InvestEU: how to concretely deliver?

Brussels, 24. September 2018

ELTI welcomes the Commission's proposal released on June, 6th 2018, establishing the Invest EU Fund. Although the InvestEU Programme rests on three components (the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal), the following position paper focuses primarily on the InvestEU Fund.

As previously expressed in ELTI's position papers[1], this single guarantee fund, which builds on the experiences gained with EFSI, will be key in maximising the impact of the EU budget by offering a streamlined structure which regroups many existing instruments under a single umbrella, thus offering greater flexibility.

What was successfully delivered under EFSI by one single implementing partner can now be prolonged and amplified by granting direct access to several implementing partners. ELTI firmly believes that relying on multiple implementing partners will be key in fostering innovative financing solutions and selecting projects and programmes with the highest level of EU added value possible. This added subsidiarity will favour the financing of investments in sectors with a higher level of local specificities and the financing of projects currently not eligible under EFSI, therefore greatly enhancing the outreach of EU support

At the same time, the proposal clearly confirms the role of the EIB-Group as a privileged partner of the European Union by dedicating at least 75% of the EU Guarantee, under the EU compartment, specifically to the implementing partners that can offer financial products to all member States. NPBIs will add their detailed know-how of national, regional and local markets and are very much keen to maintain and amplify close ongoing co-operative measures with the EIB and – notably for SME financing - the EIF, such as the current collaboration scheme with the EIF (under COSME and InnovFin) or through global loans provided by the EIB to NPBIs.

Member States in the Council and the European Parliament are now required to reach an agreement on the Commission proposal, its scope, the basic applicable rules, the process of selection of implementing partners, the governance of the InvestEU Fund and all other issues covered by the Commission proposal. ELTI would like to support this process by providing some reflections:

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[1] *Multiannual Financial Framework post 2020* (November 2017), *Financial instruments in the next MFF* http://www.eltia.eu/images/2017_11_03_Multiannual_Financial_Framework_for_the_European_Union.pdf
The way forward regarding the single fund, direct access for NPBIs and the single rule book (March 2018) http://www.eltia.eu/images/eltiMFF3deff.pdf

1. **Bringing the EU closer to its citizens and enhancing the EU added value**

The InvestEU proposal helps to bring the EU closer to its citizens, boosting its visibility and the added value of its intervention. What are the mechanisms by which the proposal supports these three goals and what is the role of NPBIs in this respect?

The fundamental component behind this proposal is how NPBIs are to gain direct access to a portion of the InvestEU guarantee, which will allow to **address the remaining investment gaps and suboptimal investment conditions from a European dimension as well as considering their respective political priorities, and simultaneously providing tailor-made and locally adapted solutions**. NPBIs, with their respective market knowledge, are well suited to cater for local / regional / national needs. Furthermore, NPBIs may support projects or asset classes which are otherwise not covered (e. g due to investment size).

NPBIs offer a high degree of visibility to European action by disbursing it on the ground locally and closer to its citizens. At the same time, national governments have a clear interest in the development of promotional programmes of NPBIs. As implementing partners for the EU, NPBIs will not only help align EU and national policy objectives, but will also ensure a high level of complementarity between European and nationally financed promotional investment programs by being subject to national or European supervisory mechanisms often involving government and national parliaments.

Furthermore, by enhancing a closer cooperation, the InvestEU multiple implementing partners approach will foster positive emulation in bringing about the best proposals and enhance the added value of the EU intervention to the benefit of the final beneficiaries. Moreover, granting direct access to NPBIs to a limited portion of the InvestEU guarantee will also allow for the testing of innovative financial instruments in a restricted environment, before rolling them out further in case of a successful implementation.

