



---

## InvestEU – Joint feedback on the interim evaluation May 2023

Brussels, 10 May 2023

### I. General remarks

InvestEU is a strategic investment program newly launched by EU Commission (EC) in 2021 with the duration of the Multi Annual Financial Framework (MFF) 2021 – 27. It covers a broad range of policy fields (visibly with the 4 policy windows in the InvestEU fund) and covers investments, advisory and a transparency (project portal).

It is the 1<sup>st</sup> time that, along with the EIB Group, other Implementing Partners (other IPs) have direct access to EU guarantees inside Europe. In addition to the specific strengths of the EIB Group, other IPs are using their financial capabilities, know-how of local markets and clients as well as their broad range of product experience on the ground to foster European public policy goals. This leads to a long-term added value for the European Union. All parties involved (EC, EIB-Group and other IPs) are making a first-time experience, which takes time.

Other IPs welcome the general approach of InvestEU combining guarantees with advisory services and market transparency. We highly appreciate the possibility to give feed-back to the EC about the experiences gained so far with the new instrument.

Becoming an Implementing Partner has required time and efforts: Pillar Assessment (PA), answering calls for the Expressions of Interest, negotiation of the Guarantee- and Advisory Agreements (GA / AA), embedding InvestEU-specific reporting obligations into own reporting obligations and adapting internal processes. These efforts represent a long-term investment aimed at a long-term partnership with the EU.

In a number of cases the EC gave support for the preparation of the PA process. The EC received very detailed information about their IPs due-diligence- and decision-making processes, as well as their economic situation. This is giving confidence that other IPs will manage EU funds not only in their own interest but keeping in mind the EU policy goals. The pillar-assessment prepares the ground for an intensified cooperation between the EC and (other) IPs which will hopefully go beyond InvestEU and beyond 2027.

As a key EU Financial Instrument, InvestEU aims to “crowd-in” private investments and promote economic growth in the Union in a post-pandemic context. In the majority of cases, notably in the case of smaller projects (i.e. SMEs or small municipalities), private investors have to manage the financing, which means they have to follow InvestEU rules and ask their clients for the relevant data. Any simplification of rules and regulations will increase market acceptance even within the ongoing MFF period. All principal changes of the regulation stemming from the current implementation experience or policy discussions should be included in the regulation of the next MFF period (2028 – 2034) since changes of the complex instrument will reduce market acceptance and add to the costs of implementation of InvestEU – with many IPs having either signed their agreements only in 2023 or still being in the process of signature.

InvestEU opened a new chapter in the implementation of EU financial instruments. In addition to the EIB Group a broad variety of other promotional banks and institutions are contributing with their know-how of markets and clients as well as with their financial power as other Implementing Partners (direct access) or Financial intermediaries in cooperation with the European Investment Fund (indirect access). The broad variety of cooperation partners will help to identify for each project the best financing solution including EU funds as well as public and private investors.

The list of (potential) other IPs having finalised or started the pillar assessment process and/or having signed GAs and/or AAs shows that at least one other IP offers financial products with an InvestEU guarantee (direct access) in each EU Member State as soon as the 2<sup>nd</sup> call will be implemented in 2024. In a number of cases financial products benefiting from a guarantee under direct and indirect access in parallel will be offered.

### **III. Specific remarks**

#### **A. InvestEU Fund**

The support of the EU guarantee could be best achieved if different business models of IPs in as many EU Member States as possible will be included in the implementation of InvestEU. Direct access and the indirect implementation via the EIB Group in parallel keeps the flexibility to address specific situations more broadly.

##### **1. Negotiations**

With the InvestEU Programme, National Promotional Banks and Institutions (NPBIs) assume for the first time the role of Implementing- and Advisory Partners of the EC thanks to their knowledge of the local economic environment, investment/financing needs and conditions.

However, the highly articulated structure of the InvestEU Programme and of the Guarantee/Contribution Agreements signed/to be signed with the EC makes the implementation of the underlying financial products and advisory initiatives rather complex and often requires direct support and operational guidance from the responsible EC services (e.g. DG ECFIN, DG COMP, DG BUDG, DG REFORM, etc.), which are highly appreciated by all IPs.

