Together we can do more

Next Generation EU

ELTI Position Paper

Brussels, 16 September 2020

Key messages

The European Council agreement in July 2020 marks a step forward in European construction. The European idea is thereby reinforced. It also sent contradictory signals with less means for European instruments managed by the European Commission. Against this background ELTI invites the Co-legislators to take into account the following considerations:

- Budget cuts to Financial Instruments such as InvestEU are a wrong signal since they are efficient promotional tools which help to save scarce public budget. The final set-up should ensure that a variety of Implementing Partners (IP) including the EIB Group and National Promotional Banks and Institutions (NPBIs), are equally in a position to finance projects and portfolios.
- The demand for more equity and quasi-equity instruments is even stronger across the EU economies. They should be available for projects as well as SME portfolios in order to effectively complement the existing debt instruments
- The budget allocation for InvestEU should ensure that all IPs can use the EU guarantee for projects as well as portfolios. The overall guarantee amount available for each IP should justify the implementing costs. This might result in a higher budget share for other IPs compared to the 25% of the total budget currently foreseen.
- A provisioning rate of at least 40% will help to finance projects with more outreach to target groups and EU objectives. Going below this provisioning rate would effectively render the financing of start-ups as well as innovative projects under InvestEU impossible.
- The continuity in the implementation of InvestEU after 2023 has to be ensured.
- Any change in the 2019 Partial Agreement, as well as underlying documents (Investment Guidelines etc.), should be discussed with all IPs – EIB Group as well as other potential IPs.
- In order to maximise its impact and efficiency of the Just Transition Mechanism the instrument should be implemented similar to InvestEU by multiple implementing partners including NPBIs

ELTI-members stand ready and look forward to working with the EC to address the huge challenges the EU is currently facing. Together we can do more.

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NPBIs, having been asked to become implementing partners, will contribute to the future of the implementation of Financial Instruments, and notably of InvestEU, but also as financial intermediaries for financial instruments under ESIF or centrally-managed instruments such as CEF. ELTI members welcome the strong focus on environmental and social sustainability. This already corresponds to the current priorities and practice of several ELTI members.

It is already foreseen that the various EU resilience and recovery instruments should build on and complement each other. This principle should also extend to respective nationally funded initiatives where the new EU instruments should be complementary to and - where possible - support the already existing national schemes.

European NPBIs are integral parts of the economy within their countries, steered by national and European policy objectives. In the context of the present crisis, ELTI members were very quick in implementing country-specific support instruments. Until mid-May 2020, ELTI members implemented more than 50 different crisis response instruments with a total amount of > EUR 350 bn[1].

This position paper aims at providing NPBIs main comments and proposals regarding next Generation EU with a thematic approach as described in the factsheets attached:

- Annex 1: Enterprises
- Annex 2: Infrastructure and territorial development
- Annex 3: Renovation Wave
- Annex 4: Health

Making the most of this situation

ELTI members appreciate the fact of having a clear way forward from the European Council. We share the need to urgently address the challenges of the current crisis. However, some decisions might hamper the common goal of relaunching the European economy, notably the need for significant long-term financing for the European economy. More than ever, Europe needs long-term investment, risk-taking capacities and tailor-made solutions to local issues. The crowding-in of private funding is crucial in order to tackle the many challenges Europe will be faced with in the upcoming months and years. Against this background, in our view, budget cuts for InvestEU is a wrong signal.

To make the most of NBPIs' contribution, the following principles should apply:

- covering all economic actors, SMEs, larger companies, as well as local public service enterprises, public-private organisations, associations, public entities especially in the field of social infrastructure (health, social housing and education) as well as actors within the fields of economic social and solidarity;
- covering additional risks (up to 100% with other guarantee scheme, if need be), promoting equity financing instruments or supporting the high liquidity needs for some promotional banks;

[1] https://www.eltia.eu/images/2020.06.17_-_ELTI_NEFI__AECM_-_Coronavirus_COVID-19_Support_Measures.pdf

- adopting a decentralised approach, consistently with the InvestEU paradigm, to build on the respective strengths of the different institutions, but also to ensure the best combination between European and national actions;
- offering not only guarantee instruments, but also blending facilities such as the CEF Blending facility, which has already been implemented successfully by DG Move (flexibility and attractivity for project owners, link between a project pipeline and a financing scheme)
- providing direct support for the transfer of expertise and know-how between partners who would like to make use of best-practice solutions in other EU Member States.
- coordinating all European instruments, including the European Guarantee Fund and many already existing centrally managed programmes. The InvestEU secretariat might be the appropriate entity to take on this function.
- ensuring a level-playing field between all implementing partners: no implementing partner shall be granted a right of preliminary screening on the portion of the EU contribution allocated to another entity

Prolonging the temporary framework for the duration of the recovery measures.

