Mid-term review
EU Financial Instruments
InvestEU, CEF Blending, Cohesion Policy Funds, Horizon

Brussels, March 2024

The European Commission promotes various policy objectives by using Financial Instruments (e.g. loans, guarantees, blending instruments, (quasi) equity instruments). Projects inside the European Union are currently promoted by instruments under the coordination of DG ECFIN (InvestEU), DG MOVE (CEF Blending AFIF), DG REGIO (Cohesion Policy Funds) and DG RTD (Horizon). DG BUDG shapes the underlying rules of implementation with the Financial Regulation. The European Green Deal steered by DGs CLIMA and ENER is adding another layer of rules (e.g. EU Taxonomy). The European Investment Bank Group (EIB-G) is the primary Implementing partner of EU Financial Instruments. They are adding their internal rules (e.g. EIB lending policy).

National Promotional Banks and Institutions (NPBIs) all over Europe are longstanding financing partners. They have deep experience in financing projects and companies, notably SMEs which help to achieve policy goals. For the mid-term review of the ongoing Multiannual Financial Framework (MFF) ELTI members draw conclusions from their implementation experience with the 4 EU Financial Instruments[1] and made proposals for the improvement of the instruments for the remaining 4 years of the 2021 – 2027 MFF. While there are a number of specific observations for each instrument ELTI members were analysing the observations and experience also against the background of their own – national – experience. We would like to share the following points which are focused on EU Financial Instruments as such.

- ELTI members continue to be convinced that Financial Instruments are very efficient and cost-saving (budget). However, Financial Instruments are not a solution in every case. E.g. specific high-risk projects, non-bankable projects, basic research or projects in "hot" policy areas might need grant funding or at least a mixture of grants and Financial Instruments.
- Financial Instruments help to "crowd-in" private investors which helps to leverage public budget money and to gain experience in the respective field of investments.

[1] As mentioned in the title

- The impact of public Financial Instruments on competition is much lower compared to grant funding. The majority of Financial Instruments doesn't disturb the internal market at all because the financing partner is acting exactly like a private investor.
- ELTI members highly welcome the fact that the European Commission is looking more intensively with whom they are working together. However, there is no single, unified approach for this screening – called pillar assessment in many cases. The same information has to be provided to different DGs (and other authorities) in slightly different formats while it is already available at other places inside the European Commission.
- Comparing the current EU Financial Instruments[1] ELTI members saw that the implementation of CEF Blending Instruments is very lean and easy to execute by keeping the policy steering function of the European Commission.
- The full set of rules to be respected by implementing partners, financial intermediaries, private financing partners (e.g. on-lending model, fund-of-fund investments) and the project promotor or final beneficiary is less and less accepted in the market. ELTI members have serious concerns that the European Union is losing the efficient tool of Financial Instruments due to the very low attractiveness because of too many rules, reporting obligations, disclosures of data, etc.
- The combination of EU Financial instruments in one single project leads in most of the cases to the eligibility of all respective rules rather than giving the priority to a single set of rules. The efforts of the European Commission under the Member State compartment of InvestEU are more than welcome.
- The responsibility of a high number of DGs for Financial Instruments and the definition of rules to be respected within the European Commission keeps high potential for streamlining of processes and rules.

Please find further down summaries for the mid-term reviews of the 4 Financial Instruments[1] including specific recommendations and the link to the full documents (annexes 1 – 4).

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Annex 1

After three years since the launch of the InvestEU Programme, ELTI members put forward 10 recommendations to improve the functioning of the programme. Such recommendations should be taken aboard in the mid-term review of InvestEU and considered when designing the successor of the Programme in the next Multi-annual Financial Framework (MFF):
https://www.eltia.eu/images/2024_03_25_InvestEU_Mid_Term_review.pdf

Executive Summary – Invest EU

By fostering sustainable investment, innovation, and job creation, **InvestEU contributes to the future of the EU**. With InvestEU, for the first time, National Promotional Banks and Institutions (NPBIs) and International Financial Institutions (IFIs) other than the EIB Group ("other IPs") were **granted direct access to an EU guarantee to implement the internal action**, thus ensuring a **better response to national and local investment needs** as well as increasing the **effectiveness of a policy-driven Programme**. After **three years** since the launch of the Programme, ELTI members put forward **10 recommendations to improve the functioning of InvestEU.** Such recommendations **should be taken aboard** in the mid-term review of InvestEU and considered when **designing the successor of the Programme in the next Multi-annual Financial Framework (MFF)**.

1. **Providing support to the "other IPs" when negotiating and implementing the Guarantee and Contribution Agreements**. The European Commission (EC) may prepare a detailed FAQ document in response to all relevant IPs' requests for clarification, thus sharing lessons learned.
2. **Speeding up the Guarantee negotiation and making it more transparent**. The EC should give indications upfront on risk-sharing structure and related pricing of the EU Guarantee. It should also provide upfront all documents required before (e.g., call-related documents) and after (e.g., reporting templates) negotiating the Guarantee Agreements as well as during implementation. During first-time as well as amendments' negotiations, a swifter process is needed to ensure longer-term planning and securing IPs with the available guarantee amounts, thus avoiding constant renegotiations of the Agreements.
3. **Dynamically adjusting the provisioning rate based on market performance**. To avoid ex-ante/rigid over-provisioning, the provisioning rate should be adjusted on a yearly basis, as envisaged by recital (70) of the InvestEU Regulation and similarly to what happens for other budgetary guarantee instruments (e.g., NDICI), to take into account the overall InvestEU portfolio performance.
4. **Clearly describing the distinction between general and thematic products in the Investment Guidelines** and ruling the duly justified cases when the InvestEU Guarantee could cover up to 80% of the underlying loan portfolio in *pari-passu* risk-sharing structures or 100% of the first loss piece in portfolio risk-sharing structures, thus also ensuring a level playing field among IPs.
5. **For equity products**, **studying alternative mechanisms** such as risk-based fee (like for debt), a cap, or ideally a paid-in contribution from the Commission, as the current "revenue-sharing sharing mechanism" (and related funding costs) is not satisfactory and does not ensure level playing field among IPs.
6. **Hedging currency risk.** The InvestEU guarantee should cover foreign exchange in a way that ensures a level playing field between the eurozone and non-EUR countries.

7. **Streamlining reporting requirements**. Overlaps and inconsistencies between relevant rules (InvestEU eligibility criteria, state aid, financial regulation requirements, etc.) should be reduced. Reporting requirements should be streamlined in terms of deadlines, templates, and required information. In particular, the obligation of yearly audits and controls, reviewed by an external auditor, is a disproportionate burden and questions the relevance of the Pillar Assessment.
8. **Applying state aid consistency regime to all IPs**. Financing and investment operations supported by the either the EU compartment or the Member State compartment should be exempted from state aid compliance and fall under the state aid consistency regime for all IPs, thus ensuring a level playing field between national and international IPs, including the EIB Group.
9. **Streamlining the governance**. For all financial products negotiated between the EC and IPs, in line with the rules for indirect management, the EC should fully delegate IPs for deployment with no need for additional policy checks. As this requires amending the Regulation, in the meantime, the Commission could harmonize the templates that Implementing Partners are requested to prepare, namely the Policy Check Request Form (part A) and the Guarantee Request Form by consolidating them in one form only as they are nearly identical yet different and this requires double effort for the IPs. Such harmonization would be welcomed favourably also by the Investment Committee (IC) that has signalled interest in being informed of the outcome of the Policy Check to make an independent yet informed decision. More broadly, the governance for intermediated financing and investment operations should be further simplified, thus allowing the IC to verify additionality at financial product level rather than on a transaction-by-transaction basis.
10. **Bolstering the InvestEU Advisory Hub**. Funding for the next calls for expression of interest for the Advisory Hub should be at least as high as the one made available during the first round of calls.

Additional ELTI suggestions for the next MFF are included in the **ELTI Strategic Outlook: Activating the EU budget for long-term needs.**

Annex 2

The CEF Blending instrument has evolved to a very positive landmark Financial Instrument and plays an important role in delivering the European Green Deal and increasing EU's energy independence. ELTI members would like to share observations and recommendations: [*https://www.eltia.eu/images/2024_02_21_CEF_Blending_AFIF_MidTR.pdf*](https://www.eltia.eu/images/2024_02_21_CEF_Blending_AFIF_MidTR.pdf)

Executive summary – CEF Blending

- The CEF Transport Blending instrument has evolved to a very positive landmark Financial instrument and plays an important role in delivering the European Green Deal and increasing EU's energy independence in the transport sector.
- The added value is first and foremost to enable projects with strong externalities yet uncertainties in terms of their economic model and financing plan, by removing the obstacles that currently stand in the way of their deployment: high technological costs, risks linked to demand and secured offtake but also linked to supply lead times in emerging sectors.
- With risk-return ratios perceived as unfavourable by markets AFIF is needed to trigger works and IP financing is needed to leverage EU grants by mobilising investment.
- The European Commission's 10 Implementing Partners public finance institutions (National Promotional Banks and Institutions, NPBIs) play a central role in the deployment of AFIF, complementing the EIB and the EBRD. NPBIs offer their proximity to public and private players at national, regional and sub-regional level, their understanding of specific regional needs, their financial and technical expertise and their financial intervention capacity.
- We recommend allowing some flexibility in the lead time for signing the Grant Agreement with project promotors and aligning it with actual market conditions and best practices.
- An adaptation of the eligibility criteria could give even more incentives to project promotors. AFIF could notably support the development of the emerging hydrogen sector for transport infrastructure along its entire value chain.
- This type of scheme could therefore be extended to sectors other than transport, where there are strong positive externalities. Energy (in addition to alternative fuels in particular Transmission and Distribution) and Digital are among the most prominent ones.

Annex 3

Three years after the start of the Horizon Europe Programme ELTI members would like to share experience and give some recommendations:
https://www.eltia.eu/images/2024_02_21_Horizon_Mid_TErm_Review_ELTI.pdf

Executive Summary - Horizon

Investments in innovative projects present unique challenges both for innovators and investors. First of all, in innovative projects, funding is needed to finance the brains responsible for research and development. In addition, there might be uncertainty regarding the technical viability of these projects, and whether they will be easily placed on the market. The EU Horizon Europe programme is playing a crucial role in this regard and helps to make the European economy more resilient and sustainable.

Three years after the start of the Horizon Europe Programme ELTI members would like to share experience and give some recommendations.

- Retain the three-pillar programme structure of Horizon Europe, showing a continuity that is beneficial for those participating in its programmes.
- The publication of work programmes and the complete digitalisation of project management are successful and essential elements to enable the businesses to identify possible support mechanisms, prepare their applications and implement their projects.
- ELTI members note businesses' strong interest in the support offered by the European Innovation Council (EIC) to finance European *deep tech* companies.
- It remains difficult for SMEs to get involved in collective projects under Pillar 2, especially in taking on the coordinator role. We recommend encouraging SMEs' involvement in collective projects more vigorously. Consolidate Eurostars as a key mechanism in the Horizon Europe programme for SMEs' involvement in collective projects.
- The requirements of the deep tech investment market need to be addressed in a more focused way.
- Broaden and boost the dissemination of key technologies such as artificial intelligence (AI) across the entire Horizon Europe programme given their transformative nature for industry and services.
- Improved operational coordination between the EIC fund (EIC Accelerator) and national public investment institutions and funds should be sought given the challenges the EIC faces. Beneficiaries would thus also benefit from the knowledge, expertise and networks of domestic investors.
- Start-ups and scale-ups, including those supported by the EIC, continue to need additional support measures to enhance their access to European and international markets.

Annex 4

The Cohesion Policy Funds are an appropriate promotional instrument to increase competitiveness and reducing the gaps in notably economic development between different regions. ELTI members are long-standing Implementing Partners and share the observations and recommendations: [*https://www.eltia.eu/images/2024_01_17_Cohesion_Funds_MidTR.pdf*](https://www.eltia.eu/images/2024_01_17_Cohesion_Funds_MidTR.pdf)

Executive Summary – Cohesion Policy Funds

The Cohesion Policy Funds are an appropriate promotional instrument to increase competitiveness and reducing the gaps in notably economic development between different regions. ELTI members are long-standing Implementing Partners. We would like to share the following observations and recommendations:

- Regarding the simplification in the new CPR 2021-2027 the European Commission achieved significant progress. It is essential that new provisions are implemented and maintained, if not extended in some cases, in future CPR.
- The option given to managing authorities to directly award a contract for the implementation of a financial instrument to a publicly owned promotional institution would facilitate the implementation.
- The audit trail needs to be simplified.
- Continued support for working capital requirements and business capital expenditure is needed.
- Management Fees needs to be adequate.

For an even more efficient implementation of financial instruments the following recommendations should be considered:

- Harmonise the rules and thresholds applicable to environmental requirements across EU programmes. Private Investors and final beneficiaries just don’t accept this diversity.
- Enable effective and straightforward ex-ante assessments,
- Clarify the verifications and audits on guarantee instruments,
- Relax the rules around the responsibility of beneficiaries.

The European Association of Long-Term Investors – ELTI

ELTI members represent a European-wide network of National Promotional Banks and Institutions that offer financial solutions tailored to the specific needs of their countries and economies. Multilateral financial institutions complement the activities at national level with specific cross-border solutions or investments with a 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 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 2,7 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 promoting public policies at the 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].

[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, National Development Bank-CZ (NRB) Czech Republic, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, Hellenic Development Bank (HDB) 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, INVEGA Lithuania, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Malta Development Bank (MDB), Malta, Invest-NL The Netherlands, Bank Gospodarstwa Krajowego (BGK) Poland, Banco Português de Fomento (BPF) 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, , NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, Investment and Development Fund of Montenegro (IRF) – Montenegro, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey