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Position of the European Association Public Banks (EAPB)

On the Proposal for the InvestEU Programme in MFF 2021-27

The European Association of Public Banks (EAPB) represents 31 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 93 public financial institutions. A large part of the EAPB members, most notably the national and regional promotional banks, participate in the implementation of the European Fund for Strategic Investment (EFSI) and the EU Cohesion Policy.

The promotional banks undertake financing activities, pursuing the policy goals set by their governments. Thanks to their knowledge of the local economies and markets, public promotional banks are key partners for the national and regional governments and the European Union in designing and distributing financial instruments. They provide an additional leverage and risk-sharing to the benefit of the real economy.

The purpose of this Position Paper is to formulate our general and specific policy recommendations to the Proposal for a Regulation of the European Parliament and of the Council establishing the InvestEU Programme COM(2018)439 tabled by the European Commission on 6 June 2018.

I. General Comments

The EAPB welcomes the timely proposal for the InvestEU programme comprising a single fund for all EU-level financial instruments in the Multiannual Financial Framework (MFF) 2021-27 as well as the advisory and technical support. This proposal largely addresses some of the short-comings occurring in the current programming period and sets out an ambitious investment plan for the next MFF.

From the perspective of public promotional banks, the elimination of the existing fragmentation of EU-level financial instruments and funding schemes is the right approach. Filing a single application and following a single rulebook will allow financial intermediaries across the whole European Union to implement the entirety of this large financial envelope. This will facilitate channeling of the European investments into the real economy and boost the efficiency of the EU economic policies.

The public promotional banks are ready to continue their long-lasting cooperation with the European Investment Bank (EIB) Group, including the European Investment Fund (EIF). Further efforts should be developed on all sides to ensure that synergies exist between the EIB Group and the NPBI actions instead of overlaps, in order to efficiently invest public resources.

Based on the experience of our member institutions, we call upon the European institution to ensure a timely and smooth transition from the current programming period into the following. During the transition from the previous MFF to the current programming period (2014-2020), the unfinished legal framework and a lack of legal certainty resulted in high economic costs both for the financial intermediaries but, most importantly, for the final beneficiaries across the whole Union.

II. Direct Access to the EU Guarantee for NPBIs

The EAPB welcomes the possibility of opening the EU Guarantee to other international financial institutions and NPBIs and particularly appreciates the confidence in the expertise of promotional banks as financial intermediaries. The provision of the EU Guarantee to local actors could help European regions to partially compensate for the cuts in the Cohesion Policy funding and address local market gaps. Nevertheless, our members observed that the complex yet very unclear conditions to become an implementing partner as set out in the Commission's proposal will likely undermine the expected outcomes of the proposal.

- **Preserving the cooperation with the EIB group**

It is essential to ensure flexibility for NPBIs as in whether and to what extent they use the EU Guarantee directly or remain contracted partners of the EIB Group. The investments platforms and other forms of cooperation between the EIB Group and NPBIs should further be continued and developed, especially the productive cooperation between NPBIs and the EIF under the current SME Window of EFSI. Programmes such as COSME and InnovFin should further be offered. On the other hand, small projects under the envisaged Sustainable Infrastructure Window could be efficiently financed directly by NPBIs, given their expertise and penetration in local markets. However, particularly the smaller NPBIs operating on markets, where EFSI has not been rolled out successfully, will face major difficulties to access the EU Guarantee.

- **High costs**

A great value added by the direct access to the EU Guarantee is the significant improvement of penetration of EU-level investments in smaller Member States and/or financing of small-scale projects on a regional level. While we admit that significant responsibilities need to be linked to the guarantee agreement, the economic costs imposed on the contractual intermediary must be proportional to its size. Especially smaller NPBIs might not be able to contribute their financial resources to the InvestEU Fund. The same economic limits apply to the requirement to second their experts to the European Commission.

The vast costs of the necessary Pillar Assessment may also discourage a number of potential implementing partners. Furthermore, the risk of Pillar Assessment becoming a very lengthy exercise may result in further delays in the implementation of the programme.