InvestEU

ELTI members welcome the fact that InvestEU is intended to play a crucial role in financing the recovery of the European economy. However, against the background of the significant cuts in the budget of this instrument the impact will not be as ambitious as initially envisaged the European Commission. Against this background ELTI would like to give the following comments:

- In order to include the capabilities of all other implementing partners (IPs) in all EU Member States the budget allocation for InvestEU should make sure that
  a) all IPs can make use of InvestEU for projects as well as for (portfolio-)programmes. The limitation of the direct access cannot unlock the potential in each member state. Unless the initially proposed guarantee amount is restored, it would be advisable to equally allocate the available guarantee between the EIB and all other IPs.
  b) the costs notably the fixed-costs of implementation at the level of the IPs and partners such as funds or on-lending banks (including the costs for the pillar assessment, creation of new products, etc.) could be justified by the size of the overall guarantee amount per IP.

  This might result in a higher budget share for other IPs compared to the 25% of the total budget currently foreseen.
- A concentration of the budget available to 4 windows would be more efficient rather than adding new objectives to a significantly reduced budget.
- Since the IPs are asked to finance more risky projects the provisioning rate should be kept at the level proposed by the European Commission: 40% seems to be appropriate. A lower provisioning rate would be seen critical by the banking supervision authorities.

- ELTI members see the need for a fast reaction since many companies and notably SMEs need additional equity or quasi-equity at the end and after the crisis. The continuity in the implementation of InvestEU after 2023 has to be ensured, since this is first and foremost an investment mechanism with its first calls for expressions of interest starting in 2021 only. The obligation to trigger 2/3rd of all investments under InvestEU within the first three years should thus be attenuated as it might create unnecessary legal uncertainty and in light of the existing support measures at national and regional levels and jeopardize their continuity until 2027.
- The result of the constructive exchange about guiding documents i.e. InvestEU investment guidelines were summarised in the "Partial Agreement" in 2019. As far as changes are needed in the Partial Agreement at all the European Commission should include other IPs in the exchange again.

Just Transition Mechanism

ELTI members welcome the proposals concerning the Just Transition Mechanism. It is very important to finance public sector entities in those affected regions. In principle ELTI members supports the idea of the public loan facility which will constitute a powerful instrument combining EU support in the form of a grant together with loans provided by the financial partners of the European Commission.
However, in order to maximise its impact and efficiency, the instrument should be open to multiple implementing partners, and not only limited to the EIB group, each partner providing its own specific capacity in order to allow the fulfilment of the Facility's objectives, extend the type of project financed, contribute its own resources and to ensure an appropriate geographical coverage.

European Structural and Investment Funds (ESIF)

- Regarding ReactEU, we consider that the relevant actions launched as of 1 February 2020 should be eligible for funding under the initiative. A retroactive deployment of the funds is of utmost importance in order to help workers and SMEs to alleviate the ongoing economic impacts of the COVID-19 crisis. Moreover, in order to avoid the absorption problems that have occurred in the current and previous programming periods and to ensure that resources can be spent on long-term programmes, we propose to take the current need for a revision of plans at the level of final beneficiaries as well as Financial Intermediaries during and after the crisis.
- The proposed cuts to the second pillar of the Common Agriculture Policy i.e. **EAFRD** are sending a wrong signal notably for rural areas. Given the vital role of farmers and rural areas in the green transition, there is a strong need to reinforce the budget for the EAFRD.

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.

The 32 members of the European Long-Term Investors Association (ELTI) a.i.s.b.l. are major long-term investors and represent a combined balance sheet of EUR 1.8 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) as the status of a permanent observer. ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions[3].

[2] Oesterreichische Kontrollbank (OeKB) Austria, Federal Holding and Investment Company (SFPI) Belgium, Bulgarian Development Bank (BDB) Bulgaria, 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, Invest-NL Netherlands, Bank Gospodarstwa Krajowego (BGK) Poland, Instituição Financeira de Desenvolvimento (IFD) Portugal, Slovak Investment Holding(SIH) Slovakia, 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), Participatiemaatschappij Vlaanderen NV (PMV) Belgium, Fund Manager of Financial Instruments in Bulgaria (FMFIB) Bulgaria, NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, INVEGA Lithuania, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey

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