2. **Suggestions**

I. Governance

- The governance should be inclusive and simple to ensure a level playing field and a clear role for all players involved. In that respect, the Commission's proposal represents a major step in the right direction but requires some clarification concerning the responsibilities of actors: **Implementing Partners** identify suboptimal investment conditions and market failures in line with the advice provided by the Advisory Board, analyse suitable strategies to counter them and conduct the due diligence before submitting the proposal to the European Commission,

- The **European Commission**, representing the **single point of entry**, should be responsible for the decision on the eligibility and the promotional aspects of a proposal from the implementing partners and should attribute the proposal to one of the four windows foreseen under the InvestEU Fund.
- **Project Team**: the technical and **risk evaluation** of the proposals and the preparation of the scoreboard (key parameters as described below) should be undertaken by a team of full-time employed and remunerated **independent experts** with a relevant background in risk portfolio management and guarantees, but not consisting of seconded experts from the implementing partners.
- the **Investment Committee**, as a body of independent experts, should take a decision regarding the allocation of the EU guarantee to proposals and its pricing, based on the scoreboard, as foreseen in the Commission proposal. At the decisional level, the present voting system of investment Committee does not value enough the expertise of the sectorial experts as a majority can be formed without them on board. This is clearly inconsistent with the policy windows structure of InvestEU.
- Art. 212 I of the Financial Regulation foresees a common provisioning fund to cover all financial liabilities arising from financial instruments, budgetary guarantees or financial assistance of the EU (both domestic and external), thus also for the InvestEU Fund. The article currently calls for an independent study to be conducted by 30 June 2019 as to who should be the manager of such a fund. ELTI members would welcome the selection of a qualified, independent fund manager consistently with the institutional set-up in place.

Such a governance would simultaneously reduce the risk of conflicts of interest, ensure an adequate management and monitoring of the guarantee portfolio whilst also safeguarding a wide diversification of risk, both sectoral and national, thus **allowing for a level playing field among implementing partners.**

II. Quality and pricing of the EU guarantee

In order to finance riskier projects with significant EU-added value, implementing partners require an efficient risk mitigation instrument, the guarantee should be as broad as possible – meaning irrevocable, unconditional and on first demand - and its price should be based on the characteristics and risk profile of the underlying operations while taking in due account the achievement of the policy objectives targeted under InvestEU, including the possible application of specific concessional terms as needed. This should notably allow the continuation of successful instruments such as COSME from the current programming period at very similar conditions to those applied today.

As the EU guarantee will be implemented by several implementing partners, the regulation should ensure an efficient coordination of the operations under InvestEU as a result of light rules which should be as simple as possible. As the guarantee agreements define capped guarantees (Art. 14), it should be clear that the implementing partners have the sole responsibility for the management of the single project/programme/platform(s) defined by their respective guarantee agreements.

III. Contribution from Implementing Partners

Contribution from an implementing partner within the scope of InvestEU should be risk-taking capacity exclusively. The IPs should provide their own financial contribution to the financing and investment operations. No Implementing Partner should be expected to contribute directly to the InvestEU fund.

IV. Condition to cooperate in (at least) three Member States

In its current formulation, the requirement to cover financing and investment operations in at least three Member States, as a precondition to be granted access to the EU guarantee, raises concerns regarding the joint nature of such operations and the financial instruments to be deployed, notably from smaller or regional NPBIs. It should be clarified that such a requirement does not necessarily imply cross-border operations, which would limit the jurisdiction of contractual responsibilities accordingly. At the same time, it should be made more explicit that the pre-condition to allocate the EU guarantee is the identification of investment gaps or sub-optimal investment situations in at least three Member States. This could be addressed by a group of NPBIs each operating in their own jurisdiction with comparable instruments adapted to the local context.

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V. Compartments

a) European Compartment

Under the EU compartment, the allocation of at least 75% of the EU guarantee to an implementing partner (or partners) which can offer financial products under the InvestEU Fund to all Member States, is a simple way to ensure adequate coverage. ELTI suggests stating this provision directly in the text of the regulation, in addition to the reference currently made in recital 30. This will provide legal certainty to the operation of the EIB group in the next MFF and help to maintain current intermediated schemes in which NPBIs have been key partners, notably under EFSI.

b) National Compartment

The guarantee agreements between the Commission and the implementing partners, indicated by the concerned Member States which have decided to channel part of their ESIF resources to the national compartment of the InvestEU Fund, should be structured according to the modalities decided by the contracting parties, including the use of the resources allocated as a first loss piece and the expected leverage.

c) Geographic Balancing within Windows and Compartments

The subsidiarity principle should apply at all levels. The total allocation in any policy window of any implementing partner that can offer financial products under the InvestEU Fund in all Member States should be adjusted or limited to reflect the resources already sourced by the implementing partners at the lower level.

