

InvestEU

Saving the additionality principle

ELTI Position Paper

Brussels, 05 March 2021

As previously stated, ELTI members have welcomed the adoption of the InvestEU regulation¹. National Promotional Banks and Institutions (NPBIs) believe that this instrument is urgently needed to boost public and private investments in Europe. ELTI members are committed to integrating guarantees from InvestEU into customized financial products, placing at the service of the public interest their financial capacity and banking experience, their local presence, client-relationship base, market knowledge as well as their capability of aligning national and European policy goals and investment competencies.

We understand that most of the budget of the InvestEU programme will come from Next Generation EU (NGEU). ELTI welcomes this as it allows InvestEU to remain a significant EU flagship programme for the upcoming years and allows a front loading of the InvestEU Fund.

Financing from InvestEU should be available for companies and project promoters soon but should be predictable and offer a long-term financing perspective that additional projects could be thoroughly prepared. In order to start with the development of new projects or the adaption of promotional programmes today a number of relevant elements have to be clarified:

1) Timing

We would like stress that the NGEU mechanism constitutes an improved response for the Covid-19 pandemic insofar as the funds should be deployed in a timely manner. While ELTI members fully share the need for investments until the end of 2023 in order to support the recovery after the crisis the period from 2024 – 2027 should not be underfunded. ELTI members are of the opinion that the currently proposed 70% allocation by the European Commission, of the total available amount to implementing partners other than the EIB (IPs) already in the year 2021, will affect the additionality level of the proposed financial products, since more complex and harder to reach objectives require more time for preparation. With IPs differently prepared, a time constraint might also come at the detriment of a balanced geographical uptake. Based on the experience in the markets we recommend to reflect about a more balanced distribution of financial resources. This would offer a perspective and incentive to potential IPs in the second call phase.

¹ See i.e. ELTI position paper: Next Generation EU 16.09.2020 <https://www.eltia.eu/publications/elti-publications>

ELTI members also believe that flexibility on the allocation of projects funded from the NGEU budget is needed whilst also respecting EU law obligations originating from the Council Regulation 2020/2094². This regulation states that the supporting operations have to be approved by the counterparts until the end of 2023. In this sense, an interpretation of the term “operation” in the above-mentioned Regulation that is consistent with InvestEU approach and in line with banking practice is of paramount importance.

In this view, NPBIs invite the European Commission to explore flexibility tools, such as the potential use of the framework agreement with IPs who propose investment projects of a similar nature (across all policy windows) or of other options which would allow NPBIs to finance important long-term investments with the support of InvestEU.

For the 25 % of the budget dedicated to IPs other than the EIB a possible solution within the adopted legal bases could be to reflect about a more distributed spread of the guarantee allocation over the initial 3 years. This would be welcomed as to structure products with a high level of additionality as well as to fully assimilate the requirements imposed by InvestEU., i.e.:

- The investment into an offshore wind-farm project with an InvestEU guarantee under the 1st window initiated this year, would only materialize after 2023/2024.
- A similar challenge can be identified in relation to the other 3 windows as well. Preparation of new portfolio guarantee programmes is a time-consuming process, which predominantly requires internal provisions and negotiations of agreements with financial intermediaries as well as possibly market studies justifying the intervention.

In addition to the promotion of complex projects a better coverage of the period 2024 – 2027 could be achieved.

2) Pricing

The preparation of projects is based on the (possible) price of financing as one important element from the beginning. All IPs as well as financial intermediaries won't enter in serious preparatory efforts in cases the price for the financing would be clearly too high. Since InvestEU intends to promote risky projects most of them would not be bankable without the InvestEU guarantee. Two elements to be timely defined in view of the forthcoming call for expression of interest are:

- an interpretation of the term “operation” that is consistent with InvestEU approach and in line with banking practice
- the pricing is crucial for the sizing of instruments and thus for the overall volume of investments by an IP.

We therefore invite the Commission to inform us about the remuneration of the guarantee timely, in view of the forthcoming call for expression of interest.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R2094&from=EN>

3) Risk assessment

The European Commission could expect from IPs to deliver the relevant information about a project so that a smooth and fast decision by the respective Investment Committee would be possible. As banking institutions we are able and ready to provide the required risk related information of our proposal. In order to do so, IPs and financial intermediaries need to know about the details of the process and the data needed before they start with the development of projects under our respective regulatory and supervisory frameworks. The earlier this important information is available the earlier IPs can start to prepare additional projects and programmes.

4) Reporting

Last but not least details of the reporting, sustainability proofing, climate tracking or risk monitoring are essential elements for a successful implementation of InvestEU. Since a high number of projects should be covered by InvestEU, IPs have to prepare these obligations in parallel with the preparation of the first projects and programmes. Especially in bank on-lending the intermediaries have to provide and retrieve some of the data from final customers. Therefore, concrete requirements would have to be contractually agreed with our respective distribution partners as well. Different sets of reporting requirements for the same promotional programme, with or without EU guarantee, are also challenging to reflect from an institutional perspective. Therefore, the reliance to existing reporting frameworks to the greatest extent possible would facilitate a timely implementation as well.

Concrete discussions with intermediaries and project promoters about investment projects can only effectively start once the investment guidelines, guarantee conditions and all requirements are known.

NPBIs are ready to engage in technical discussions with the European Commission on how to implement this process and ensure timely deployment of the programme whilst addressing the business needs. For some NPBIs, this might signify that the scale of their operations, which may be approved until end of 2023, could not be sufficient and attractive enough to establish a dedicated programme. A portfolio approach across all policy windows could be a flexible solution for the programmes of various other IPs.

Early and close information of IPs is success factor, which should be ensured at the same time as the EC's discussions with the EIB.

We stand ready to support the Commission in achieving its goals in terms of timely deployment of the resources, whilst ensuring that InvestEU delivers on its objectives to foster private investments, following a market approach.

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 31 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 level³. 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 institutions⁴.

³ 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 Zaruční a Rozvojová 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, 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 Crédito Oficial (ICO) Spain

⁴ 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, Türkiye Sınai Kalkınma Bankası (TSKB) Turkey