To support IPs with the implementation of the Guarantee Agreement, the EC may consider:

- Creating an *ad hoc* internal coordination team responsible for supporting IPs with the implementation of the Agreements.
- Redacting a specific FAQ document containing all operational questions received from IPs and related answers, similarly to what has been already done for other EU Programmes (e.g. Connecting Europe Facility – CEF).

##### **2. Experience made during the 1<sup>st</sup> call**

The 1<sup>st</sup> call gave no indication about the pricing of the guarantee. Against this background it was difficult for IPs to decide about an appropriate answer to market failures (chicken-egg problem). We are convinced that the negotiations for the agreements from the 1<sup>st</sup> cut-off date under the 1<sup>st</sup> call gave the EC sufficient insight to give pricing indications in the future.

With the experience of the 1<sup>st</sup> call time-to-market will be shorter in the future. 1 year of negotiations before signing an agreement doesn't take further market developments into account. Time to market remains a crucial success factor in all areas in light of multiple and continuous crises.

Up to now the distinction between general and thematic products didn't unfold the full added-value and instead led to inflexibility for the IPs.

### **3. Guarantee coverage & risk-sharing mechanism**

#### **a) NGEU deadlines**

For other IPs, the guarantee agreements mainly cover operations to be approved by the NextGenEU deadline, i.e. end 2023. Practically, IPs can approve most operations during (more or less) one year: signature of GAs end 2022/beginning 2023 and approval until 31 December 2023.

For some IPs, especially those operating via promotional programmes, such an approach was prohibitive: The required changes necessary for complying with InvestEU rules and reporting requirements could not – internally – be justified without any longer time perspective. As such, several proposals, also very advanced ones, were already withdrawn internally.

Following the logic of funding InvestEU under the rules of NextGenEU we have serious concerns about the funding in the 2<sup>nd</sup> half of the current MFF, notably for the SMEW.

#### **b) Provisioning rate**

The InvestEU guarantee is offered to IPs in the form of different risk-sharing mechanisms and with different levels of coverage of the underlying financing/investment operations. Cumulatively, the EC must always ensure that the 40% provisioning rate set in the InvestEU Regulation is respected.

However, this may prevent available financial resources from being used to support more risky projects and for more innovative sectors, which carry a higher degree of additionality. In addition, the InvestEU Guarantee appears to be designed primarily with a banking focus (i.e. for debt-type products), thus penalising equity-type products since the standard risk rating models (Moody's, S&P) don't fit (i.e. early-stage venture capital investments).

To allow IPs to finance projects with a high degree of additionality, the European Commission may:

- waive the distinction between General and Thematic products for Debt- and Equity products. This might open the room for an overall higher provisioning rate.
- for Debt-type Products: consider increasing the provisioning rate so that to offer IPs a higher guarantee coverage (e.g. 70%/80% of the underlying loans).
- for Equity-type Products: explore the use of a wider range of risk-sharing mechanisms (i.e. beyond the form of unfunded co-investments), varying depending on the type of underlying financial instrument (direct equity, intermediated equity, etc.) and projects/sectors covered.

A higher degree of flexibility for the provisioning rate and risk-adjustment to the risk taken by the InvestEU Fund could increase the impact of InvestEU.

### **c) Revenue-sharing mechanism**

For equity products, the “pari passu revenue-sharing” is the only mechanism proposed by the EC. In this mechanism, the EC behaves like a co-investor that does not bring liquidity. In IFRS such a mechanism is considered in the IP’s accounting books as a derivative, not as a guarantee, which is impossible to implement for some NPBI.

Other mechanisms, including those which would be considered as a guarantee in IFRS (for instance, charging the guarantee to the IP under the form of an annual fee) would increase the attractiveness of the InvestEU guarantee for equity products.

Based on the guiding principles of the EC related to the remuneration of the InvestEU guarantee (updated in December 2021), *“as a principle, the EU guarantee remuneration shall be commensurate to the risk assumed by the Union.”* Moreover, *“for equity-type financing and debt-type thematic financial products, the EU guarantee will be remunerated based on a revenue sharing mechanism”*. In a financial perspective, this principle means that the revenue-sharing mechanism that applies to equity-type products shall depend on the expected return of the product over the period covered by the guarantee.

To put it differently, in accounting terms, the receivable leg of the guarantee shall equal the payable leg, in order for the guarantee remuneration to be considered as market-conform. The pari passu implementation of the revenue-sharing mechanism is valid as long as the gains and losses are equivalent over the lifetime of the guarantee.

Consequently, a market-conform mechanism could be practically and simply achieved by setting a cap on the pari passu principle, based on risk/return characteristic of the product. This mechanism would be fully consistent with the revenue sharing principle, it would be market conform and it would be adapted to the considered product.

### **d) Non-EUR projects**

Europe has still no single currency in all 27 EU Member States. “Non-Euro countries” need similar, in some cases even more intensive promotion than “EUR-countries”. InvestEU doesn’t give an answer to address the disadvantage of a different currency. For non-EUR products: Coverage of the exchange rate would increase market acceptance and by this create a level-playing-field between EU Member States with different currencies.

## **4. Approval process – Framework Operations**

Other IPs highly welcome the strong support of the EC to propose framework operations and Investment Platforms. We are convinced that a high percentage of the guarantee volume will be implemented through framework operations platforms since they are a very pragmatic tool.

Indeed, the Investment Committee (IC) seems to be extremely cautious when studying framework operations; it is quite legitimate for the IC to make sure that the InvestEU guarantee is properly used, but it could be relevant to provide them with some comfort regarding the compliance of framework operations.

## 5. Reporting requirements

The InvestEU Regulation foresees three main classes of reporting requirements: (a) Operational Reporting (Annex II), (b) Financial Reporting (Annex III), and (c) Risk Reporting (Annex IV). In the GA, additional “Complementary reporting requirements” are also foreseen, such as (i) State aid reporting (Annex X), Progress Report (Annex II) and cash flow forecasts as part of the semi-annual Claims Form (Annex V).

Each reporting requirement has a different deadline and a different format/template. Cumulatively, IPs must report to the EC on a bi-monthly, quarterly, semi-annual, and annual basis.

Reporting requirements tend to penalise smaller projects (e.g. start-up/scale-ups, SMEs, small mid-caps, small municipalities), which need to provide IPs with the necessary information if they want to secure the loan/investment. The InvestEU reporting requirements thus represent a cost that not all final beneficiaries can bear, especially when compared to the benefits that the InvestEU guarantee offers in terms of reduced interests rates (debt products) or additional co-financing amounts (equity products).

## 6. State Aid compliance

Currently, all Implementing Partners (IP) must respect State aid rules when implementing financial products under InvestEU to avoid undue distortions to competition and trade between Member States.

However, while State aid rules are necessary in the case of public subsidy programs that – according to the 2022 [State aid Scoreboard](#) – rely on more distortive instruments such as grants and tax advantages<sup>1</sup>, they are not always fit-for-purpose in the case of more complex financial instruments (e.g. intermediate equity fund-of-funds investment, etc.) and constrain the action of IPs in areas with a high degree of additionality or where “market-based” solutions are preferable (e.g. venture capital, social and affordable housing, etc.). As a matter of fact, many IPs are not public sector entities and have never dealt with State aid procedures, which are normally a prerogative of Government Bodies (e.g. Ministries) and require carrying out a completely new set of actions. The application of State aid rules to IPs under InvestEU requires, therefore, *ad hoc* compromise solutions and can’t simply replicate what was designed for public sector entities. Such solutions should be discussed with the direct involvement and constant support of the relevant DG(s), the lack of which is currently leaving the IPs in a state of regulatory and operational uncertainty.

In addition, not all IPs are required to respect State aid rules in the same way. In fact, national IPs are required to be “State aid compliant”, while International Financial Institutions (IFIs) and the European Investment Bank Group (EIB Group) follow the principle of “State aid consistency”. “State aid compliance” means that national IPs must design financial products under InvestEU in line with the relevant articles of (i) the General Block Exemption Regulation (GBER) or (ii) State aid Guidelines. National IPs are, therefore, expected to respect all State aid conditions therein such as, but not limited to, those on (i) cumulation (art. 8 – GBER), (ii)

---

<sup>1</sup> 58% of total State aid amounts spent by Member States in 2021 were in the form of grants, while 16% in the form of tax advantages.

reporting (art. 11(a) – GBER), (iii) publication and information (art. 9 - GBER). On the contrary, the same treatment is not reserved for international IPs, which are given the opportunity to negotiate directly with the EC product-specific clauses to ensure “consistency” with State aid rules.

Against this background, not only compliance with State aid rules makes deploying the InvestEU guarantee in areas with a higher degree of additionality more complex, but the different State aid treatment between national and international IPs risks compromising the level-playing field between them and puts the former at a significant disadvantage, especially in a situation of co-investment/co-financing of the same underlying operation/project with the latter.

For a more effective and balanced deployment of the InvestEU guarantee, the following changes may be envisaged:

- Require all IPs of the programme to be “State aid consistent”.
- Define, already in the negotiation phase with each IP, specific clauses and criteria so that to ensure (i) consistency of the relevant financial products with State aid rules and/or (ii) market-conformity of the underlying operations in case of IPs that already deploy market-conform financial instruments.

## **B. Sustainability assessment**

The InvestEU Regulation foresees the obligation for IPs to carry out the sustainability analysis of their financing/investment operations under the programme, in line with the provisions of the “Technical guidance on sustainability proofing for the InvestEU Fund” (the guidance).

The guidance outlines specific requirements depending on the type of operation (i.e. direct vs indirect operations) and identifies a threshold (10 mln EUR) under which no sustainability proofing is required. It also indicates that for intermediated operations targeting SMEs, small mid-caps and “other eligible enterprises” a simplified sustainability analysis has to be carried out by IPs.

However, the environmental assessment and the sustainability proofing are not yet defined in all details and this might prevent private investors from co-financing projects co-funded with InvestEU support. In addition, where the requirements are most specific (i.e. for infrastructure projects) the guidance refers generally to “infrastructure” without taking into consideration the different types of infrastructure projects that can be financed by IPs, which range from the most environmentally impactful (i.e. transport, energy, water, telecom, etc.) to others, like social and affordable housing that have a much lower impact.

Such lack of distinction forces IPs to carry out the same type of analysis regardless of the fundamentally different nature and policy objective between the former and the latter, thus increasing the cost associated to the realisation of infrastructure projects which already offer very low return (i.e. discourage private participation) and suffer from a distinct market financing gap.

In light of the above, these assessments and proofing procedures should be further simplified notably for social infrastructure by applying the same rules as those for non-infrastructure projects.

### **C. Rules**

The result of combining different rules (Eligibility criteria, Reporting, State-aid, Sustainability assessment, Financial Regulation etc.) leads to high complexity which IPs can handle in a customer-friendly way to a certain degree. However, the overall result should be proportionate and the guarantee should give an incentive to implement projects rather than refrain due to too much bureaucracy.

### **D. Governance**

The governance under InvestEU is very articulated with multiple yet uncorrelated steps of control on individual transactions versus indirect management implementation modality that according to the Financial Regulation that implies full delegation to implementing partners.

In order to simplify the process, we recommend to streamline the approval process of single operations post signature of the guarantee agreement and promote cross-reliance among the various governing bodies. In particular for intermediated products, the Investment Committee should be involved to assess additionality when the financial products are discussed and negotiated between the Commission and the relevant IP rather than assessing additionality on a transaction-by-transaction basis.

### **E. InvestEU Advisory Hub**

Concerning the InvestEU advisory Hub, the direct advisory agreements with NPBI are opening a new long-standing partnership between the EU and NPBI. Subject to confirmation through experience, the direct partnership between other IPs and the EU has introduced a logic of power of action, performance, shortening of deadlines, simplification of implementation. We strongly welcome the spirit under this partnership (flexibility and decentralisation).

Advisory partners have demonstrated both high interest and the ability to propose a wide range of advisory programmes, both innovative and fit for the local context. As the need for technical assistance to further enhance the deployment of InvestEU financial products will remain high in the coming years, they stand ready to submit new proposals. In this context, we strongly advocate to keep the same level of funding for the next calls for proposals under the InvestEU advisory Hub.





[www.eltia.eu](http://www.eltia.eu)



[www.ebrd.com](http://www.ebrd.com)



[www.finnvera.fi](http://www.finnvera.fi)



[www.contragarantare.ro](http://www.contragarantare.ro)



[www.garantiqa.hu](http://www.garantiqa.hu)



[www.creditosportivo.it](http://www.creditosportivo.it)

Submitted by:

European Association of Long-Term Investors (ELTI) a.i.s.b.l.  
Rue Montoyer 51 – B-1000 Brussels (Belgium)  
Transparency Register Identification No.: 977980112556-82  
[vonglasenapp@eltia.eu](mailto:vonglasenapp@eltia.eu)