VI. Market-oriented approach

Based on their experience as implementing agents of EU financial instruments in the current MFF and in light of their potential role as such in the next MFF, ELTI members stress the importance behind the operation of financial intermediaries and how these should be aligned, as closely as possible, to market-oriented approaches and realities. In this regard, and building on the lessons learnt under EFSI and in the external action field of both the External Investment Plan and the European Fund for Sustainable Development guarantee; the simplification of procedures, quick and transparent decision-making, low regulatory costs through streamlined reporting and auditing are all elements that would positively impact the aspired outcomes of the InvestEU Fund.

VII. Technical assistance

Experience has shown that technical assistance is a key factor of success whenever financial instruments are concerned. In order to be truly efficient, technical assistance (TA) should be delivered, at the closest level, to the project promoter. Invest EU Advisory Hub's primary aim should be helping local implementing partners to reinforce their technical assistance capabilities or to build them. Invest EU should therefore rely on local implementing partners (e. g. on NPBIs whenever they are active in this field) allowing them to include requests for TA in the project proposals to the Investment Windows similarly to the modalities already experimented under the External Investment Plan. Further synergies with the InvestEU Advisory Hub should be encouraged, thus allowing implementing partners to become the local point of entry of the Hub as already envisaged in the Memorandum of Understanding signed by various NPBIs and the EU Investment Advisory Hub.

The European Association of Long-Term Investors – ELTI

ELTI members represent an European-wide network of National Promotional Banks and Institutions who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-boarder solutions or investments with an European impact. Following the specific public mission of each member the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. Most of the members offer various debt-products but not all members have a mandate for investment in equity.

This position is endorsed by all 28 members of the European Long-Term Investors Association (ELTI) a.i.s.b.l. which are major long-term investors who represent a combined balance sheet of Euros 1.7 trillion. The Association promotes and attracts quality long- term investment in the real economy, including:

- strengthening cooperation, including at an operational level, between European financial institutions as well as with other Institutions of the European Union (EU) acting as long-term financiers;
- informing the EU and its Institutions on the role and potential of the Members as institutions and agencies for long-term financing;
- strengthening the access of the Members to information on matters related to the EU;
- exchanging information and experiences among Members and with national and international organisations sharing the Association's interest in the promotion of long-term investment;
- developing the concept of long-term investment within the economic and financial sector and promoting academic research on long-term investments;
- representing, promoting and defending the shared interests of its Members in the field of Long-Term Investment in full transparency.

The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level[2]. The European Investment Bank (EIB) has the status of a permanent observer. ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions[3].

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[2] Oesterreichische Kontrollbank (OeKB) Austria, Bulgarian Development Bank (BDB) Bulgaria, Federal Holding and Investment Company (SFPI) Belgium, Croatian Bank for Reconstruction and Development (HBOR) Croatia, Ceskomoravska Zarucni a Rozvojova Banka (CMZRB) Czech Republic, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, National Bank of Greece (NBG) Greece, Hungarian Development Bank (MFB) Hungary, Strategic Banking Corporation of Ireland (SBCI) Ireland, Cassa Depositi e Prestiti (CDP) Italy, Latvian Development Finance Institution (ALTUM) Latvia, Public Investment Development Agency (VIPA) Lithuania, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Bank of Valletta (BOV) Malta, Malta Development Bank (MDB), Malta, Netherland Investment Agency (NIA) Netherlands, Bank Gospodarstwa Krajowego (BGK) Poland, Slovenska Izvozna in Razvojna Banka (SID) Slovenia, Instituto de Credito Oficial (ICO) Spain

[3] Nordic Investment Bank (NIB), Council of Europe Development Bank (CEB), Long-Term Infrastructure Investors Association (LTIIA), NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, INVEGA Lithuania, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey