disclosed some data and figures about the Plan highlighting that all the EFSI-backed operations signed led to the creation of nearly 115,000 new permanent jobs, indicated as long-term jobs expected to last beyond the project implementation phase. Furthermore, half a million new temporary jobs were created, defined as short-term jobs meant to implement a given project. In total, the Juncker Plan has put around 1,1 million people in work with this figure which is foreseen to get to 1,7 million by 2022.[69] This is evidently a great accomplishment because the Plan proved to be a strong antidote against unemployment which has been in free fall since 2013-2014.

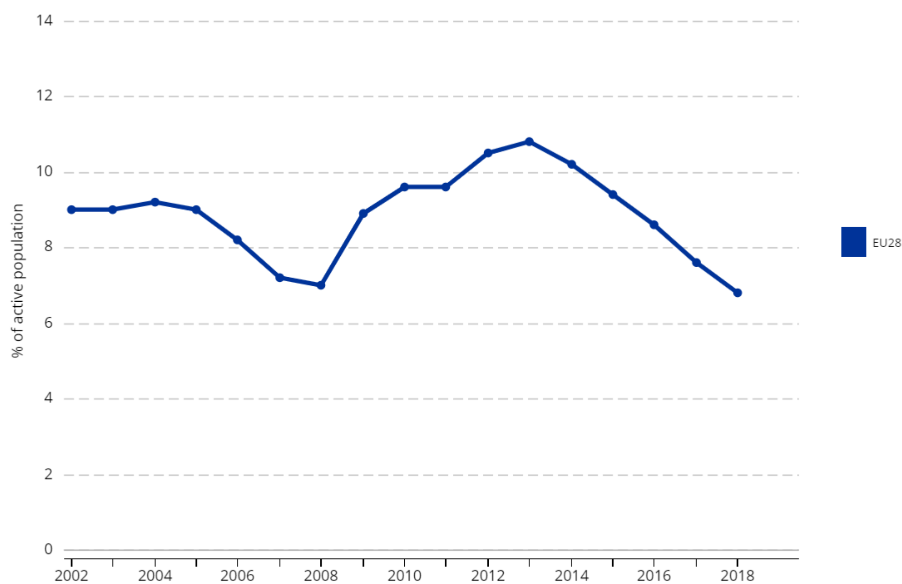

Figure 16 Unemployment in EU28 (% of active population)
Source: Eurostat

[68] European Commission, *Independent evaluation of the EFSI Regulation*, Brussels, June 2018, p.69

[69] I omitted from this analysis the figures regarding *jobs supported*, indicated by the European Commission's study as jobs created as a result of multi-beneficiary intermediates loans, risk-sharing structures and funds, because not relevant for the scope and purpose of the present dissertation

Figure 16 shows the trend of unemployment in Europe in the last years. The shape of the graph is quite easy to catch. Unemployment rose right after the 2008 crisis with a second spike in 2013 after the sovereign debt crisis. Then, after peaking in 2013, it started to decrease in correspondence with the launch of the Juncker Plan. The program of investments allowed to ignite the labor market and contributed to trigger a steady decrease in unemployment. Year after year the fall of unemployment has been progressive and last year it reached a historical low of 6.8% of unemployed people over the total of the active population, touching a rate which is even lower than pre-crisis levels. In conclusion, although the investment gap is far from being adjusted, the pre-crisis/post-crisis unemployment gap on an EU perspective has been completely redressed.[70] Similar considerations may be made for GDP. The Juncker Investment Plan benefited one million start-ups and firms, gave jobs to millions of people, enlarged access to broadband lines and clean energy and promoted the construction of infrastructural projects. All this was certain to reverberate on the real economy in terms of higher demand and higher GDP growth.

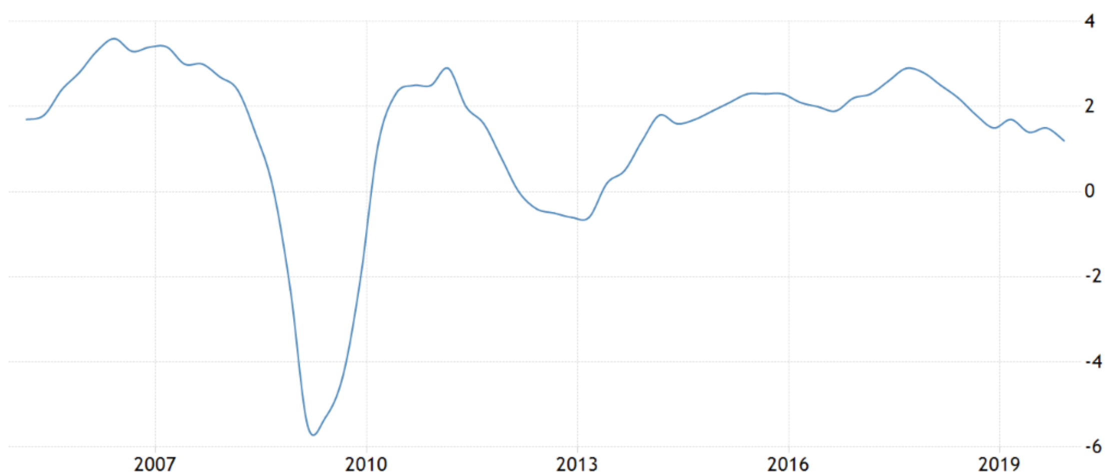

Figure 17 GDP annual growth in EU28 (%)
Source: Trading Economics

Data concerning economic growth are proof of the positive, though not superlative, effect of the Plan on a macroeconomic level. The initiative is alleged to have boosted GDP by 0.9% compared to the baseline scenario and is said to have brought Europe back from a dark period of negative growth and

[70] I am referring here to unemployment in EU28. Once we move away from aggregate data and focus on individual states the scenario might change enormously with countries scoring higher unemployment rates. Overall, the strategies adopted in the European Union have been useful to bring unemployment on a downturn in all the countries of the European Union

uncertainty. Figure 17 reveals that after the launch of the Plan, European GDP have rebounded and kept a steady positive growth. Unfortunately, GDP growth did not follow the same unemployment pattern, i.e. a constant and progressive increase year after year. On the contrary, it remained stable with moments of retreat and this might come down to the atmosphere of uncertainty and negativity that still clouds the prospects of European citizens and stop them from consuming or investing on a regular basis. In the last years economic growth in EU28 has halted but this is attributable to an unfavorable global economic juncture that is affecting all the economies and in this adverse scenario EFSI may actually be the instrument to keep the European Union alive and to prevent demand from dropping too much. To conclude, it is possible to say that the Juncker Plan's effect on GDP was positive, in that growth was boosted and brought around an average of 2%, but was not sensational for the results on GDP were not progressive and economic growth in Europe is still struggling to come back to acceptable levels. When it comes to giving an accurate judgement, from an economic standpoint, the Juncker Plan can be labeled as a good starting point because it produced some solid results. It is quite certain that without this public policy the European economy would still be weak.

The unquestionable outcomes of the Plan have not convinced some fervent opposers who have voiced their criticism in many ways. Despite the optimistic figures of investments, GDP and employment, detractors point out that an investment plan like the Juncker Plan is just a second-best solution and that a real optimal response to the fall in investments should have been found somewhere else. There is who retains that the main response would be a massive European public investment plan directly through the EIB itself whose investment capacity has increased in times of crisis. There is who claims that the response should pass through Member States whose intervention must be empowered, for example with an improved investment clause exempting public investment from fiscal rules and giving European countries more leeway. Others sustain that the solution lies in a redressing of the European Stability Mechanism that is supposed to act in case of deep crises while still others think that the appropriate response should come from the establishment of a brand-new institution created for the occasion and taking advantage from historically low interest rates in the Eurozone. Only a few experts have actually thought about setting up a Fund acting as a guarantee to risk-averse investors.[71] Although it is clear that the plan could have been designed in a thousand of different ways, I find it quite hard to distinguish between first-best and second-best solutions. Not only is it almost impossible to predict the success and effectiveness of an initiative, but also every plan tends to have pros and cons which are incalculable. Considering that no plan will ever be huge enough to completely fix the enormous investment gap, I reckon that the European Investment Plan was not a second-best response

[71] Clayes, G., "Juncker Plan: the EIB in the driver's seat", June 2015, https://www.bruegel.org/2015/06/juncker-plan-the-eib-in-the-drivers-seat/

but a carefully meditated strategy that took into account the position of difficulty of national and European budgets and the priceless amount of liquidity already present in the economy that needed to somehow be unlocked without producing further deficits. One last strand of criticism has to do with where the resources come from. Critics underline that EIB contribution to EFSI is merely a reshuffling of pre-existing funds and it is all money that would be used and pumped in the real economy anyway regardless of the Investment Plan. As a matter of fact, the €5 bn EIB contribution is no fresh supplementary money, but it is mainly subtracted to other EU programs like *Horizon 2020* and *Connecting Europe*. The Plan is therefore criticized to just move resources from one pocket to the other and to give no real contribution because those resources would have been used anyway even if they had not been allocated to the European Fund. The idea is that that money would have made its way into real economy either way. I must here say that, although the resources would have reached the real economy anyway, it does make a difference where they are allocated. As already explained before, the characteristic of EFSI is that it provides a guarantee and ensures more additional investments. This means that moving resources to the European Fund should supposedly grant a more efficient use and attract more private capitals than usual. The concrete example to illustrate this situation can be made with reference to Horizon 2020. Horizon 2020 is one of the biggest European programs for research and innovation promising incredible breakthroughs and discoveries. It consists of €80 billion to be added up to the private investment that this money attracts. Now, if part of that money is channeled to the European Fund for Strategic Investments the impact on the real economy, in terms of research and innovation, might double since the Fund can make a more efficient use of the resources and reach a more significant financial leverage. This also means that higher quality projects can be financed leading to more revolutionary breakthroughs. The reshuffling of resources was not a mere expedient to assemble more money for the European Fund, but it was an attempt to increase the potentiality of the resources available. Moreover, centralizing resources into a unique instrument was also useful to achieve more clarity and less complexity in a complicated phase where having one multi-sectoral tool was more convenient than having many individual ones. From a macroeconomic standpoint, what can be contested of EFSI, besides its being too small for the big purpose, is that it created an overlapping with other financial instruments generating useless duplicates and unhelpful confusion.[72] The Fund proved to have a weak coherence with other instruments because it turned out that most of the projects eligible under certain schemes were also eligible under EFSI and winded up being promoted by the latter. This "cannibalization" of other financial instruments limited the scope of action of Europe because it overloaded the Fund for Strategic Investments and got it to take on many investments that did not require EFSI intervention.

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[72] European Commission, *Independent evaluation of the EFSI Regulation*, Brussels, June 2018, p.81

However, this problem gradually found a solution by means of a redressing and a merging of existing instruments.[73]

The Juncker Plan's assessment through macroeconomic lenses enables us to draw some very important conclusions. All in all, the impact of the Plan on the European economy has been positive. Figure 12 suffices to demonstrate that without the implementation of the program the European economy would still be sluggish and way below current standards. The major outcomes have been the restart of economic growth, the take-off of investments and the progressive reduction on unemployment. There are also some not-properly-superlative outcomes and unattained objectives which play down the effects of the Plan. The investment gap is still far from closed and the degree of additionality promoted by EFSI projects could be pushier. Despite this, it would not be fair to lash out against the Plan just because it left some matters unresolved, especially after testifying that European countries would be incredibly worse off if it was not for the activation of the Juncker Plan. To sum up, a macroeconomic analysis of the European Investment Plan leads us to assess it as in-between a superb accomplishment and a total failure. In other words, the Plan was a good convincing starting point to wake the European economy up and overcome the investment depression. To use Juncker's words: "I always said that the Plan was not a cure-all. But with more than one million small-sized companies receiving financing that wasn't available to them before, we can be proud."[74] It is a pity that such accomplishments and such a fresh start did not materialize at the level of social and regional disparities where the performance of the Plan is by far not comparable and this is precisely what is highlighted in the next section.

3.3. THE JUNCKER PLAN AND EU REGIONAL DISPARITIES: A MISSED OPPORTUNITY

An outlook of the economic aggregate data may even give us a positive picture of five years of Juncker Plan. However, once we break the data apart and consider more carefully its implementation, some inconsistencies emerge. As expressed above, if the purpose must be to make the best out of the Juncker Plan, a simple macroeconomic analysis cannot suffice. It becomes evidently important, for example, to consider who the main beneficiaries were, where the projects were concentrated and what kind of developments they triggered within the European Union. Thus, the second dimension I am going to explore concerns the connection between the Plan and EU regional disparities, on which the literature has written extensively. While the macroeconomic assessment tried to evaluate the Plan

[73] Ibidem, p.83

[74] Press corner of the European Commission, "Daily news 10/22/2019", https://ec.europa.eu/commission/presscorner/detail/en/MEX_19_6146

with an eye on the investment level, the GDP and the employment growth, the geographic and sectoral assessment I am going to develop tries to evaluate the Plan considering its impact on regional disparities and convergence. The first indicator used for the evaluation is the geographic concentration of EFSI activities. Did the Juncker Plan's projects concentrate homogeneously across the EU? Was the Juncker Plan designed to facilitate the adjustment of the investment gap in all EU member states and regions? Or were the benefits spread only within specific boundaries? Understanding the impact of the Plan on regional disparities implies also looking at a second indicator which is the sectoral distribution of investments that must complement the geographic one. What were the main sectors where EFSI operated? Were those sectors appropriately targeted to ensure a regional catch-up in terms of opportunities and services? This second kind of analysis is expected to reveal a more worrying and less convincing scenario.

3.3.1. *THE GEOGRAPHY OF THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS*

Before starting with the geographic assessment, a clarification is needed. The Juncker Plan was not supposed to revolve around a sectoral and geographic dimension, and it was not designed to bridge any regional gap. As stated in the Regulation, the main purpose was to boost investments and mobilize as many capitals as possible to shake up the dormant European economy. That is why EFSI Regulation itself did not envisage any kind of geographic or sectoral quota. The Investment Plan for Europe is a demand-driven strategy where projects are singled out on the basis of the applications submitted and the eligibility criteria with no compulsion for a spatial requisite. Nevertheless, this does not mean that EFSI geography is of marginal importance and must not be taken into consideration at all. The geographic concentration of EFSI is relevant because the Plan was engineered to stimulate and reactivate the European economy, meaning that all the units of the European system should be put in the condition to enjoy the benefits. It goes without saying that a proper geographical dispersion of the operations is useful also at the economic level because it allows for more risk diversification of EIB activities. Moreover, it is possible to discern a clear interest of the European Commission for the regional and territorial dimension. It is in the very Regulation 2015/1017 that such interest comes out. Article 5.2 comments that "the Steering Board shall adjust the project mix *as regards sectors and countries*, on the basis of an ongoing monitoring of the developments of market conditions in the Member States and of the investment environment […]". And again, when listing the types of projects eligible for EFSI backing, article 6.1 makes specific reference to projects "consistent with Union policies, including the objective of smart, sustainable and inclusive growth, quality job creation, and economic, social and territorial cohesion". The attention for the regional coverage pops up even more evidently reading Annex II of the EFSI Regulation. Under the *sectoral and geographical*

diversification section, after recalling that the initiative is demand-driven and allows for no quota, it is claimed that "[h]owever, best efforts shall be made to ensure that at the end of the initial investment period a wide range of sectors and regions will be covered and excessive sectoral or geographical concentration is avoided". This is to say that although the program was intended to be an uninterested investment stimulator, the regional component was not neglected at all. Moreover, despite the inexistence of geographic quotas, the Plan cannot conflict with the main priorities and objectives of the European Union, among which regional cohesion and convergence play a paramount role. The literature has highlighted that the very design of the Strategic Fund makes it unlikely to pursue cohesion goals and likely to exacerbate the already consistent regional disparities.

