Non-paper on
consequences of the MFF agreement in Council on InvestEU

The **Council conclusions adopted on 21.07.2020** specify that the budget for InvestEU is to be of € 8.4 bn., with € 2.8 bn. stemming from the MFF and € 5.6 bn. from NextGenerationEU. These figures refer to constant prices. In **current prices** they would represent some **€ 9.142 bn**. In addition the conclusions state that this budget will be "complemented by reflows stemming from the instruments prior to 2021". These reflows are however not further specified and, given the current economic crisis, uncertain to some extend. Estimations before the crisis amounted to € 1 bn. over the life span of the next MFF. Given the uncertain nature of reflows as well as the aspect of timing, the sum of **€ 9.1 bn.** is taken as a **basis for the following calculations**, since the initial Commission proposal also referred to current prices and did not include reflows.

In the overall context of the negotiations it soon becomes clear that this sum cannot be taken as representing the paid in guarantee. For once, the InvestEU programme also contains a **technical assistance** (TA) facility (grants) as well as a project portal (PP). If the ratio between the guarantee and the additional components of the programme is to be retained, then 3.45% of the total sum would have to be used for TA & PP. This would represent some **€ 265 m**. However, a larger amount, in the range of € 300 m. to € 350 m. is not excluded either.

Furthermore the European Commission had included in its updated InvestEU proposal a provision that would allow it to participate in an expected **capital increase of the EIF**. It currently looks like the EC share to this capital increase will also have to be funded at least partially via the InvestEU budget, in the worst case it would need to be funded fully from the InvestEU budget. With an expected capital increase totalling € 1.25 bn. and a share of 29.7% for the EU, an additional **€ 371 m.** would need to be deducted from the InvestEU budget in a worst case scenario. With the reduced size of InvestEU and the abandoning of the SSI the initially foreseen second capital increase may no longer be needed.

Overall the initial € 9.142 bn. would thus shrink by some € 636 m., leaving only **€ 8.506 bn. that could be used for the InvestEU guarantee**. Once again, leaving aside possible reflows. Since the principle of partial provisioning has not been questioned, what does this mean for the total InvestEU guarantee?

Three scenarios:

(A) The total guarantee of € 38 bn. is to be retained. With only € 8.506 paid in, this would mean that the provisioning rate drops to 22.4%. While this may still be sufficient for some infrastructure projects, the risk baring capacity under the innovation, the SME and the social windows would be very limited. Indeed, it could be contested if InvestEU could still be considered an InnovFin or a COSME successor instrument. Such a guarantee would hardly be attractive for implementing partners.

(B) A 40% provisioning rate would lead to a total InvestEU guarantee of € 21.3 bn. – compared to € 38 bn. in the initial 2018 Commission proposal. Needless to mention that irrespective of a breakdown onto four or five windows the InvestEU guarantee would in fact be much lower than the current EFSI guarantee. **€ 5.3 bn. could be used by other Implementing Partners**.

(C) A 45% provisioning rate would further lower the EU guarantee to € 18.9 bn. Of this **only € 4.7 bn. would be reserved for other Implementing Partners** than the EIB Group.

Taking an average between scenarios (B) and (C) one could expect – applying the same leverage as under the 2018 InvestEU proposal (42.75 % in total) – **additional investments amounting to some € 371 bn. could possibly be triggered.** This compares to € 650 bn. under the 2018 Commission proposal, not to mention the 2020 proposal, which was to trigger investments of around one trillion Euros.

In addition the Council conclusions also state that a "dedicated Just Transition Scheme will be established under InvestEU as the second pillar of the Just Transition Mechanism." In our understanding the size of the expected total investments under this second pillar has remained unchanged, which means that **€ 45 bn**. of investments under InvestEU are expected to be achieved in **Just Transition Regions**. While such a sum would have represented 6.9% under the 2018 Commission proposal, it would now represent 12.4 % of expected investments triggered. It remains open today if the ambition will indeed be lowered in future negotiations.

Council seems to favour the partial retention of the goals of the proposed **5th window** under the other 4 windows. It thus expects InvestEU to achieve more than initially proposed with considerable less funding. Together with the use of a substantial share of InvestEU for a limited number regions that fall under the Just Transition Mechanism, this represents a strong reduction in flexibility of the instrument as such.

An unknown fact is the level of the **own contribution expected from Implementing Partners**. Again we have seen a reduction from 25% in the 2018 proposal to 16.7% under the 2020 Commission proposal. However this own contribution was not taken into account for the calculation of the provisioning of the EU guarantee from the EU budget, so that is will not be taken into account for the calculations here either. Still, for Implementing Partners that will also have to pay for the EU guarantee, this information will be necessary for their internal cost calculation.

The fact that a large share of the budget will be provided via NextGenerationEU might have another important impact. Council expects 2/3 of the "operations" to be approved until the end of 2023. The definition of "operation", however, is not entirely clear in this context. A simple example illustrates this: The EU guarantee totalling € 600 m. can be composed of € 400 m. from NextGenEU and € 200 m. from the MFF. Together with the own contribution the total guarantee is to trigger (as an example!) € 3 bn. If the term operations would refer to the total investments triggered, it would mean that € 2 bn. would need to be approved by the IP until the end of 2023. The remaining € 1 bn. would need to suffice until the end of the MFF. Such an interpretation would be problematic.

Undoubtedly the Council conclusions have a manifold impact onto the InvestEU programme and especially the InvestEU Fund. For the time being many questions remain open and time for clarification is scarce. On a more general level: Does direct access still make sense for other IPs? Should the strict 75:25 division be change? If so how? When will InvestEU finally be adopted and come into force?

Annexes – calculations

1. Overall budget

BUDGET in constant prices		**in current prices**
NextGenEU	5.6 bn	
MFF	2.8 bn	
plus unspecified reflows	?	
	8.4 bn	**9.142 bn.**

2. Technical assistance and project portal funding

	original proposal	Council proposal	comment
Funding	15.2 bn.	9.1 bn.	Known
TA&PP	525 m.	**265 m.**	calculated
In %	3,45%	3.45%	Retained

3. EIF capital increase and EC share

Expected capital increase	EU share in EIF capital	Share of increase for EU in EUR
1.25 bn.	29.7%	**371 m.**

4. Available fund for the InvestEU Guarantee Fund after deductions:

9,142 m. EUR	Minus 371 m. EUR EIF	Minus 265 m. EUR TA	= 8,506 m. EUR

5. Total guarantee with different funding rates

	EC 2018	EC 2020	Council 2020a	Council2020b	Council2020c
Total guarant.	38 bn.	75 bn.	38 bn.	21.3 bn.	18.9 bn.
Provisioning	15.2 bn.	33.8 bn.	8.5 bn.	8.5 bn.	8.5 bn.
Prov. rate	40%	45%	22.3%	40%	45%

6. InvestEU as second pillar to the Just Transition Mechanism

JTM Communication: € 45 bn. total investments triggered via InvestEU in JT Regions		
Expected investments 2018	Expected investments Council	Comments
€ 650 bn	**€ 364 bn.**	For simplicity a guarantee of € 20.5 bn. was chosen – which would represent a provision rate between 40% and 45%
Equivalent to **6.9%** for JT Regions	Equivalent to **12.4 %** for JT Regions	

7. Effects of lower provisioning on InvestEU windows

impact on windows

original proposal **4 windows**	in percent of total	**4-window set-up Option A (40%)**		**of which for NPBIs**	**5-window set-up Option A (40%)**		**of which for NPBIs**
11.500.000.000	30,26	SIW	6.434.789.000	1.608.697.250	SIW	5.673.502.000	1.418.375.500
11.250.000.000	29,61	Innovation	6.296.566.500	1.574.141.625	Innovation	2.877.154.500	719.288.625
11.250.000.000	29,61	SME	6.296.566.500	1.574.141.625	SME	2.877.154.500	719.288.625
4.000.000.000	10,53	Social	2.239.204.500	559.801.125	Social	1.022.846.500	255.711.625
					Strategic	8.814.342.500	2.203.585.625
38.000.000.000	**100,00**	total	21.267.126.500	5.316.781.625		21.265.000.000	5.316.250.000
updated COM proposal **5 window**	in percent of total	**Option B (45%)** **4 window set-up**			**Option B (45%)** **5 window set-up**		
20.051.970.000	26,68	SIW	5.719.812.444	1.429.953.111	SIW	5.043.112.889	1.260.778.222
10.166.620.000	13,53	Innovation	5.596.948.000	1.399.237.000	Innovation	2.557.470.667	639.367.667
10.166.620.000	13,53	SME	5.596.948.000	1.399.237.000	SME	2.557.470.667	639.367.667
3.614.800.000	4,81	Social	1.990.404.000	497.601.000	Social	909.196.889	227.299.222
31.153.850.000	41,45				Strategic	7.834.971.111	1.958.742.778
75.153.850.000	**100,00**		18.904.112.444	4.726.028.111		18.902.222.222	4.725.555.556

differences in figures due to rounding