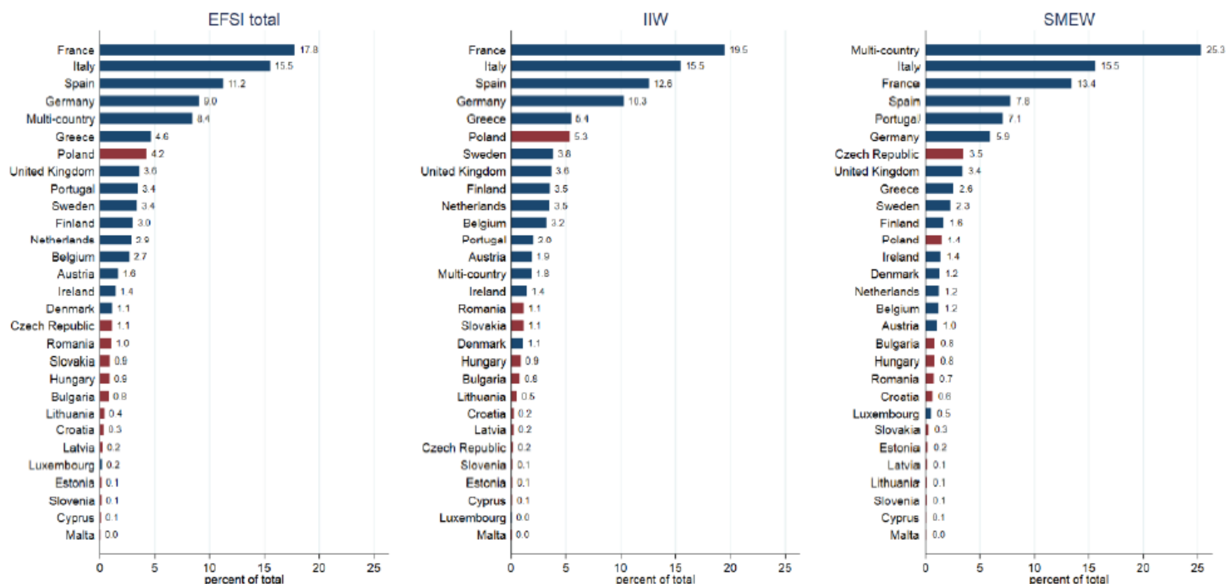

Figure 18 EFSI signed financing by member State as of Q1 2019
Source: EIB

The conflict between the promotion and support of additional investment projects and a widespread territorial diffusion of such operations is pretty evident when one analyses where the bulk of the projects has been implemented. The above Figure 18 takes on the issue of cross-country inequality and indicates the signed financing that each member state received over the total of EFSI operations. The distinction here is between "old member states" – or EU15 – and "new member states" – or EU13 – including all the Eastern European countries. The figure points out that EU15 economies (marked in blue) have received more EFSI financing in absolute and relative terms than all the other EU13 economies, which is problematic also because EU13 is composed by much of the less-developed countries. To top it off, almost a half of EFSI signatures is concentrated within only three Western

member states that therefore monopolized most of EFSI activities and which are France, Italy and Spain.[75] This raised many concerns for European policy makers because such a pronounced concentration clashes with the guidelines deliberated by the Steering Board. In order for the geographical diversification to be respected, it was decided that "EFSI-supported operations shall not be concentrated in any specific territory at the end of the initial investment period. To this end the Steering Board shall adopt indicative geographical diversification and concentration guidelines."[76] The two major geographical guidelines elaborated by the Steering Board are:

1) at the end of the investment period, EFSI should aim to cover all EU Member States
2) the share of investment in any three member states should not exceed 45% of the total EFSI portfolio.

The governing bodies of the European Fund had to make sure that a constant monitoring of the geography of investment was in place, but something must have gone wrong if the concentration limit of the second guideline was so badly overlooked. Italy, France and Spain accounted for more than 45% of EFSI activities and the same countries seemed to stand out also under the SME window, though showing a lower degree of concentration. Even though it is true that most of the investments went to heavily-hit countries like Spain and Italy, it is less obvious why EFSI activities concentrated so much within EU15 economies and especially why Germany and France were privileged more than needy EU13 economies. As a matter of fact, the differential between EU15 and EU13 is massive and very difficult to account for. Almost 88% of total EFSI financing under IIW was allocated to projects based in EU15 while obviously the share of EU13 financing rose to little more than 10%.[77] It is like the newest member states had been forgotten by the Investment Bank which is usually very careful to the exigencies of lagging countries. There also seem to be Member States that did not enjoy EFSI support at all with a share of activities almost equaling zero. However, considering aggregate data alone might be misleading. After all, the investment need of a country varies according to its economic output. A large economy with a huge GDP necessitates more investments, while a small economy with a modest GDP necessitates less investments. That might be a reason why big Western member states attracted most of the capitals. To have a clearer and more accurate picture of the

[75] Since I am dealing, for the moment, with cross-country disparities Italy and Spain are considered as advanced EU15 countries even though they present strong intra-national regional inequality and very poor and backward areas, as discussed in chapter 1.3. Those lagging regions will be brought up in the part dedicated to intra-country disparities.
[76] Annex II to the Regulation (EU) 2015/1017 of the European Parliament and of the Council, 25th June 2015
[77] European Investment Bank & European Commission, *Study in response to ECA recommendation 5: improving the geographical spread of EFSI supported investment*, Document 13, July 2019, p.9

geographical distribution of EFSI operations, it would be better to normalize the investments mobilized by the size of the economy.[78]

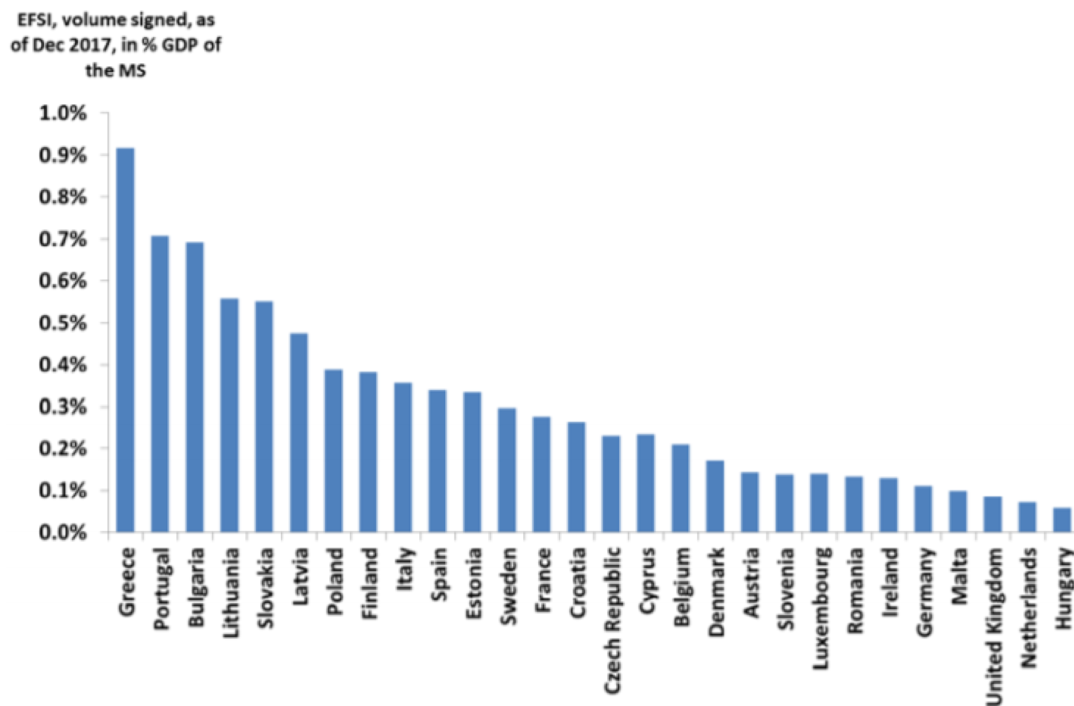

Figure 19 EFSI signed financing by Member State normalized by GDP
Source: EIB

This procedure is reproduced in Figure 19 suggesting that this expedient changes the pattern. When weighted by the size of the economy, some countries shift from the bottom to the top of the ranking. One example is Greece. The country received a minimal portion of EFSI contribution in absolute terms but when compared with its economic output it turns out that the investments mobilized are almost equal to its GDP. Same thing goes for Bulgaria, Lithuania, Slovakia and Latvia. Looking at things from this perspective, EFSI geographical concentration might appear less bad than before and may also give the impression that there is actually an inverted discrimination whereby some advanced Western countries did not receive much relative to the size of their economies. In reality, the scenario depicted in Figure 19 is only seemingly different and less worrying. Indeed, the size of economic activity does not always coincide with the investment needs. It must be specified that sometimes countries' need for investments is disconnected with the real size of their economy and they may call for more or less in comparison with their GDP. This is even more true in a phase of deep crisis when

[78] European Investment Bank, *Evaluation of the European Fund for Strategic Investments*, Luxembourg, June 2018, p.39

a long and devastating recession took place and countries need investments to boost security and restart the economy. A high concentration within EU15 reveals a strong neglection for the conditions of peripheral countries and for the objective of social and territorial cohesion. Finally, the investment geographical concentration keeps representing a problem when one recollects the situation I described in the first chapter where I pointed out that peripheral EU13 countries were those hit more heavily by the crisis causing a major drop in investments (see Figure 1). While the average investment decline in the European Union was a little more than 2%, countries like Latvia, Greece, Estonia and Lithuania experienced an average downfall of 15% therefore requesting a special enormous intervention going beyond any consideration on GDP. To make things worse, some EU13 economies still lie at the bottom or score very low in the ranking even after the normalization. For them, the geographical distribution of EFSI operations remains biased no matter the perspective adopted. These simple considerations shed light on the fact that the Juncker Plan, far from favoring regional convergence, is potentially disruptive for cross-country and intra-country convergence due to a misallocation of resources. The numbers of the Juncker Plan may have been impressive but the real benefits for the European Union have been toned down by the negative social and territorial performance. What European leaders can do is to become conscious of this issue and try to find a way to tackle it. The Juncker Plan, or its future incarnation, can still make the difference for the European economy in the years to come, provided that such geographic imbalance gets accounted for and redressed. This is also what the European Court of Auditors (ECA) expressed in its evaluation of the European Fund for Strategic Investments claiming that "action needed to be taken to improve the geographic spread of EFSI supported investment" and recommending the Commission and the Investment Bank to "assess the root causes of the observed geographical spread and provide recommendations for actions to be taken in the remaining EFSI implementation period."[79]

So, it is now worth asking the same question: where does the risk of geographical concentration come from? Why is EFSI so negligent, if not even perilous, of regional disparities? From a careful analysis, it seems that such geographical concentration is connected to many different factors. But, in general, it is right to say that it is the very structure and the very functioning of the Fund for Strategic Investment that make it collide with the purpose of social and territorial cohesion. In an interesting Jacques Delors Institute's report on the Investment Plan for Europe, opened by President Enrico Letta's brilliant introduction and insights, the authors put forward some possible factors accounting for EFSI's country/regional disproportional spread. First, despite EFSI Regulation making some vague reference to the need to be consistent with some geographical requisite, the Fund was mainly

[79] Ibidem, p.5

designed to increase the aggregate level of investment in Europe. Knowing that it will be judged according to its capacity to attract capitals and promote investments, it is quite logical that the governing bodies will focus more on ready-made and well-prepared projects rather than on their proportional geographic allocation. Who is hence favored by this situation? Mainly those countries having more technical capacity to use financial instruments and structure high-risk projects. In a few words, developed EU15 countries have a comparative advantage because they have a much more mature and sophisticated financial system capable of instilling more trust in investors and thus attracting most of the resources. EU13 financial markets will be likely overlooked because incapable of properly managing savings and ensuring risky and qualitative projects.

A second reason connected to the biased geography of EFSI is that the Fund was mainly designed to attract private investments and, notoriously, private investors only act in a horizon of certainty, stability and predictability. Accordingly, the number of projects financed by private investors will depend on the general conditions of a country or region. This penalizes countries or regions presenting high levels of political and economic instability or having unreliable sectoral policy frameworks and it goes without saying that this is typical of New Member States, alongside some other lagging regions like the Italian "Mezzogiorno" or Southern Spain. Jan Schneider (2015) underlines the same issue making the case of a country like Greece whose high political uncertainty and economic quagmire render investments less attractive in comparison to core economies and reduces the Plan's impact over those countries which are more in need for economic stimuli.[80]

The report points then to a third factor explaining the geographical bias. Investment platforms and National Promotional Banks (NPBs) are paramount protagonists with a deep involvement in the Fund's activities. Most of EFSI's operations are indeed carried out in cooperation with NPBs which usually happen to be the main co-investors and co-financiers. This third aspect goes again in favor of EU15 member states because it implies that countries with developed and strong NPBs are more likely to see their projects financed. It comes as no surprise that the core investors over the years have been promotional banks from Germany (KfW - Kreditanstalt für Wiederaufbau), France (CDC - Caisse des dépôts et consignations), Italy (CDP – Cassa depositi e prestiti), Spain (ICO – Instituto de Credito Oficial) and also Poland (PKO Bank Polski). It does not require a huge effort to see that they are also the economies most favored by the Juncker Plan and that the underperformance and scarce involvement of EU13 NPBs is a further penalizing element.

[80] Schneider, J.D., Growth for Europe – Is the Juncker Plan the answer?, *European Policy Center – Discussion paper*, March 2015, p.6

There is another seemingly marginal factor that is reported in the Jacques Delors Institute's paper, that is the possibility for the European Investment Advisory Hub and the European Investment Project Portal to make up for the gap in the technical usage of financial instruments to support a more proportional diffusion of initiatives also in backward countries or regions.[81] The fact that no compensation has occurred over the years means that EIAH and EIPP are probably part of the problem and tend to showcase and supply assistance mainly to ready-made and safe cash-flow-yielding projects. It might be a concern for the future to redress the two bodies and strengthen the project selection. Broadly speaking, what this description suggests is that the way EFSI is structured, with no real compelling geographic quota and with a sole major purpose of collecting private resources, awards financially sophisticated countries and penalizes financially backward countries.

The economic literature does not exclude that behind the lower take-up of EFSI in cohesion countries there might be other elements. A limited direct pipeline to the projects can be a first interpretation with New Member States alleged to be cut off and incapable of acceding the main sources of financing. A second idea could be that the average size of eligible EFSI projects is bigger than the typical average size of viable and usual projects in lagging regions and countries. But the interpretation that has circulated the most in literature is that the scarcity of EFSI operations in EU13 economies is driven by the fact that there is a plethora of alternative financial instruments and funds those countries can rely on. Apart from the European Fund, there are various other possibilities at the European level to finance projects and spur economic and social development and these possibilities are usually more convenient and palatable for lagging countries and regions than EFSI, whose access seems to be precluded most of the time. The idea is that EFSI operations did not reach EU13 member states because they would rather opt for alternative instruments which might be less additional and risky but at least cater to their interests because more in line with goals like territorial cohesion and inclusive growth. One such tool is the European Structural and Investment Funds (ESIF), a set of five funds with different rationale and purpose that can supply financing for different projects but with a scope of action and eligibility criteria different from EFSI's. What has been particularly popular in peripheral countries of the EU are Cohesion Funds (CF), established for the purpose of strengthening the economic, social and territorial cohesion and ensure sustainable development. In the 2014-2020 programming period, the volume of Cohesion Funds in most EU13 countries exceeded the volume of EFSI operations in EU15 countries. Poland received €23 billion from Cohesion Fund, Croatia and Bulgaria €2 billion, Hungary and Czech Republic €6 billion which is far more than what they have ever received from the European Fund for Strategic Investments. This might explain why EFSI barely

[81] Pellerin-Carlin, T. Rinaldi, D. and Rubio, E., Investment in Europe: making the best of the Juncker Plan, *Studies & reports - Jacques Delors Institute*, 2016, p.53

made its way into these regions given that they set about fueling their economies through other means. That is also why, when the Juncker Plan was proposed back in 2014, many Eastern European countries feared that the new plan could eat away Cohesion Funds and put them in danger. Fear came from the fact that the "attraction of investing in a fund offering a deficit discount procedure might draw resources away from the existing projects."[82] The European Committee of the Regions (CoR) warned that it would not accept any overlapping with Cohesion Funds or any diversion of the funds towards other instruments and that it would not tolerate any unintended consequence over regional policies. Luckily enough, no big changes have been made over Structural Funds which remained the main drivers of growth and development for backward regions and are planned to increase within the next 2021-2027 budgetary framework.

In conclusion, it is quite obvious that the Juncker Plan is potentially disruptive in terms of geographic equality because its concentration within three main member states goes against the very idea of territorial cohesion and regional convergence. Focalizing investments in a handful of Western countries, the Juncker Plan provides assistance to advanced economies while turning the back to more troubled economies that would need a major thrust to recover. Even though EFSI action is not voluntarily biased in favor of OMS, the way it is designed and the rules it abides to turn it into an unequal source of financing. This is something to bear in mind to get to a better performing Plan in the future.

3.3.2. *INTRA-COUNTRY DISPARITIES*

The geographic assessment of the Juncker Plan cannot be completed before talking about its impact on intra-country disparities. Up to now, I saw the European Union only as a set of countries. But in reality, the European Union can also be seen as a set of regions, each with a different degree of development and progress. Recalling the theory of economic geography presented in chapter 1.3, the European Union displays some core regions which are economically powerful and some peripheral regions which, lying far away from the productive heart of Europe, are less advanced and dynamic. To tell the truth, the description of the regional performance of the European Fund is not that different from the broader cross-national picture because the underlying principles are the same. Without any strict measure or criteria driving the geographical distribution of the projects, the Fund tends to privilege financially sophisticated regions capable of attracting capitals more easily and appealing to investors through their stability and certainty. Although the literature on within-country effects of the Juncker Plan is not as extensive as the literature on cross-country effects, it is not hard to realize that

[82] Fleming, J., "Regions warn Juncker Plan could eat cohesion funds", December 2014, https://www.euractiv.com/section/regional-policy/news/regions-warn-juncker-plan-could-eat-cohesion-funds/

each Member State represents a smaller picture of the bigger European reality where regions have different degree of access to financing. In the same way, it is not hard to guess that what I identified as lagging peripheral regions (figure 6) must be the most impeded ones. Lagging regions are usually promoters of relatively small-sized projects which are very unlikely to be signed and backed by the Fund because not really bankable and additional. This intra-country analysis therefore hinges on the same issues that apply across countries.

The regional misallocation of resources stands out the most if one opens an EFSI project map where all the direct investments promoted by the European Fund are indicated. Only direct IIW EFSI investments are usually reported on the map because for SMEW investments the Fund operates indirectly through other local financial intermediaries which know the socio-economic fabric of the territory very well. Still, an outlook of the Innovation and Infrastructure window can be considered as a good sample of the geographical distribution of EFSI activities. From this outlook, it is possible to notice that besides a cross-country heterogeneous spread there is also cross-regional injustice in that investment clustering takes place at the national as well as the regional level. This insight can become clear only by making some examples regarding the location and nature of some projects promoted via the European Fund for Strategic Investments.[83] Let us take Italy as a first benchmark. The country has a great deal of inner inequality having Northern regions that are very productive and dynamic and Southern regions that are sluggish. This evident disparity is by large not made up for by the European Fund since the location of projects realized cannot be more unfair and more disproportionate. Despite Italy being one of the top recipients of EFSI funding, there are only three major and worth citing investments in the South of Italy while the majority of them concentrates in wealthy Northern areas. A first project was released in late 2019 and it was the EAV Circumvesuviana Railway New Rolling Stock in the Campania region. The project, earning a €68 million EIB financing, consisted of the purchase of 40 new trainsets to improve and expand the transportation capacity of the Circumvesuviana railway as well as to better connect the city of Naples with its surroundings. The new trains were also expected to be more environment-friendly reducing GHG emissions. A second project pertained again to the field of transport and was released in Puglia. The Mermec Group project, a mid-cap company specialized in the field rail diagnostics, planned to develop innovative services for the rail sector, improving safety, availability, lifetime and efficiency of rail transportation. €30 million was the estimated financing coming from the Investment Bank. There is another project regarding South Italy which was released in Sicily in 2015 and intended to

[83] I am making reference to EFSI project map present on the EIB website to have an overall look at the distribution of each initiative on the European territory: <https://www.eib.org/en/efsi/map/index.htm> The map only shows IIW projects where there is a direct participation of EFSI while indirect SMEs initiatives are not indicated.

improve the efficiency of the Milazzo refinery receiving an EIB financing of about €110 million. These are basically the only IIW projects registered in Southern Italian regions and they pale in comparison to the initiatives that were unlocked in the North. More than 12 projects have been activated in the North since the onset of the program and most of them are further concentrated in rich areas like the city of Milan or Treviso, near Venice. What is more is that most of these projects reflected a real social empowerment or, at least, an improvement of basic social services and opportunities. This is the case of Treviso's hospital and the complete reconversion and innovation of its care facilities or Milan MM Water Infrastructure Upgrade with its upgrade and extension of the sewage and wastewater network. On the contrary, investments in the South were not just limited in number but also in their social impact and in their capability to favor a regional catch-up. Except for the case of the Milazzo refinery which had an evident impact on growth and employment, the other two investments had a much more limited impact. This is not to say that they were not important, because any investment project represents a useful upgrade and opportunity, but it is to say that they were not socially inclusive enough to make a difference in those lagging regions. Both the Circumvesiana and the Mermec projects promoted more territorial connection and transportation safety but they did not have the potential to sustain an acceptable growth, poverty eradication and catch-up like an investment in social infrastructure would do. Another similar pattern is detectable in Spain where most of the high-quality investments clustered in the North, particularly around the capital city of Madrid and the area of Bilbao. In Spain, as in Italy, the regions of the South are backward and sluggish while the productive power lies in the North. Consequently, Spain is another country reflecting the general trend that capitals are more likely to be mobilized toward advanced and sophisticated areas, exacerbating the regional gap. In Andalusia, one of the distressed Southern regions of the country, and in other coastal areas like Valencia, Tarragona and Barcelona an EFSI-financed program on improved ports accessibility was launched. The program consisted of many different projects to boost land connectivity of the major ports of the area given the commercial importance of maritime trade for those regions that have important contacts with North African merchants. All this while, in Madrid, the retail firm El Corte Ingles won the backing of a €232 million worth project to safeguard its market position by enhancing the digital transition and creating a multichannel sales platform and while, near Bilbao, a project was designed to support the research and development of automotive firm Maier for environmentally friendly productive processes. Once again, without neglecting the importance that each investment carries along, the most distressed areas in the South of Spain were not involved in as many socially impactful investments as necessary to arrive at a convergence with the wealthiest regions. Again, it was about projects achieving more connectivity and transport efficiency but without the real catch-up force and long-term community

empowerment that huge infrastructural and socially relevant projects might have. Scenarios like the Spanish or the Italian ones are not scarce. I will not write them down country after country because it would be redundant but a quick look at an EFSI project map suffices to understand how geographically misallocated EFSI investments are, with projects frequently concentrated around the rich capital areas while absent, or simply less bankable and relevant, in the rest of the country. This is true as a general rule even when considering rich and developed countries. In Ireland there are no explicitly reported lagging regions but it is still evident that more than 5 big projects were signed in the Leinster region, which includes the capital Dublin, while just a few were backed in the North West where the economy is comparatively less rosy. In Sweden, the capital city of Stockholm witnessed four investments worth more than €460 million and other stimulating projects in nearby provinces. The poorest parts of the country are located North where the weather and the lack of human settlements make those areas quite unproductive and backward managing to survive only thanks to the perfect redistribution schemes of the Nordic states. No EFSI project was financed in these extreme Northern counties like Norbotten County because obviously not attractive to private investors. Finally, it is needless to tell the case of Eastern European countries where the value of investments promoted is significantly low. Any geographic consideration would be useless in this case as most of these regions are lagging and the size of the investments promoted cannot make a big difference. As claimed before, the size of the projects in Eastern Member States is not small if compared to the GDP but in absolute terms it is by far not able to trigger a hoped-for catch-up and convergence. This is even more improper since many of the IIW projects in lagging countries were indeed socially inclusive, sometimes more than in developed countries. Investment projects about agricultural improvement in a primary-sector-dependent country like Bulgaria, investment projects about private medical network expansion in Romania and Poland, a project to let company Fortis Maribor purchase a state-of-the-art drilling and milling crane to produce advanced metal products in Slovenia or also the construction of a new University of Latvia Research and Study Center to enjoy some academic excellence in Riga are all examples of excellent but rare projects to push for a regional convergence.

In sum, from the point of view of geographical distribution, the European Fund for Strategic Investments has been a missed opportunity because its stimulating effects could have been better distributed across the European regions. EFSI has been a positive tool for the post-crisis economy but only for a selected number of EU15 Member States while turning the back to NMS. Although the Fund was not designed to satisfy a geographical criterion, the imperative was to make the best out of the recovery plan and help the European economy as a whole. Such a reproachable national and regional concentration goes against the very idea of fighting for social and territorial cohesion and it reveals that there is something profoundly unjust in the way EFSI operates and is structured. To really

make the best out of it, the tool should be engineered in such a way to mobilize capitals toward the neediest areas where the investment drop has been overly terrible, thus facilitating and persuading private investors to venture in lagging regions. Some hints about how to do that will be elaborated in the conclusive chapter. In a few words, to put it like current CoR First Vice-President Markku Markkula, “clear references to the territorial dimension of the Junkcer Plan are needed. We must also consider how to reduce investment gaps and pay more attention to less developed and isolated regions”.

3.3.3. *THE SOCIAL SIDE OF EUROPEAN FUND FOR STRATEGIC INVESTMENTS*

An analysis of the impact of the Juncker Plan on EU regional disparities must take into account the sectoral dimension as well. Knowing where investments were promoted is highly relevant to understand their impact on poverty, marginalization and social capacitation. I already asserted in chapter 1.2.1. that social infrastructure investments are vital to ensure convergence and regional equality. EU regional disparities do not just take the shape of income differentials, but they refer to a broader condition of disadvantage that lagging regions have. Besides showing lower levels of GDP per capita, peripheral regions experience poorer supplies of basic services resulting in poor satisfaction of basic human needs, less opportunities to upgrade their status, less access to providers of excellence and so on so forth. That is why many indicators, like the European Social Progress Index or the European Regional Competitiveness Index, are built to encompass measures like nutrition and basic medical care, clean water and sanitation access, personal safety, affordable housing spending, access to basic knowledge, education standards and many others. There is hence a strict correlation between EU regional disparities and SIIs in that the latter are functional to fix the former. This correlation was examined also by the special High-Level Task Force on Investing in Social Infrastructure in Europe. The High-Level Task Force was set up in 2017 and it was composed by representatives from the European Commission, the European Investment Bank, the Council of the European Bank for Development and member of national development banks. The goal was to raise politicians’ awareness on the crucial role of social infrastructure for economic growth and the well-being of citizens. Chaired by Romano Prodi, the Task Force shed light on the wide plethora of benefits SIIs bring along to individuals and communities. Social infrastructures generate “more hired, housed, healthy and happy people with positive spillovers on society as well as on economic activities. […] [They] can boost community resilience and regeneration while strengthening reputation and attracting trade/business and tourism.”[84] In general, social infrastructures deliver some

[84] Fransen, L., del Bufalo, G. & Reviglio, E., Boosting investment in social infrastructure in Europe, *European economy discussion papers*, n.74, January 2018, p.14

advantages that benefit the social as well as the economic sphere: attractiveness of place, employment, more trained social and human capital and more assistance to the basic needs of the population. On the contrary, poor social infrastructures penalize individuals and economic activities because it limits economic opportunities, it creates poverty and marginalization and can also tear the social fabric apart by preserving unjust disparities. In practical terms, less social investments in needy areas translates into less access to medical care, more school dropouts, less childcaring facilities forcing families to limit their working life to look after children, a more degrading environment which scares businesses away and favors criminality. This is what really makes the difference between core regions and more peripheral regions besides the GDP dimension. At this point I reckon it is easy to guess what the second indicator for the analysis of the Juncker Plan and EU regional disparities is: sectoral concentration. Insofar as the geographic concentration indicator provided information on where the projects mainly clustered, the sector distribution indicator serves to understand what type of investments were promoted and whether they incorporated a high social rate of return for the benefit of the whole community. Analyzing the sectoral distribution is important to assess the real impact of the Investment Plan on EU regional disparities bearing in mind what was said before, i.e. social infrastructures like in health, education, environmental sustainability supply a whole range of benefits capable of creating long-term convergence and growth. The idea is that any investment is somehow socially impactful, but they get typically implemented under financial and economic considerations which overshadow the social benefits. Instead, social infrastructure investments are more likely than others to incorporate a higher social rate of return and to impact on the community to a higher extent than a normal financially oriented investment project.

I must here say that, as in the case of the geographical analysis, the European Fund was not designed to address any particular sector. Its performance would be evaluated on the basis of the cumulative amount of capitals mobilized and investment projects promoted. At the same time, Annex II of the regulation poses emphasis on sectoral concentration specifying that “best efforts shall be made to ensure that at the end of the initial investment period a wide range of sectors and regions will be covered and excessive sectoral or geographical concentration is avoided.”[85] The following section of Annex II does even more than that and specifies that in case of need, after the initial action period, the Steering Board can decide to place indicative concentration limits in order to manage sector diversification. The Board then decided to enact, only for the IIW, a concentration limit of 30% for each sector serving as a cap, but unfortunately it did not devise any floor, i.e. a minimum share to be reached for each sector. Therefore, most of the projects filled the category of energy or R&D but

[85] Annex II to the Regulation (EU) 2015/1017 of the European Parliament and of the Council, 25th June 2015

there was not much space left for social infrastructure. To tell the truth, it does not surprise that an investment plan so much based on private capitals fails to support social projects.[86] What surprises is that the governing body did not do anything to redress that. In a time where governments have their hands tied and deteriorated public finances, a powerful tool like the Investment Plan for Europe should get the upper hand and play the role of facilitator of such projects.

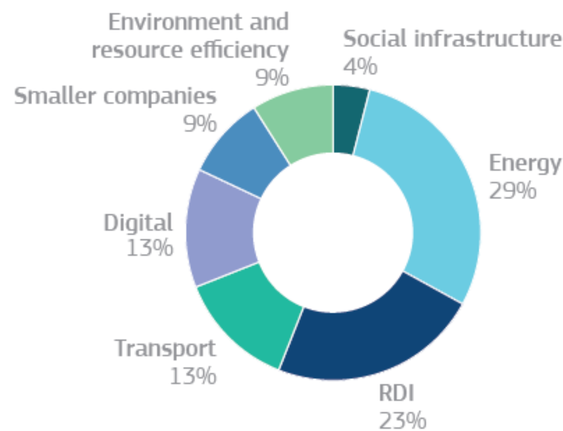

Figure 20 Distribution of EFSI activities by sector
Source: European Commission

Unfortunately, the Juncker Plan's impact on regional disparities seems limited even when looking from a sectoral standpoint. What appears from Figure 20 is that the distribution may be quite balanced with no category sharply prevailing over the others but there are some sectors that were clearly neglected like environmental sustainability and, even worse, social infrastructure. Territorial inequality will never heal unless all EU citizens are put in the condition to enjoy the same services and opportunities, but the crisis has rendered this achievement even more blurred. That is why SIIs must be given priority because the road towards regional equality passes from there. Unfortunately, the main evident weakness of the Investment Plan for Europe is that it misses a social dimension and it misses the capacity to empower people and contribute to a more cohesive society.

An interesting study conducted by the European Economic and Social Committee (EESC) tried to compare EFSI activities with the main European Social Pillars to check whether Fund's investments were at least partially moved by considerations of social and territorial cohesion. The first aspect examined by the study is poverty. No EFSI operation considered tackling poverty and in-work poverty directly even if this represents a serious issue across the European Union after the great crisis.

[86] Chapter 1.2.1. already outlines that social investments tend to be backed by public money because they are oriented toward a common good, not on a private profit, and the return on investment is usually thinner

No projects put in place a structural mechanism to relieve poverty in peripheral areas and, even though this is regarded as a problem of public policy, it is not wrong to think that a direct supranational intervention could have helped member states concentrate the efforts in the right direction. The second challenge that failed to be met by EFSI is connected to demographic change. Only a handful of projects dealt with an ageing population and specifically addressed old people's needs. Catering to old people's interests is vital for social capacitation since Europe has a long-living population and a low fertility rate which results in a very averagely old citizenship. The study presents just one exception to this which is the *AlzhUp* project in Spain addressing the long-term care needs of Alzheimer's patients, their families and their doctors and protecting the patients throughout all the stages of the disease. The project has already taken hold and is ready to be exported and used in France and UK's hospitals.[87] A third field explored receiving not much importance from the European Fund is disability care, which is weird since the enhancement of accessibility and mobility in all living spaces is able to mobilize huge amounts of money and therefore promote private investments. Almost no attention was paid to this issue and accessibility is merely intended as renovation of buildings or means of transport. It is necessary for the members of the Investment Committee to adopt a different mindset to come up with a broader definition of accessibility and consider other social benefits as relevant for investment. For example, the project of acquisition of new trains for East Anglia in the UK, according to the website description, was meant to save time, reduce overcrowding, provide access to Wi-Fi and offer a brand-new set of comforts like an air-conditioning system and that was it. No other added value was cited on the website and absolutely no reference was made to real social dimensions like access for people with disabilities. Moving on again, there is a fourth issue that seemed to be neglected by EFSI which is childcare. No project focused on the construction of kindergartens, daycares, elementary schools or nurseries even though this might have mobilized a huge sum of money and represented an upgrade for the life of many families, especially women. More childcare facilities would allow them to balance their working and private life and have a safe place where to leave the children while committing to their careers. A fifth pillar is represented by youth employment. President Juncker's promise was to channel resources towards projects that could help the younger generations back to work but, in reality, youth employment was never tackled directly by the European Fund. No project directly mentioned youth employment as an objective added value and the high youth unemployment was never a central factor for the promotion of investments.[88] It was believed that a decrease in unemployment could stem from the indirect effects of the investments

[87] European Economic and Social Committee, *The investment plan and the Social Pillar: a step towards a new strategy for Europe*, Brussels, 2017, p.45
[88] Ibidem, p.47

but no initiative specifically targeted youth unemployment for which a broad action plan was deemed necessary. One last social dimension where the European Fund underperformed is housing. Following EFSI database, just a few projects tackled more or less directly the accessibility of vulnerable people to suitable and affording houses. In many cases projects just focused on building new rental housing units to expand the supply and inhabit new urban areas but without considering the lowest strata of the population who are in desperate need for affordable lodging. Poor households feel the need to move to cheaper houses but with the possibility, if any, to keep some of the comforts and spaces they cannot enjoy in their current settlement. However, most of the EFSI-backed projects related to housing lacked this social dimension. For example, a housing project in France was supposed to provide 13 000 intermediate rental housing units directed to middle-class households from different French cities.[89] This investment lacks a social perspective because it is not a social housing project aimed at granting poor people an affordable accommodation, but it is an intermediate project for the middle-class to repopulate urban areas. Where, on the contrary, the Juncker Plan made the most efforts is in transportation infrastructure and health care infrastructures which occupied a fair decent space among EFSI projects. The refurbishment of Treviso's hospital, the innovative new medical centers in Romania and Poland, the construction of three new hospitals in Austria replacing the outdated existing ones are all examples of commitment in the medical sphere. Unfortunately, these latter projects are not enough to influence the social and territorial cohesion within the European Union. Of course, this is not to say that standard investments are not welcomed. It is to say that standard economic investments should be mixed with social investments to achieve outstanding results both in the economic sphere and in the social-territorial sphere. It would be ideal for the Investment Plan to commit to the mobilization of both public and private capitals to facilitate the implementation of both types of projects.

The sectoral analysis of the Juncker Plan is not brighter than the geographical one. In terms of sectoral distribution, EFSI initiatives got directed toward all possible fields other than social infrastructure. There was a clear bias towards updated and modern domains like energy and R&D but with the exclusion of the field which could bring the most potential social benefits. However, economic profitability is largely separated from social profitability and this might have played a role in directing investments towards certain sectors and not others. It is thus clear from the last analysis that the Juncker Plan misses a social dimension and does not have any weapon against regional disparities and against the faltering catch-up of European regions. This is no secondary problem and I feel to disagree when Ernst & Young, in the conclusion of its EFSI evaluation, writes that "some sector gaps

[89] Ibidem, p.54

are less addressed, but this is not seen as a major issue."[90] It is a major issue because investments in energy, R&D, digital and transports are useful for the economy but only social infrastructures can lead to that social empowerment able to help those countries and regions performing way below the EU-27 average. A sectoral focus, together with a geographical rationale for investments, would help ensure not just a general economic recovery but a fair and equal economic convergence in Europe.

3.4. *AN INVESTMENT PLAN WITHOUT PRAISE OR BLAME*

It is time now to draw a conclusion and cast a final judgement after examining thoroughly the two main dimensions of the Juncker Plan. Such a final judgement calls for a brief summary of what was stated in this chapter. There are various dimensions from which to look at the Juncker Plan and the two aspects I picked up to make the assessment were the economic dimension and the regional disparity dimension. I took these two considering the main negative legacies left by the global crisis: the investment gap and the intra-country divergence. From the macroeconomic standpoint, I based the analysis on two indicators. The first indicator was additionality. The EFSI-backed projects turned out to be riskier than standard EIB projects even though there is still a wide margin of additionality that can be achieved. EFSI investments are more additional than usual but not to the highest extent desirable. Speaking of investments in general, EFSI triggered a huge amount of investments and it managed to reach the target both in terms of capitals mobilized and in terms of financial leverage. However, the investment gap is far from being bridged but this is mainly because of the limited scope of the Investment Plan and of any other plan ever presented at the EU desk. The second indicator was GDP and employment. Both measures rose thanks to the action of EFSI implying that it had a positive impact on the relaunch of economic activities. The economic situation in Europe would be far worse if it were not for the kick-starting action of the Juncker Plan. Generally speaking, in the economic dimension, the Juncker Plan has sown the seeds of success year after year and, despite some little things to adjust, it was a great starting point. If the target was getting the ball rolling, then the mission can be said complete.

The second dimension had to do with the impact of the Plan on EU regional disparities. The first indicator I picked up was the geographical concentration of EFSI projects that I analyzed both as cross-country and within-country distribution. The initiatives of the European Fund were significant in terms of size and amount, but they were concentrated mainly within EU15 member states with France, Italy and Spain standing out the most. The Fund is structured in a way that awards financially sophisticated states and penalizes financially and politically unstable states that would need attention

[90] Ernst & Young, *Ad-hoc audit of the application of the Regulation 2015/1017 – Final Report*, November 2016, p.52

the most. The same thing came out from the intra-country analysis. Albeit the analysis was less grounded on literature and mostly derived from an outlook at EFSI project map, lagging regions far from the European productive core received less financing than advanced regions connected to the heart of Europe. In general, within each country, investments were promoted around capital cities or rich areas while less affluent regions were disregarded. Therefore, considering this indicator, the Juncker Plan did not pass the test. The second indicator to assess Juncker Plan's performance over EU disparities was the sectoral concentration of EFSI initiatives. After establishing the relevance of social infrastructure investments for cohesion and convergence, I proceeded to find out that only a tiny fraction of projects alluded to social infrastructures while the most part pertained to the sectors of energy, R&D and digital. That is how I could state that the Juncker Plan is entirely a financial creature and totally misses a social dimension. As far as this second indicator is concerned, the Juncker Plan was again a dead duck. Generally speaking, the impact of the Plan on EU regional disparities and cohesion was almost null, if not even disrupting.

In the end, are we facing an outstanding accomplishment or a failed project? Neither of the two. The successful impact that the Plan had over the economy was balanced out by the failures in the geographic and sectoral distribution of the benefits. The higher but still limited additionality of the projects complemented the kick-starting of the economy which has thrived again after years of stagnation and the poor geographical and sectoral distribution was compensated by a positive surge in employment and investments. It is therefore correct to say that the Juncker Plan cannot be a definitive solution but only an intermediate one. It has been a good starting point to settle early things and give breath to the European economy, but it is evident that it is not powerful enough to be able to do more. Consequently, it is a good starting point that now needs to be powered up to achieve more additionality and more territorial and sectoral fairness.

One last question is compulsory: why would the Investment Plan for Europe need to be geared up to satisfy geographic and social criteria as well? Why not focusing just on the financial side and stick to the very reason why it was born? I see the answer as very simple. Being the Investment Plan for Europe the strongest and most efficient tool in the arsenal, especially in terms of capitals that were promised to be mobilized, it would be unwise not to make the best of it and to just treat it like a conventional financial instrument. The Investment Plan has the potential to redress market failures and to promote investments in suboptimal situations and that is why it needs to care more about its geography and sectors. Investments are in short supply in lagging regions because of clear market failures due to less sophisticated financial markets and less attracting power. Investments are insufficient in social infrastructure because it is a suboptimal situation for which private investors do

not see any attractiveness or margin of profit given that it is a field that is typically backed by the public sector. Let us not forget then that, however secondary sectors and geography might be, they are in any case cited in the regulation. This is why I believe that EFSI can be further strengthened to eventually address these two situations. Up until that point, the Juncker Plan is bound to be a program without praise or blame.

4. WHAT THE FUTURE HOLDS AND WHAT IT SHOULD HOLD

4.1. THE INVESTEU PROGRAM

The European Investment Plan was scheduled to end this year. However, the need for investments is still pressing. Even after the relaunch of the economy, investments are still longed for to bridge the gap and new challenges have aroused in the meantime. The theme of sustainability has become more compelling as attention to environmental degradation is on the rise. EU is struggling to reach the EU's 2030 climate and energy target that would require an additional €400 billion annually to be fully attained. The European Member States should reconsider the environmental costs of their investment choices and they should follow the imperative of passing down to children and youngsters a better, cleaner and more livable world. Then, underinvestment in social infrastructure has become an equally important challenge. As highlighted in the previous section, the social dimension of Europe has gotten thinner and thinner and the public sectors are impeded by very disastrous financial accounts. Member States must search for a new method to commit to social infrastructure and elude the European stringent fiscal requisites. Lastly, there is still the challenge of SMEs. The European Investment Plan has done a great job with SMEs, but this does not mean that now it is all downhill for them. Most of them still find more hurdles than big firms to access finance and, since they rely mostly on local providers, they have no means to overcome national or local constraints and enjoy the huge variety of financial instruments that the European financial market puts at disposal. It should be primary for European institutions to give SMEs all the benefits possible for their expansion given that small and medium enterprises are, according to statistics, the activities that account for most the newly created jobs each year.

In a few words, not only is the investment deficit not over but also new and old challenges are there to remind us that we cannot let our guard down and reduce the attention for investments. It is for this reason that European policy makers built on the partial success of the Juncker Plan to inaugurate a new program that is supposed to start in 2021. InvestEU, as it is called, is an idea of the new von der Leyen's Commission to have a powerful weapon to continue on the path of investments. With the start of the new 2021-2027 pluriannual framework, the former Juncker Plan will turn into InvestEU which will uphold its main philosophy and course of action, with small but significant differences. InvestEU is a fresh creation and according to Jyrki Katainen, responsible for Jobs, Growth, Investment and Competitiveness, "with InvestEU we are taking the game-changing model of the

Investment Plan one step further."[91] What will this plan consist of? InvestEU bases on the same objective of mobilizing public and private capitals addressing market failures but with a specific attention on the dimensions of sustainability, competitiveness and inclusive growth. The Commission is going to gear up the program to reach €650 billion of additional investments within the 2021-2027 timeframe. The size of the program is more or less in line with the former one as it spreads over seven years and the project financing follows the same pattern as well. InvestEU relies on the same EU guarantee to crowd in private investors and shelter the EIB from risks. The InvestEU Fund will count on a contribution of €38 billion mainly coming from the EU budget, the single shareholders and the EIB balance sheet. The estimated total guarantee can rise to circa €48 billion if one considers the financial partners' resources that can be channeled and amount to about €10 billion. InvestEU remains a demand-driven plan but it also adds a policy-driven dimension because the budget guarantee is divided into policy areas to help the EU reach its goals of sustainability, competitiveness and social inclusion. Therefore, the program has four main windows where to allocate the guarantee. The first is the *sustainable infrastructure window* to which €11.5 billion of EU guarantee are dedicated. This window intends to orient capital flows towards sustainable infrastructure investment and to stimulate investments needed to respond to the challenge of climate change mitigation and greenhouse gas emission reduction. The second is the *research, innovation and digitalization window* to which €11.25 billion of EU guarantee are dedicated. The aim here is to create a mass of financing to industries for the enhancement of innovative technologies and disruptive innovation. The third is the *SMEs window* to which €11.25 billion of EU guarantee are dedicated and resembles the SMEs window already set up during the years of the Juncker Plan. The fourth is the *social investments and skills window* to which €4 billion of EU guarantee are dedicated. The general objective here is to implement the European Social Pillars, help vulnerable persons accede finance and basic services and support human capital investment.

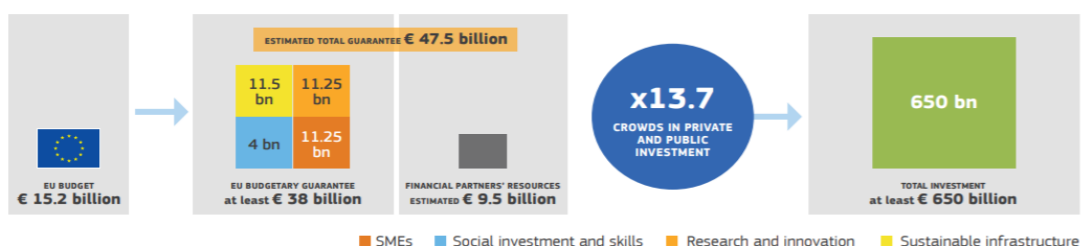

Figure 21 The economics of InvestEU
Source: European Commission

[91] Press corner of the European Commission, "Commission welcomes European Parliament's position on InvestEU", January 2019, https://ec.europa.eu/commission/presscorner/detail/en/IP_19_444

Figure 21 is a representation of the functioning of the new initiative and its hoped outcome. To achieve the ambitious goal, and learning from the previous EFSI experiment, InvestEU will point to simplicity bringing together, under one roof, the European Fund for Strategic Investments and 13 EU financial instruments currently available both to create less confusion and to strengthen its potential. The structure of the plan is not very dissimilar to the Juncker Plan's in that, besides the InvestEU Fund incorporating EFSI, there are other two pillars that are the InvestEU Advisory Hub and the InvestEU Portal serving as technical assistance providers. The first one guides investors through the main opportunities and passages investors might be unaware of, whereas the second one tries to match projects with potential investors worldwide. In terms of governance, although nothing is certain yet, the proposal is for a stronger policy steer with more selection power since the program should be more prone to address specific policy objectives. Therefore, the decision is to centralize a bit more the InvestEU Fund governance at the Commission level to better fulfill the objectives of accountability, flexibility and projects overview. As a consequence, the proposed governance plan would foresee external elements (like an Advisory Board, an Investment Committee and a Project Team) and Commission internal elements to better guide resources towards the main sectoral goals (like a Steering Board, Policy Boards, an Inter-Service Coordination Committee and a Secretariat).[92]

In general, the new European program has tried to keep the Juncker Plan's rationale and redress some elements that were worth changing. A brilliant paper by Rubio and Virel from the Jacques Delors Institute goes through the main novelties and analyzes the main discrepancies between the two European programs. Such an analysis is key to understand how much European policy makers have learnt from past mistakes and whether this lesson has been fully internalized. The first aspect to put forward is that InvestEU proposes a simplification of EU instruments. While I only talked about the European Fund for Strategic Investments as the primary market-based instrument, the reality is that 14 other financial instruments are currently available with their own specific regulation, eligibility criteria and beneficiaries and, as I recalled in the former parts, there is frequent overlapping among them which crowds out investments and weaken their efficiency. The new program aims at merging all these different instruments plus EFSI into a single scheme which brings about a set of important advantages. It creates more clarity and reduces bureaucratic complexities; it allows for more risk diversification and it optimizes the transfer of resources from one policy sector to another. The second point of difference between EFSI and InvestEU lies in the different approach adopted. EFSI was

[92] European Commission, *Proposal for a Regulation of the European Parliament and of the Council establishing the InvestEU program*, Brussels, June 2018, p.32

clearly based on quantity, its purpose being to mobilize as many capitals as possible without bothering much about their destination. InvestEU Fund is slightly smaller than EFSI and the €650 billion target over 7 years' time is relatively more modest than EFSI's target. However, the new Fund draws on the new optimistic environment in the European Union to collect resources and point to the quality of investments. The new program is no other than the reflection of the Commission's willingness to shift the focus from quantity to quality and thus ensuring a better geographical and sectoral concentration. This is in line with the European trend up to now. The Juncker Plan was launched in a period where it was vital to recover the European economy but now that the situation has improved and is gradually going back to pre-crisis levels, public intervention must be justified by policy-targeted and value-bearing purposes. All in all, it does seem that a lesson was learnt for an attempt is made to reach a better sectoral distribution and preventively allocate resources for each window. The effort would be surely worth praising if it was not for the fact that the resource allocation seems again to play down the importance of social infrastructure as only 10% of the total 38 billion deriving from EU budget are dedicated to the social infrastructure window. This results not being enough to make a difference on regional disparities or to make a serious improvement in the coverage of investment gap.

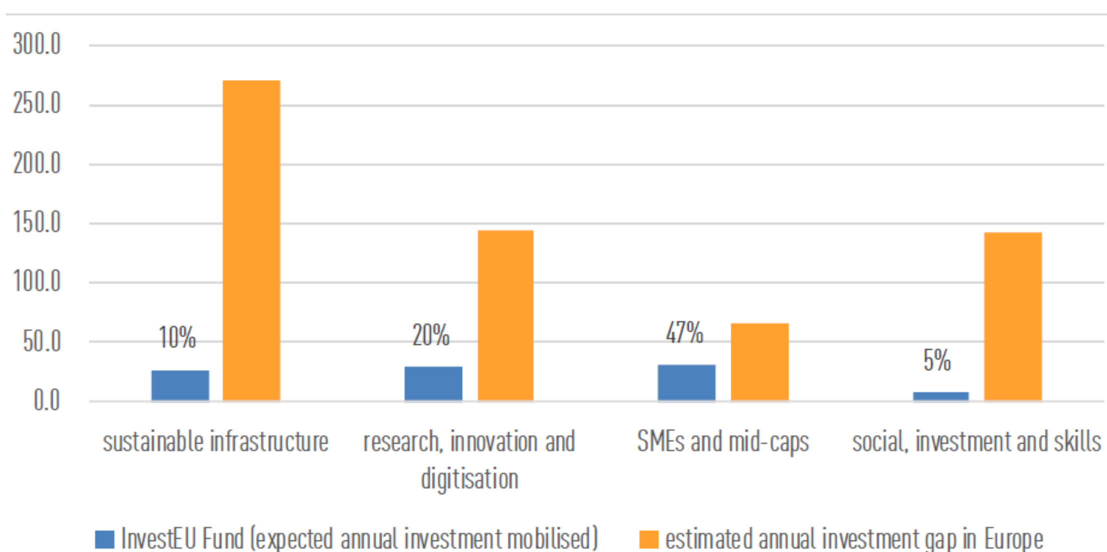

Figure 22 Comparison between annual expected investments mobilized and annual investment gap per sectro (in €bn) Source: Rubio and Virel (2018)

Not only are social investments once again left behind, but also the social investment gap remains too wide. The Commission provides no clear explanation as to why the resources allocated to SMEs and mid-caps allow to bridge almost 50% of the gap while the few resources concerning social

investments are only good to cover 5% of the gap, turning the issue into a constantly open wound (Figure 22). To a careful observer, it looks as though the allocation of the guarantee is made according to the "absorption rates" of each policy sector. This means that the Commission distributed resources probably where they are mostly used. This would explain the attention towards SMEs where EU loan guarantee schemes are always more than successful and the smaller preference for sustainable and social infrastructure where the lack of a strong pipeline makes EU guarantee schemes less successful.[93] Apart from that, the picture also displays that the annual level of the investment gap remains insurmountable although little steps further are taken every year. The third point of difference is in the definition and evaluation of the concept of additionality. The main issue of the European Fund was that the definition was too general and related to the risk profile of the EIB special activities while there were no clear elements to define what constitutes a market failure or a sub-optimal investment situation. InvestEU sets about solving this problem by making sure that all project promoters concretely prove, on the basis of unambiguous elements, the existence of market failures or sub-optimal investment situations and the impossibility of finding support from other public sources. It goes without saying that the real effectiveness in terms of additionality will only be seen at the start of the program but what was said before seems to be an improvement and a much-needed clarification. A fourth consideration concerns the implementing partners. EFSI was mainly an EIB-supported fund whose activity got clustered in certain regions and sectors. European leaders have imagined something different for InvestEU. This platform will be able to work closely with other implementing partners and offer more credible access to its guarantee to new partners like International Financial Institutions active in Europe and NPBs. Extending the implementation of the guarantee to other partners gives the possibility to decentralize the mechanism and involve actors with different expertise and geographic scope to promote investments in under-served areas and regions, provided the National Promotional Banks be developed and sophisticated enough to fulfill the task. While the idea is in theory a great one, in practice it is unlikely to bring the desired outcome as some NPBs showed no interest in the participation and some others are likely not to pass the compulsory assessment to check whether they can be trusted in handling EU funds. A fifth element that differentiates InvestEU from the Juncker Plan is governance. The Fund for Strategic Investments was managed jointly by the Commission and the European Investment Bank, each of them responsible for a specific aspect of the Fund. On the contrary, as argued before, InvestEU Fund presents a reinforcement of the role of the Commission and a weakening of the EIB's role. The European Commission becomes the real decision maker both in terms of functioning and in terms of

[93] Rubio, E. & Virel, F., InvestEU Fund: a rebranded Juncker Fund?, *Policy Brief - Jacques Delors Institute*, September 2018, p.5

project selection. This is because the selection is carried out by an independent Investment Committee, but it is the Commission that first receives the project proposals and checks their compliance with EU eligibility criteria and policies. Therefore, the Commission takes on the role that was previously played by the Investment Bank. Needless to say, the EIB has reacted to this decision arguing that a Steering Board made up 100% by Commission's representatives will not have enough banking expertise and urged policy makers to opt for a composition with more balance between policy and banking expertise.[94]

To sum up, the InvestEU Fund draws on the five-year experience of EFSI and tries both to adapt it to new times and to correct weaknesses detected in the Juncker Plan. The attempt to learn from past mistakes is pretty evident when one recalls the main weaknesses ascribable to the European Fund. For example, InvestEU tries to tackle the problem of EFSI's cannibalization of other financial instruments by merging the various tools into a single easier scheme that avoids duplicates. InvestEU tries to face the issue of low additionality by giving a new stringent definition of additionality and by checking more scrupulously, through the Steering Board and the Investment Committee, that eligibility criteria are met and that the initiatives can only be realized through the Fund's support and no other. Finally, regarding the main central problem for the present dissertation, InvestEU tries to counter EFSI's underperformance in relation to the geographic and sectoral indicators by shifting the focus from quantity to quality. As argued in chapter 3, from a quantitively macroeconomic perspective, the Juncker Plan has been effective in relaunching the European economy but faced many difficulties in orienting investment in the right direction. The idea of InvestEU is now to care less about the billions and more about where they go. For this reason, the sectoral diversification is thought to be attained by installing four policy windows where to divide the EU budget whereas the geographical distribution is thought to be attained by involving local actors like NPBs which are entrusted with facilitating the channeling of EU funds into the regions. If the effort of making up for the Juncker Plan's defects is highly appreciable, it is still to determine whether these efforts will pay off. It is not the case here to assess a plan when it is not even operative and when it may change any time soon before 2021. Yet, there is ample evidence to conclude that the two issues that have been central for this paper, the geographic and social dimension of European investments, will stay unresolved. Unfortunately, the attention paid to the social dimension of investments is still negligible since only a tiny fraction of the resources is reserved for SIIs. Equally unfortunately, the involvement of local banks and NPBs does not take into account that in many countries and regions these financial institutions are not mature enough to play their part and pass the assessment procedure and this might

[94] Ibidem, p.8

exclude them once again from the full enjoyment of the European programs. Still, only time will tell and to be 100% sure of its actual impact it is opportune to wait and see.

One last question is worth our time: why setting up a brand-new investment program instead of upgrading the already existing one and giving birth to an EFSI 3.0? There is no correct answer, but it could be that European institutions wanted to stress the break with the past and engineer a brand-new tool. EFSI was supposed to operate for a short period of time and it was already extended once. The new investment plan is thus supposed to start in a totally different economic environment. The situation has greatly improved, and this is why InvestEU manifests very different features because the needs nowadays are different – from quantity to quality and from EIB's technicalities to Commission's policies. It is probably to mark this difference with the past and to emphasize this changing of rationale that European policy makers preferred to create a new Fund from scratch.

4.2. SUGGESTIONS FOR THE FUTURE

Think tanks and organizations have spent a great deal of time describing and explaining the Juncker Plan highlighting its strengths and weaknesses. In the course of the years they have identified potential problems connected to the functioning of EFSI and put forward possible solutions. As the new program is not operative until next year, and as changes can still be made, I deem it important to take into account some of the suggestions to make the best out of any financial instruments that will live in the future. It may be possible that some of these suggestions have already been heard at the European level and incorporated within InvestEU, but it may also be possible that some of them have passed unheard and must be solicited.

4.2.1. MERGING EFSI AND ESIF

The first suggestion for a complete investment plan would be the synergy and merging between the European Fund for Strategic Investments and the European Structural and Investment Funds (ESIF). This is what several experts have proposed as a powerful remedy for the unfair geographical distribution of investments given that the two funds account for the majority of investments supported in the European Union. To tell the truth, this is exactly what is supposed to take place with InvestEU promoting the incorporation of all the European financial instruments into one single scheme. Although this suggestion seems to have been taken into consideration, it is also vital to understand how it will be developed and implemented.

ESIF is in practice a set of five different funds with slightly different scopes: European regional development fund (ERDF), European social fund (ESF), Cohesion fund (CF), European agricultural fund for rural development (EAFRD) and European maritime and fisheries fund (EMFF). These funds

are delivered through nationally co-financed multiannual programs. They mainly take the form of grants or financial instruments like loans or guarantees and cover areas connected to the inclusive growth and economic catch up of lagging regions like low carbon economy, climate change adaptation, sustainable transport, social inclusion and poverty and a lot more. What I think is most urgent for the sake of a fair geographic distribution is in particular EFSI's complementarity with Cohesion Funds which support investment projects in countries where the gross national income per capita is less than 90% of EU average making CF the most appropriate fund for poor and underdeveloped regions. The basic idea is that the intersection of EFSI with CF would allow for a mixing between the two instruments: the risk-bearing and capital-collecting capacity of EFSI together with the capacity of CF to assist and promote the development of lagging regions. The task is all but easy as the two instruments are as far apart as the poles. EFSI is mainly based on quantity and aims at allowing EIB group to take more risks and mobilize more capitals for strategic investments especially for SMEs and mid-caps whereas CF, and ESIF more in general, aims at helping less developed European countries catch up and reduce economic and social disparities. To complicate things even more there is the fact that even in terms of structure and functioning the two tools are dissimilar with rules and eligibility criteria which are various. It is also the case that ESIF Regulation "had not foreseen potential blending with initiatives such as EFSI" while EFSI Regulation seems to actually incentivize its complementarity with other programs.[95] Despite all the difficulties, experts have suggested that EFSI and ESIF may be combined at different levels. As a first hypothesis, combination might occur at the project level. In this way, the blending of the two can be decided on the basis of an overview of each singular project and confirmed when a certain initiative fits the criteria and requirements of both financial instruments. It may also happen that such combination allows the promotion of a complex project where there is a part of it which is backed by EFSI because not eligible under ESIF and vice versa. However, EFSI and ESIF would remain two different things and it would be more complicated to accede the co-financing. As a second hypothesis, combination might occur at a higher level in the sense that the two tools can be blended into a unique financial instrument or investment platform. In this way, joint financing would be easier, but the modalities of this blending are too many. For instance, an EFSI investment platform may participate as investor into an ESI financial instruments or, also, they may set up a "layered fund" in which ESIF constitute the first tranche, EFSI with the EIB group constitute the mezzanine tranche and private investors make up the senior tranche.[96] This layered fund, also called "tranche fund", would give access to

[95] European Investment Bank, *Evaluation of the European Fund for Strategic Investments*, Luxembourg, June 2018, p.60
[96] Pellerin-Carlin, T. Rinaldi, D. and Rubio, E., Investment in Europe: making the best of the Juncker Plan, *Studies & report - Jacques Delors Institute*, 2016, p.60

tranches of fund according to the kind of requisites that a project meets. Starting from the bottom, the more eligibility criteria are satisfied, the more it is possible to have access to the upper credit tranches. Applied to our case, this means that a project must meet ESIF criteria to get the first tranche of credit, then it can accede the second tranche if it meets EFSI criteria and finally to the last segment of credit if it is seen profitable and convenient by the market.

These are just some of the options that are present in literature but what many experts agree on is the need to turn these hypotheses into reality. There is no doubt that EFSI is a danger for European regional equality and having the European Fund be guided by a geographical-oriented tool like the Cohesion Funds may be the best short-term solution. As already argued before, intersecting the two instruments is no piece of cake but it is the primary step to take. The new InvestEU program goes in that direction by imposing a single scheme to gather all the existing financial instruments. Nevertheless, nothing is finalized yet and it is of primary importance to see how that proposal will be implemented. The hypotheses explained above can be a guideline not to move blindly in this delicate territory.

4.2.2. *COOPERATION AMONG INSTITUTIONS*

The second suggestion to make the best out of an investment plan is to foster cooperation among institutions. All the institutions involved in the European investment process should work as a team instead of acting autonomously. If there is synergy between European and national institutions, resources will be delivered more efficiently, and the burdens of the tasks will be jointly shared. In particular, stronger cooperation between the European Investment Bank, National Promotional Banks and the European Central Bank is seen as key to engineer and implement an efficient investment program. In literature, it is not hard to find pressures to bolster the synergy between the EIB group and local NPBs. This is vital because NPBs are the intermediaries for the EIB group connecting the Investment Bank with local realities and they are thus fundamental to reach the maximum economic impact since they have a deep knowledge of local markets and perfectly know how to transfer resources from the European to the local level. The rapprochement between EIB and NPBs must hence be made easier because the less complex this cooperation, the more immediate the Europe-to-state transfer of money. There is a further reason why experts have been suggesting to boost such synergy and it has to do with the fact that knowing the territorial fabric more than any other institution, and acting on behalf of local realities, NPBs are the only way to make EFSI more geographically dispersive. The idea of involving NPBs more and have them have a more central role is connected to the idea that their major participation could better represent the interests of needy regions. As argued in chapter 3, the geographic clustering of the Juncker Plan comes down to the fact that the absence of

geographic quota makes it possible for financially sophisticated countries to monopolize access to the fund. Private investors will barely consider complicated and risky projects pertaining to the most backward regions in Europe. That is why experts claim that investments may be fueled more proportionately thanks to a major participation of NPBs for which each national promotional bank can act on behalf of its own territory.

However, as counterargued in many articles, this initiative, if not well-arranged, is likely to perpetuate the disparities as it is clear that it favors the most developed and long-established promotional banks while leaving behind the least advanced ones and totally neglecting those member states that do not have one. One radical solution to the problem comes from Valla, Brand and Doisy (2014) in a paper published before the settlement of the Juncker Plan where the three authors delineated the creation of a sort of federal entity having the EIB at the core and the NPBs as branches.[97] In this unusual scheme, the core is supposed to coordinate the activities of the periphery making sure that European savings move towards investment opportunities in the right places of the continent. However potentially effective and alluring, this hierarchical mechanism is not very feasible in practice because it would call for a series of structural changes that are not even imaginable nowadays. The whole structure and voting procedure of the EIB should be adjusted, the EU treaties should be amended to allow a supranational body to impose orders on a national body and even the very political spirit of European Member States should be converted to push for more fiscal integration. A more practical solution at the moment is strengthening the relationship between EIB and NPBs by envisaging NPBs putting money into EFSI's capital and turning the Fund into a real joint initiative. Another crucial step could be the establishment of a new advisory body to put EIB and shorter-living NPBs into direct communication with the necessary premise that the establishment of a national promotional bank should be imposed to all the Member States. While experts have been racking their brains to find a compromise between the role of EIB and the role of NPBs, the new European Commission, while drafting InvestEU, has reflected on the issue and has elaborated its own strategy. To avoid the EU guarantee benefitting only Member States with mature NPBs, "the InvestEU Fund is also open to consortia of NPBs that cover at least three countries."[98] This is expected to trigger cooperation and joint products as well as a diffusion of best practices. This scheme is supposed to advantage especially new and less-experienced NPBs that can benefit from the expertise of more qualified NPBs. As the Commission's program has not started yet, it is impossible to know whether this strategy is successful

[97] Ibidem, p.84

[98] European Commission, *Proposal for a Regulation of the European Parliament and of the Council establishing the InvestEU program*, Brussels, June 2018, p.35

or some of the previous suggestions are more worth following. What is important is to realize the centrality of this issue and do something to perfection the Juncker Plan so that it could also gain a fully equal geographical dimension.

The bolstering of institutional cooperation is part of the principle of making smarter use of resources and weapons at disposal. However, the relationship between the EIB group and the promotional banks is not the only one that is worth promoting. The optimal way to make the best out of an investment plan is to promote cooperation also between the European Investment Bank and the European Central Bank. The co-action between the investment institution *par excellence* and the monetary institution *par excellence* would create a synergy which is vital to maximize the use of resources and to facilitate their transferring into the real economy. The idea was even proposed by famous economists like Yanis Varoufakis and Nobel Prize laureate Yoseph Stiglitz for whom this proposal is important to address the third pillar of the Juncker Plan: creating a better and friendlier environment for investments. What could be done is authorizing the EIB to launch a full-scale infrastructural plan while the ECB should be authorized to intervene in the secondary market and purchase 100% of EIB's assets to keep their interest rate very low and facilitate its task of lending at very loose conditions. This is technically something that could be put into effect immediately because the ECB is already purchasing EIB's assets through the quantitative easing but the amount that is currently in possession of the ECB is very meagre. It is certainly possible to increase the amount, but this raises political problems concerning fiscal solidarity in Europe with countries like Germany and Finland that are wary of accepting a sharing of infrastructural investment risks.[99] Having said this, it is easy to understand the benefits of an EIB-ECB cooperation for the definitive relaunch of the European economy both in terms of furnishing liquidity and reducing barriers for investments.

Jumping straight to the point, the strong synergy of action among the European Investment Bank group, the National Promotional Banks and the European Central Bank can give birth to a sort of hidden investment state able to improve the investment capacity of EIB and eventually bridge the investment gap. This kind of cooperation is still a lacking dimension in Europe, but it may be essential to gear up the Investment Plan and exploit its full potential.

4.2.3. THE NEED FOR A NEW GOLDEN RULE

This whole dissertation has focused on ways to relaunch investments. In this regard, the last issue that needs a prompt solution is the shortage of public investments and, unfortunately, this is still a

[99] Fontana, O., Il piano Juncker, la Bei e le risorse proprie, *Centro studi sul federalismo – policy paper*, n.9, May 2015, p.12-13

question that lacks an answer. The Juncker Plan has been widely criticized for not addressing the lack of public investments and for being an initiative mostly focused on the private sector. The presence of the guarantee made it possible for many private investors around the continent to mobilize their capitals, but nothing was envisaged to stimulate public investors to jump in. The only real endeavor was to enlarge national contributions to EFSI which, however, did not produce anything other than expanding the amount of capitals available for private investments. Even the discussions leading to InvestEU did not involve any concrete medicine for the steady decline of public investments. The sole increase in private investments cannot be enough to relaunch the economy, not to mention the impact that this shortage has on the sectoral indicator. As I recalled in previous chapters, being that social infrastructure investments are mainly public in nature, the decline of public investments inevitably resulted in a decline of SIIs. Accordingly, leaving things as they are would mean depriving the EU of a social dimension and, thereby, of the possibility to reduce the regional gap and go for inclusive growth. That is why the future of the Juncker Plan should hold an outlet for public capitals.

Finding a way to resume public investments entails, first of all, understanding where they come from and why they are sluggish. Although I have in part already brought up the topic in the first chapters, it is worth summarizing the main elements. Public investments, which encompass mainly investments in infrastructure, are extremely capital-intensive with many up-front costs and limited profit generation, not to mention that some SIIs may not generate profit at all. Second, they are likely to be subject to regulatory changes, transparency inspections and bureaucratic controversies, requiring strict regulation to ensure timely payments and the risk sharing.[100] Finally, these investments are too much long-term oriented for the private sector to be interested. All these elements tell us why public investments have dropped so astonishingly throughout the years. Left with no money available, afflicted by the economic crisis, dealing with deteriorated public accounts and strangled by unreasonably stringent European fiscal rules, member states had their hands tied and could not afford any significant intervention. Basing on this, some expert has suggested that the only effective action is external, rather than internal, to some fiscal package. The idea is that Member States should be put in the condition to spend more and have more leeway to manage their public accounts. This is not to underestimate the role of ad-hoc fiscal stimuli, but such strong packages are viable only for very virtuous countries while the majorities of EU countries cannot afford them. A broader measure, possibly involving an amendment of the Stability and Growth Pact (SGP), is necessary to put member states in the same condition to push more on public investments and better perform in terms of sectoral indicator. The broader measure that has been thought by some economists is the introduction of a *new*

[100] Council of Europe Development Bank, *Investing in public infrastructure in Europe – A local economy perspective*, February 2017, p.24

golden rule ensuring a looser and more flexible use of public finances. To tell the truth, there are plenty of ways to interpret and translate the golden rule. Schneider (2015) tries to report some of them. A first interpretation of the golden rule could be a provision upgrading the importance of public investments and thus keeping states from reducing public investment spending just to fulfill the SGP's deficit goals. A second strategy, which former Italian Prime Minister Mario Monti has struggled hard to see accepted, could be to consider productive public investment spending as exempted from the fiscal discipline rules. In this way, countries with messy accounts (for example trespassing the 60% debt-to-GDP ratio) could have more leeway for investments and borrow money without being penalized or sanctioned. Another proposal suggested to modify the Pact and increase by 0,5% or 1% the deficit ratio to dedicate it entirely to public investments. Others, thinking that loosening up the fiscal rules could create a dangerous precedent, sustained that it would be better to reduce the deficit criterion from 3% to 2,4% and preserve that 0,6% only for additional public spending.[101] In this way, rules of fiscal rigor would stay the same, but with more space specifically tailored for public investments. It goes without saying that any deviation from the golden rules should come with promises of structural reforms. Any form of extra borrowing exceeding the deficit criterion (especially if coming from public institutions like the European Stability Mechanism or the European Central Bank itself) must be subjected to light conditionalities giving assurances to all other EU Member States. After all, in absence of a real and proper fiscal unity, this is the only way to find a compromise between rigorous states like Germany, the Netherlands or Finland and less virtuous states like Italy, Spain and Greece.

Obviously, the idea of a new golden rule goes side by side with other proposals that I have already mentioned and that can be equally impactful on public investments. Just to cite a few, the blending of financial instruments and the promotion of public-private partnerships are ways to similarly stimulate, among others, public investments. And also, the very strengthening of the role of NPBs might produce a positive effect on public investments with a targeted intervention on the territory. But, besides this, it is believed that a structural rule for public investments is paramount to urge Member States to play a more active legally binding role and to upgrade the importance of public investments. In a few words, discussions to redress and improve the former investment program are as important as the discussions to redefine the legal framework and the fiscal rules introduced by the Stability and Growth Pact. The problem of public investments, with its key repercussions on social

[101] Schneider, J.D., Growth for Europe – Is the Juncker Plan the answer?, *European Policy Center – Discussion paper*, March 2015, p.9

inclusiveness and regional empowerment, is a problem both internal and external to the Investment Plan.

In conclusion, what the future holds for the European economy is an updated and upgraded version of the Juncker Plan called InvestEU, whose main features have already been established. What the future should hold for the European economy to redress part of its hardships is a merging between EFSI and ESIF, a tighter cooperation between the EIB, NPBs and the ECB and a new golden rule to address public investments. Only taking into account these warnings will the European Union be able to build a full-fledged Investment Plan with an eye on regional disparities, poverty, backwardness and local empowerment.

CONCLUSIONS

At the end of this analysis, it is easier to answer the questions posed in the introductory part. If the goal were to carry out an evaluation of the Investment Plan for Europe to understand its real efficacy and impact on the European system, this is where I arrived after pages of research. What I demonstrated is that it is not easy to assess a wide-in-scope policy like the Juncker Plan, with its many aspects and repercussions, and that this plan deserves a multidimensional approach. The rationale behind the plan was certainly to push the European recovery and kick-start the cycle of investments but this research has proved that evaluating the plan relying just on the macroeconomic perspective is short-sighted. The Investment Plan for Europe cannot clash with the EU objectives like social and territorial cohesion and cannot certainly afford to exacerbate the European divisions and disparities. Basing on these simple considerations, I jumped to the conclusion that the Juncker Plan is halfway between an outstanding revolutionary accomplishment and a complete failure and that its real impact and performance depends on the lenses through which we see it. Using the lenses of economy, the Juncker Plan turns out to be a phenomenal medicine to boost the economy, employment and investments of a Europe burdened by the traumas of the financial crisis. Using the lenses of social and territorial cohesion, the Plan turns out to be more detrimental than useful, strengthening European divisions and privileging those countries with already advanced and sophisticated political and financial systems. Therefore, there are two conclusive remarks. First, albeit the plan was supposed to be judged according to its capacity to collect capitals, it cannot ignore the fundamental principles and objectives of the European Union and should push for a more cohesive and equal Europe. Moreover, it deserves attention the fact that even the EFSI Regulation talks about considering a just and proportional distribution of projects by sector and by country and it also proposes quotas to achieve that. It may be necessary in the next years to reconsider the goals of the Investment Plan as well as the establishment of the geographical and sectoral criteria. Second, the Juncker Plan was able to relaunch investments and apply a credible fiscal policy in a period where the monetary policy was very inconsistent and the QE had flooded the system with unused liquidity. For this reason, the plan should be expected to carry on for many more years in the future given that it represents the only concrete investment measure for many countries and that, in general, the economic problems are not over. It is vital to keep counting on this powerful tool and to make the best out of it, taking into consideration all the proposals and changes to turn the Juncker Plan into a flawless European lifeline without sacrificing paramount aspects like regional equality, territorial cohesion, poverty and exclusion relief.

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THE IMPACT OF JUNCKER PLAN ON REGIONAL DISPARITIES IN EUROPE

(EXECUTIVE SUMMARY)

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INTRODUCTION

This paper aims at talking about one of the most impactful economic measure ever taken at the European level: the Investment Plan for Europe, also known as the Juncker Plan. Former President of the European Commission Jean-Claude Juncker launched this measure in November 2014 to revitalize the European economy after the 2008 financial earthquake. The Juncker Plan was thought to be the right fiscal policy in a time where the monetary policy was deemed completely useless. However, many questions deserve an answer, specifically when it comes to assessing the real impact and the real efficacy of the plan on the EU Member States. In particular, what the present dissertation is intended to do is to evaluate the impact of the Juncker Plan not much on the economy, but specifically on the European regional disparities. The main purpose is to verify whether the Investment Plan has a social dimension and was built with an eye also on convergence and territorial cohesion, besides simply dealing with private capitals mobilization. And so, was the Investment Plan for Europe really so efficient? Did it effectively fix the main problems affecting Europe? How can we evaluate the Plan to know how it fared? Could things have been better designed? These are some of the questions that I dealt with in the writing of this paper.

Assessing a proposal of this type entails specifying the things that worked as well as the things that did not work and trying to put them in perspective. Accordingly, I am first of all going to analyze the Investment Plan for Europe from the macroeconomic viewpoint, considering factors such as additionality, GDP and employment, and I will then consider its social effects and repercussions, considering factors such as the geographical and sectoral distribution of investments. It will become clear that while the Juncker Plan was vital to wake the economy up, its consequences at the social and regional level, in terms of equality of treatment and care for the most disadvantaged, were reproachable. An incredible EU GDP and employment growth combined with an excessive clustering of investments into a handful of wealthy States, a positive boost of the economy matched a total neglection for issues like poverty and social exclusion while the reduction of the investment gap and the increase in additionality were good but not up to the expected level. These are all the contradictions of a public investment plan whose importance for the European economy is unquestionable but of which we could have made, and can still make, better use by redressing some sectoral and geographic problems it presents.

Having this general prospectus in mind, the present dissertation is structured as follows. In the first chapter I will lay out the very general background that led to the announcement of the Investment Plan for Europe. I will analyze very briefly the earthquake produced by the 2008 financial crisis and

how it then spread into Europe producing two major long-lasting consequences: a wide investment and regional gap.

The second chapter is entirely dedicated to the structure and functioning of the Juncker Plan. I will talk about the three pillars composing the plan and focus more specifically on the first one: the European Fund for Strategic Investments (EFSI). I will also dedicate some space to the guidelines put forward by EU Regulation 2015/1017 and clarifying the nature of the program and the peculiar project cycle every initiative must go through before its effective implementation.

The third chapter is going to be the central one where the main thesis is stated. Here, I will carry out an assessment of the Investment Plan for Europe basing on a multidimensional investigation. It is in this session that I will look at the plan from different points of view to elaborate a clear judgement and identify what is improvable. The first is the economic dimension where I will have to prove that achievements were made in terms of GDP, employment and additionality, even though the investment gap is far from closed. The second is the regional dimension where I will demonstrate whether or not real benefits were yielded in terms of regional disparities and whether or not the geographical and sectoral distribution of the projects was unevenly concentrated. In short, I will try to show whether the Juncker Plan was an outstanding revolutionary accomplishment or a complete failure.

The fourth and last section will deal with the recent developments of the scheme and the shape it will have in the future. I will talk about the newest version of the Investment Plan for Europe, recently proclaimed by the new European Commission, whose name is InvestEU. Besides defining the new investment program, I will conclude the dissertation by advancing some proposals to make up for the weaknesses of the Investment Plan and to really be able to make the best out of it, both in terms of economic performance and in terms of regional recovery and equality.

1. EUROPE TO BE RESCUED: THE DAMAGES OF THE 2008 CRISIS

In 2008, a financial crack that started in the US propagated to Europe becoming a world-wide crisis. All the banks and states that were involved in the subprime phenomenon bumped into severe losses and their risk of default spiked. A few years later, while some countries were slowly starting to get better thanks to massive public interventions, Europe was buffeted by another economic shock, whose origin is connected to the subprime crisis deteriorating Member States public accounts, which we call the "Euro crisis". It is easy to realize that at the beginning of 2010s our continent was on the verge of collapse with the crises leaving two infamous and hard-to-solve legacies: an investment gap and a regional gap. In this sense, data are merciless. Compared with pre-crisis levels, the value of investments underwent an unprecedented decline and it was really struggling to get back on track. In

just a few years the EU27 average investment-to-GDP share passed from 22,87% to 19,50%, i.e. a 3% drop which can impact a lot on the performances of an economic area. Some Member States were then affected more severely than others, such as for example New Member States that typically knew higher levels of investments in virtue of their developmental delay and that after the crisis went back converging with Old Member States investment levels. The cases of Latvia, Greece, Estonia and Romania sadly stood out from the rest with investment drops up to 16% compared to pre-crisis levels. The scenario gets even worse when looking at Social Infrastructure Investments (SIIs) which are of fundamental importance for regional convergence because they deal with health care, education, affordable housing and everything that is connected with territorial cohesion and local empowerment. The gap in SIIs is estimated to be equal to €100-150 billion per year and this tremendous shortage is thought to exacerbate regional inequalities and divisions.

Cross-country and intra-country disparities are the second worrying problem the European Union knew after the financial shock. Some virtuous regions managed to fully recover from the economic crisis while some less virtuous and resilient regions are still underperforming. Regional economic performances seem to follow a clear pattern for which the regions which are closest to the core productive "heart of Europe" – an area hosting one third of EU's population and defined by West Germany, Benelux nations, North-Eastern France and South-Eastern England – are the most developed while the peripheral regions which are farthest from the core appear to be the least developed. These areas also take the name of lagging regions – they are, according to the European Commission's report, a large area of Portugal, South Spain, South Italy, Greece and most of the Eastern European Member States like Romania, Bulgaria, Hungary and Czech Republic - and they score way below the EU27 average in terms of employment, income, tertiary education, innovation, investment, government quality and social development. Owing to their bad resilience, their condition has further worsened after the crisis making the regional gap even more compelling to fix. As regional disparities are the main point of this dissertation, it is worth asking why it is so important for the Juncker Plan to bridge the gap among regions. Could the Investment Program not just focus on attracting savings and moving them where it is more profitable? The answer is no because regional inequalities are a serious problem that might spill over the rest of the European Union. First of all, it is stated in the Treaties that one of the guiding principles of the European action should be a special care for the social and territorial cohesion and development of the Union. Secondly, a European Union that does not strive to help its members and leaves them behind is a European Union that has already sealed its own end. When the gap gets too wide it is possible that the cohesion and solidarity on which the European system is built falls down, inflating a series of "exit" movements in the style of Brexit or Grexit.

2. THE JUNCKER INVESTMENT PLAN

In 2014, after realizing that all the conventional measures were ineffective to face the new situation, EU policy makers decided to retool the European economy and gear it up with a brand-new weapon that was supposed to relieve the depression and the investment gap: the Juncker Investment Plan. The Investment Plan for Europe was put into effect by EU Regulation 2015/1017 of the European Parliament and of the Council and it is a very carefully designed measure consisting of three pillars, one for each purpose the plan was conceived to tackle. The first pillar, matching the goal of collecting as many capitals as possible and making smarter use of those resources, is embodied by the European Fund for Strategic Investments (EFSI). EFSI is the real heart of the program and it works like a guarantee provided by the EU budget to cover financial risks and incentivize investments. The Fund presented an initial allocation of €21 billion where €5 bn came from the balance sheet of the European Investment Bank (EIB) and the remaining €16 bn came from the EU budget. Persuaded by EU risk coverage, private investors should have complemented the EU and EIB funds aiming at mobilizing a total of €315 billion worth of investments in three years' time. The idea was to find a way to attract and mobilize all those private capitals that were stored in banks and never utilized due to the uncertainty and unpredictability brought about by the crisis. The EU guarantee was therefore supposed to facilitate capital collection to finance higher-risk investments which would not have otherwise been promoted by any other financial instrument. In other words, doing more with the few resources at disposal. The original plan was also comprised of two windows where resources were destined to and they are the *Investment and Innovation windows* covering R&D, energy and digital initiatives and the *SME windows* for the support of small and medium enterprises that are the most disadvantaged in terms of capital collection and investment realization.

The second pillar coincides with the purpose of providing visibility and technical assistance to investment projects and this task is delegated to the European Investment Advisory Hub (EIAH) and the European Investment Project Portal (EIPP). Both are useful instruments to navigate through the bureaucratic complexities and the wave of initiatives that are promoted. The Hub works as a single point of entry to a range of programs and initiatives of technical assistance provided by experts guiding beneficiaries through all the necessary steps to give birth to an investment. It is like a compass guiding investors towards the final realization of the investment projects. The Portal, on the other side, was conceived as a platform to garner all the present and future investment projects financed by the European Union. Any initiative signed or about to be signed is inserted in EIPP and becomes visible for anyone who is willing to invest and support one of projects launched.

Finally, the third pillar of the Investment Plan has to do with the goal of creating a friendlier business environment by removing regulatory barriers to investments. So, within the Investment Plan for Europe, there was also a set of actions indirectly tailored to simplify investments and capital mobilization. Those policies acted mainly on the regulatory framework to dismantle any possible limitation to a smooth capital collection and to continue on the road of financial integration. A Capital Markets Union (CMU) is probably the best example of such proposals to reduce fragmentation in financial markets and increase the supply of capital to businesses. Needless to say, the third pillar is a long-term project whose benefits will play out only in future years.

The EU Regulation 2015/1017 of the European Parliament and of the Council, besides informing about the general features of the Juncker Plan, goes on listing the requisites and the steps necessary for any initiative or project to be submitted to the attention of the Investment Committee which is suited to select the best ones. Accordingly, the EU guarantee can be delivered only under specific circumstances. As a matter of fact, the Regulation specifies that projects are granted the EU guarantee only if they a) are economically viable according to a cost-benefit analysis following Union standards, taking into account possible support from, and co-financing by, private and public partners; b) are consistent with Union policies and objectives; c) provide additionality; d) maximize where possible the mobilization of private sector capital; e) are technically viable. Any project must comply with the eligibility criteria and it is also worth noticing that no specific sectoral and geographical requisites are envisaged so that it does not really matter where and how resources are spent provided they are employed in initiatives which meet the eligibility criteria. This also implies that the Investment Plan for Europe is a demand-driven strategy and not a policy-based one, meaning that projects are backed according to their suitability and market palatability and not according to specific sectors of preference. Once a project reaches the attention of the EIB, it must undergo a so-called project cycle which includes all the necessary steps from the approval to the monitoring. The steps each initiative must follow are a) the proposal; b) the appraisal; c) the approval; d) the signature; e) disbursement; f) monitoring and reporting and, finally, g) repayment.

3. OUTSTANDING ACCOMPLISHMENT OR MISSED OPPORTUNITY? AN ASSESSMENT OF THE JUNCKER PLAN

3.1. MACROECONOMIC ASSESSMENT OF THE JUNCKER PLAN: A STARTING ACCOMPLISHMENT

The Juncker Plan has been operative for five years and is about terminate at the end of the present year when it will be replaced by another program called InvestEU. Five years of Juncker Plan have left an important legacy that allows us to make a precise assessment of its conduct. To reach this very

difficult purpose, I suggest looking at the plan from various points of view. While it is evidently true that the Investment Plan for Europe had an economic scope, a clear-cut evaluation cannot help but consider all the concrete consequences and levels of analysis possible. Therefore, I opted for a multidimensional analysis which takes into account the quantitative economic aspect but also the qualitative geographical and regional one. In other words, mine will not be a mere objective-based analysis because the effectiveness of the Juncker Plan cannot depend just on the growth and investment rate attained.

The first dimension of the Juncker Plan I considered is the economic one and this means looking at how parameters like GDP, employment rate and investment rate have evolved overtime. From a macroeconomic standpoint, it is undeniable that the Juncker Plan had a huge impact on the European system. Projections show that after the launch of the Investment Plan for Europe the annual rate of growth of investments has spiked to 3,2% vis-à-vis a 1995-2005 average annual growth of 2,7%. The plan has thus heated up the European economy more than in normal times and EFSI's capacity to attract investments and channel resources has proved vital because it was studied that without the Fund for Strategic Investments the European Union would have recovered in a much longer period of time. But the achievements pertaining to the economic dimension are actually many more. For example, contrary to many expectations, the size of the Plan has been coherent with the hopes. In three years, the Plan attracted €335 bn which is more than what originally planned. Moreover, studies have calculated that EFSI's final leverage aggregated for both windows was around 13.5, thus almost identical to that 15 which was taken as target. Five years of Juncker Plan have also produced some milder and more partial results which are, anyway, an important starting point and an incentive to keep doing better. For example, the level of investment in the continent has skyrocketed but the purpose of totally closing the investment gap, one of the most serious problems inside the post-2008 EU27, have not been met. Considering that by 2020 the Juncker Plan is supposed to hopefully execute €500 bn of investments, the value is barely enough to cover half of the gap. The investment value reached through EFSI is approximately 1% of EU GDP vis-à-vis an investment gap of almost 3% of GDP which would require almost double the resources each year. The Juncker Plan clearly does not live up to such high expectations, despite the incredible results that it achieved.

To carry out a more precise evaluation of this policy I set about selecting two main indicators whose performances could be explicative of the economic success of the Investment Plan. The first indicator is additionality defined as "the support by the EFSI of operations which address market failures or sub-optimal investment situations and which could not have been carried out in the period during which the EU guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing

Union financial instruments without EFSI support". Therefore, an investment is additional when it takes on a higher risk profile addressing market failures or sub-optimal investment situations and this is supposed to be the case of EFSI's investments as they can count on the EU guarantee. What emerges from the many researches conducted on this topic is that the level of additionality of EFSI's operations is indeed higher as they coincide, at the very least, with EIB special activities which are the riskiest assets of the Investment Bank. However, if EFSI's operations are additional for the EIB, they are not for the market given that other financial actors, in the present or in the past, have committed to operations with higher risk profiles. Tables show there is still a wide margin of additionality that could be attained and many operations associated to higher expected losses are still to be promoted. As far as this first parameter is concerned, the conclusion is that the indicator of additionality applies in a partial way in that the average EFSI's risk profile is higher than usual, but it is still not enough.

The second indicator I picked is GDP and employment growth. Although the regulation makes no reference to neither GDP nor employment growth, it was implicitly believed that EFSI's investment facilitation could reverse the hideous 2008 trend and could have positive effects on the main macroeconomic parameters. In effect, the Juncker Plan provided a credible fiscal policy to boost the economy in a period of overwhelming liquidity and state paralysis. Unemployment, after a disastrous surge in 2008 and 2013, has been going down for several years in a row and it reached a historical low of 6,8% between 2018 and 2019, very close to pre-crisis years. In terms of GDP, the results were probably not as sensational as unemployment rate but there is still evidence of a rebound of economic growth reaching an average of 2% annually and this fact has been unseen for much time. It is not difficult to claim that from a macroeconomic standpoint the Investment Plan for Europe fulfilled its goal and represented a great medicine to heal the deepest wounds of the European economy. The plan acted like a catalyst of investments pushing up the additionality rate as well as GDP and employment. It is also true, on the other side, that the plan had to go through a long list of critics formulated both in the public debate and in literature. The Investment Plan was accused of being a mere second-best solution because a real remedy for the European economy could just come from Member States or, alternatively, from a new powerful institution. The Investment Plan was criticized for making no real difference because it just moves resources from one program to another without channeling extra money into the system. To tell the truth, I find these critics quite groundless given the huge positive impact that the Juncker Plan had. First of all, it is hard to distinguish between a first and a second-best solution when it comes to an initiative that has never been put in practice before. Albeit one can accept that the Plan could have been designed in thousands different ways, I dare say that the shape it eventually took was a carefully meditated one that took into account the position of difficulty of

national and European budgets and the priceless amount of liquidity already present in the economy that needed to somehow be unlocked without producing further deficits. The great success of the initiative probably confirms my statement. Secondly, the reshuffling of resources was not a mere expedient to assemble more money for the European Fund, but it was an attempt to increase the potentiality of the resources available. Indeed, given the incredible capacity of the European Fund to attract capitals and pour them into the real economy, moving resources from other EU programs to the European Fund for Strategic Investments was a way to make a better use of them exploiting the high financial leverage. On balance, to conclude the macroeconomic assessment, I can say that the Juncker Plan was a precious accomplishment and a good starting point to build on for the future regardless of some matters that were left partially unresolved such as the still wide investment gap.

3.2. THE JUNCKER PLAN AND EU REIGONAL DISPARITIES: A MISSED OPPORUNITY

An outlook of the economic aggregate data may even give us a positive picture of five years of Juncker Plan. However, once we break the data apart and consider more carefully its implementation, some inconsistencies emerge. The second dimension I chose to analyze to carry out a thorough examination of the Investment Plan for Europe is the regional one. More specifically, I am going to examine the connection between the Juncker Plan and EU regional disparities, looking at both the geographical and sectoral performance of the European Fund. Did the Juncker Plan's projects concentrate homogeneously across the EU? Was the Juncker Plan designed to facilitate the adjustment of the investment gap in all EU member states and regions? Or were the benefits spread only within specific boundaries? And again, what were the main sectors where EFSI operated? Were those sectors appropriately targeted to ensure a regional catch-up in terms of opportunities and services? These are the main questions entering the regional analysis of the plan. Before starting the examination, it is worth recalling that the EU regulation on EFSI does not say anything about a geographical and sectoral scope and no geographical or sectoral quota are envisaged. The European Fund was only supposed to be evaluated and designed to attract as many resources as possible from the market. However, we care about this aspect for two reasons. First, because every Member State should enjoy the same advantages and benefits inside the European Union since an unequal use of EFSI might exacerbate cross and intra-country disparities tearing the European fabric apart. Second, because even in the regulation, though very marginally and often unnoticed, it is present some reference to the need for a proportional spatial and sectoral concentration, when for example article 5.2 mandates that "the Steering Board shall adjust the project mix *as regards sectors and countries*" or when article 6.1 explains that the projects should be "consistent with Union policies, including the

objective of smart, sustainable and inclusive growth, quality job creation, and economic, social and territorial cohesion". In conclusion, the dimension of EU regional disparities cannot be ignored.

However, this latter analysis is clearly less bright than the previous one. The first indicator relevant to explain the ties between the Juncker Plan and regional disparities is the geographical concentration of investments. Unfortunately, all data seem to point in the same direction. EU15 Member States received way more EFSI financing in absolute and relative terms than EU13 Member States. To top it off, almost a half of EFSI signatures is concentrated within only three Western member states that therefore monopolized most of EFSI activities and which are France, Italy and Spain. Such an unequal clustering of investments can only have one explanation: the European Fund tends to privilege advanced economies because of the very way it is structured. If not restricted by some kind of geographical and sectoral quota, EFSI is very likely to focus more on ready-made and well-prepared projects rather than on their proportional geographic allocation, thus favoring those countries with sophisticated financial markets which can afford high-risk projects. Another aspect is that investments can thrive only in a horizon of certainty, stability and predictability. Accordingly, private investors will choose to point their savings towards stable countries penalizing states having high levels of political and economic instability or having unreliable sectoral policy frameworks, which is very often typical of less developed countries and regions.

The same rationale applies for intra-country inequality where, without any strict measure or criteria driving the geographical distribution of the projects, the Fund tends to privilege financially sophisticated regions capable of attracting capitals more easily and appealing to investors through their stability and certainty. This is supported by empirical data because if we look at a map reporting all the main direct EFSI initiatives, we realize that the distribution of such projects cannot be more biased in favor of advanced regions and areas to the detriment of the others. It is a fact that most of EFSI's projects were promoted around capital cities or wealthy parts of the country, totally neglecting the neediest ones. Many examples can be made to back this argument. The cases of Italy, Spain but also of other countries like Ireland or Sweden are explicative. In Italy and Spain, the productive North cannibalized most of the resources to give birth to consistent investments, many of them with a real social impact like the reconversion and innovation of Treviso's hospital. In the South, the few investments promoted were smaller in size and impact and were therefore less prone to achieve the hoped-for convergence and local empowerment. In Ireland and Sweden, despite not showing any sign of lagging regions, investments got clustered around the capital cities while relatively less developed areas drew no attention. Drawing conclusions from this first indicator, it is clear that, from the point of view of geographical distribution, the European Fund for Strategic Investments has been a missed

opportunity because its stimulating effects could have been better distributed across the European regions.

The second indicator relevant to understand the impact of the Juncker Plan on EU regional disparities is the sectoral concentration of investments responding to the question of what type of projects the Investment Plan has supported. Knowing sectoral allocation is central because every investment is potentially positive in terms of development and productivity but not every investment has the push for a real social empowerment and regional catch-up. Bridging EU inequalities primarily means making sure that every EU citizen may enjoy the same benefits and opportunities regardless of the place they live in. For this reason, social infrastructure investments play a paramount role in spurring regional convergence because they provide many vital services like health, education, childcare and they can boost community resilience and regeneration while strengthening reputation and attracting trade/business and tourism. Thus, regional convergence can only start from a social Europe. Unfortunately, as the task force on social infrastructure in Europe chaired by the Italian Romano Prodi claimed, the European Union misses a social dimension. Although there is quite an equal distribution with no sector strongly prevailing over the others, SIIs seem to be completely forgotten with just 4% of the total EFSI's activities value allocated for social investments. As a matter of fact, when someone goes through the list of EFSI-backed projects, they realize there is no mentioning of initiatives directly targeting deep social problems like poverty, ageing population, disability care, childcare, youth employment and affordable lodging for the worst-off. The only field where the Investment Plan "got its hands dirty" is health care with projects of renovation, construction and reconversion of healthcare facilities in a bunch of different Member States. It is then clear that there was a failure in meeting some sort of social objective and with such sluggish SIIs the result could not but be a faltering catch-up and a very weak local empowerment. Considering both indicators of the geographic analysis, the impact of the Juncker Plan on EU regional disparities has been almost inexistent, if not harmful under certain aspects. In conclusion, taking into account the two most pressing post-crisis European problems, investment gap and regional gap, the outcomes of the Investment Plan for Europe have been diametrically opposed. If economically the plan worked brilliantly by mobilizing billions of capitals and channeling them into the real economy, in terms of regional disparities it totally lacked a social dimension able to bridge the regional gap and create a convergence in the wellness and opportunities available for citizens.

In the end, are we facing an outstanding accomplishment or a failed project? Neither of the two. The successful impact that the Plan had over the economy was balanced out by the failures in the geographic and sectoral distribution of the benefits. It will be central in the future to treasure the

positive aspects of the plan and work on those clashing with the purposes of regional convergence and social and territorial cohesion.

4. WHAT THE FUTURE HOLDS AND WHAT IT SHOULD HOLD

The Juncker Investment Plan is supposed to end this year but the challenges it has tried to tackle for five years are not over yet. If anything, new challenges added up making it even more urgent to engineer a new massive proposal inheriting the legacy of the Juncker Plan. It is for this reason that European policy makers built on the partial success of the previous initiative to inaugurate a new program that is supposed to start in 2021: InvestEU. What will this plan consist of? InvestEU bases on the same objective of mobilizing public and private capitals addressing market failures but with a specific attention on the dimensions of sustainability, competitiveness and inclusive growth. The Commission is going to gear up the program to reach €650 billion of additional investments within the 2021-2027 timeframe. The InvestEU Fund succeeding the European Fund for Strategic Investments will count on a contribution of €38 billion mainly coming from the EU budget, the single shareholders and the EIB balance sheet. The estimated total guarantee can rise to circa €48 billion if one considers the financial partners' resources that can be channeled and amount to about €10 billion. InvestEU remains a demand-driven plan but it also adds a policy-driven dimension because the budget guarantee is divided into policy areas spanning across four windows – sustainable infrastructure window, research, innovation and digitalization window, SME window and finally the social investments and skills window. There is indeed an attempt to make InvestEU the upgraded version of the Juncker Plan and make up for the shortcomings I have previously detected. The new main elements InvestEU Fund will acquire in the next years are the following. To begin with, the program will proceed with a simplification of EU financial instruments that will be merged into a single more comprehensible scheme. This is likely to generate less bureaucracy and less confusion besides averting the problem of the cannibalization and overlapping of financial products. Secondly, as expressed above, InvestEU will move from EFSI's centrality on quantity to a new dimension of quality since the program is not just set to garner as many capitals as possible but also to channel them in the right direction – i.e. it is also a policy-driven proposal for an effective sectoral distribution. Third, a new definition of additionality will be given. InvestEU is intended to solve the problem of the ambiguous definition of additionality by elaborating a new one where the concepts of market failure and sub-optimal investment situation will be crystal clear. Fourth innovative element is that the Fund will have a different more centralized governance. InvestEU Fund will feature a reinforcement of the role of the Commission and a weakening of the EIB's role. The European Commission will become the real decision maker both in terms of functioning and in terms of project

selection. This is because the selection is carried out by an independent Investment Committee, but it is the Commission that first receives the project proposals and checks their compliance with EU eligibility criteria and policies.

As currently imagined, InvestEU seems to have learnt from some past mistakes but not from all of them. Indeed, there is enough evidence to conclude that the two central issues relevant for this dissertation will stay unresolved. In terms of amount, the future program is not so different from the Juncker Plan and therefore the investment gap is expected to remain as ample as before. In terms of regional inequalities and empowerment, the attention paid to the social dimension of investments is still negligible since only a tiny fraction of the resources is reserved for SIIs. The Social Investments and Skills window is going to get only €4 bn which is ridiculous if compared with the real needed amount. This puts in danger the possibility to bridge the gap in investment and in regional development.

However, even though the Commission has already discussed the proposal in these terms, the InvestEU program has not come to life yet and we can expect other adjustments to be made. In other words, we must wait for the program to be definitively approved to be 100% sure of its long-term consequences. In the meantime, what we can do is advancing some proposals to help make the best out the program. The political and economic literature is full of suggestions trying to redress the Investment Plan and create a better one. The first practical suggestion that policy makers should keep in mind is the possibility of merging the European Fund for Strategic Investments and the European Structural and Investment Funds (ESIF), a set of five funds with different scopes but with the unique purpose to support less developed regions in their fight against social exclusion, poverty, climate change adaptation and energy transition. Among the five funds, Cohesion Funds (CF) are the most suited supporting investment projects in countries where the gross national income per capita is less than 90% of EU average. The basic idea is that the intersection of EFSI with CF would allow for a mixing between the two instruments: the risk-bearing and capital-collecting capacity of EFSI together with the capacity of CF to assist and promote the development of lagging regions. Experts claim that this is no piece of cake as the two instruments are very different but it is an idea to take into account because there is no doubt that EFSI is a danger for European regional equality and having the European Fund be guided by a geographical-oriented tool like the Cohesion Funds may be the best short-term solution.

The second proposal to innovate the Investment Plan is fostering cooperation among institutions, specifically between the European Investment Bank, National Promotional Banks and the European Central Bank. Above all, it is especially the involvement of NPBs which is vital because NPBs are

the intermediaries for the EIB group connecting the Investment Bank with local realities and they are thus fundamental to reach the maximum economic impact since they have a deep knowledge of local markets and perfectly know how to transfer resources from the European to the local level. In other words, it is still a proposal to favor a more equal distribution of projects and represent the interests of needy regions. Undoubtedly, this initiative hides some hardship like, for example, the fact that, if not well-arranged, this idea is likely to perpetuate rather than close regional disparities since many lagging countries do not have a National Promotional Bank or, when they have one, it is not as mature and sophisticated as to compete with the others. That is why this proposal should come with the compulsion for all Member States to install a National Promotional Bank and the InvestEU Fund should be open to accept consortia of NPBs of at least three countries. This scheme is supposed to advantage especially new and less-experienced NPBs that can benefit from the expertise of more qualified ones to give disadvantaged countries a louder voice.

Finally, any attempt to make the best out of the European Investment Plan comes with an important proposal to relaunch public investments. As a matter of fact, the shortage of public investments is an issue that not even the Juncker Plan has managed to solve. Unfortunately, EFSI is a private capital channeler which was designed right to get around problems of EU budget and depressed national finances. However, the sole increase in private investments cannot be enough, especially because SIIs are mainly public in nature meaning that EU regional convergence can only depend on a surge of public investments. Finding a way to enable Member States to spend more without being restricted by stringent fiscal rules should be a primary concern for European leaders. The best measure that has been thought to face this problem is the introduction of a *new golden rule* ensuring a looser and more flexible use of public finances. To tell the truth, this new golden rule can be envisaged in plenty of different ways. One may think about upgrading the importance of public investments and thus keeping states from reducing public investment spending just to fulfill the SGP's deficit goals or considering productive public investment spending as exempted from the fiscal discipline rules. Alternatively, one may think about increasing by 0,5% or 1% the deficit ratio to dedicate it entirely to public investments or reducing the deficit criterion from 3% to 2,4% and preserve that 0,6% only for additional public spending. Only time will tell what type of rule, if any, will be chosen.

CONCLUSION

At the end of this analysis, it is easier to answer the questions posed in the introductory part. If the goal were to carry out an evaluation of the Investment Plan for Europe to understand its real efficacy and impact on the European system, this is where I arrived after pages of research. What I demonstrated is that it is not easy to assess a wide-in-scope policy like the Juncker Plan, with its many

aspects and repercussions, and that this plan deserves a multidimensional approach. The rationale behind the plan was certainly to push the European recovery and kick-start the cycle of investments but this research has proved that evaluating the plan relying just on the macroeconomic perspective is short-sighted. The Investment Plan for Europe cannot clash with the EU objectives like social and territorial cohesion and cannot certainly afford to exacerbate the European divisions and disparities. Basing on these simple considerations, I jumped to the conclusion that the Juncker Plan is halfway between an outstanding revolutionary accomplishment and a complete failure and that its real impact and performance depends on the lenses through which we see it. Using the lenses of economy, the Juncker Plan turns out to be a phenomenal medicine to boost the economy, employment and investments of a Europe burdened by the traumas of the financial crisis. Using the lenses of social and territorial cohesion, the Plan turns out to be more detrimental than useful, strengthening European divisions and privileging those countries with already advanced and sophisticated political and financial systems. Therefore, there are two conclusive remarks. First, albeit the plan was supposed to be judged according to its capacity to collect capitals, it cannot ignore the fundamental principles and objectives of the European Union and it should push for a more cohesive and equal Europe. Moreover, it deserves attention the fact that even the EFSI Regulation talks about considering a just and proportional distribution of projects by sector and by country and it also proposes quotas to achieve that. It may be necessary in the next years to reconsider the goals of the Investment Plan as well as the establishment of geographical and sectoral criteria. Second, the Juncker Plan was able to relaunch investments and apply a credible fiscal policy in a period where the monetary policy was inconsistent with the QE flooding the system with unused liquidity. For this reason, the plan should be expected to carry on for many more years in the future given that it represents the only concrete investment measure for many countries and that, in general, economic problems are not over. It is vital to keep counting on this powerful tool and to make the best out of it, taking into consideration all the proposals and changes to turn the Juncker Plan into a flawless European lifeline without sacrificing paramount aspects like regional equality, territorial cohesion, poverty and exclusion relief.