In sum, the EAPB stresses that if the entry barrier is too high, the implementation of the InvestEU Programme will result in a very imbalanced coverage across the Member States and their regions, with a potentially anti-convergence effect.

- **The condition to cooperate in three Member States**

Selection of the implementing partners as enshrined in the Art. 12(1) sets out a requirement to cover financing and investment operations in at least three Member States. Despite the possibility to apply as a group together with other NPBIs, this provision may result in complications and discouraging NPBIs from applying. As NPBIs include many important regional promotional banks, often larger than many national ones, we suggest that in such justified cases the condition of covering multiple Member States should be substituted by regions.

The requirement to offer joint financial instruments in several Member States does not reflect the fact that different national (or regional) markets suffer different market gaps and suboptimal investment situations. NPBIs are typically geographically limited by their status to provide financing operations only within their jurisdiction (Member State or a region), which may rule out such cooperation. Instead of boosting the subsidiarity of InvestEU, the condition to cooperate in three Member States would create a one-size-fits-all approach not fitting anyone.
Although we see the rationale of an EU added value of this measure, it is very likely that NPBIs will not directly participate in the programme unless the access conditions are significantly simplified.

- **InvestEU Governance from the NPBI perspective**

The legislative proposal suggests that all financing from the InvestEU Fund has to be assessed by the Project Team and approved by the Investment Committee. This double check will necessarily translate into a very lengthy and complicated procedure which will negatively impact the aspired outcomes. To make this governance structure efficient, it would be helpful to introduce a Fast Track Process for smaller projects up to a defined amount of financing or, ideally, delegating these decisions on the implementing partners (project volumes would be defined in the guarantee agreements).

It also needs to be clearly stated that SME financing must be approved on a program level (i.e. by products to be distributed by the implementing partners). Approving the financing of each applying SME would considerably overload the governance structure, which would result in a disruption of the SME financing in the Members States and a failure of the InvestEU.

III. Specific Policy Recommendations

- **Definition of the implementing partners**

'National promotional banks or institutions' (further NPBIs) are defined in the Art. 2(13) of the proposal as *legal entities carrying out financial activities on a professional basis which are given mandate by a Member State or a Member State's entity at central, regional or local level, to carry out development or promotional activities*.

The EAPB welcomes this suitable definition that includes regional and local promotional banks that operate in a number of EU Member States and already participate in the implementation of the EU financial instruments in their regions. The European Commission should take into account that in some countries, a higher number of NPBIs may become intermediaries for the InvestEU programme, and non-discriminatory conditions should be applied to all NPBIs regardless their size or national/regional status.

- **State Aid provisions**

To boost the efficiency of EU financial instruments implemented via NPBIs and to manage public resources in an efficient manner, it is necessary to simplify the State Aid rules and establish a level playing field among different intermediaries distributing the EU-level financial instruments. We therefore welcome the proposed *amending Council Regulation COM(2018) on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to certain categories of horizontal State aid* and call upon the European institutions to develop further efforts to address this problem. The current State Aid rules in general remain a major obstacle to the desired increase of investment volumes in Europe and should be reformed.

- **The SME Window**

The EAPB welcomes the inclusion of small mid-cap companies (in duly justified cases) in the proposal as these often face difficulties to access finance and are sometimes in need of supportive financial instruments. However, the “duly justified cases” need to be clearly defined by the legislators.

- **The Member State Compartment**

The EAPB recognizes a good rationale for the proposed Member State Compartment in countries with underdeveloped financial markets and lacking NPBIs. However, an adverse effect of transferring this funding back to the central EU administration would mitigate the opportunity for capacity building in such Member States.

It is also important to point out that not only Member States’ central governments but also their regions often manage the funds under shared management. Article 4 par. 1 should therefore be reformulated to also grant individual regions the option to transfer their funds allocated under the shared management to them into the InvestEU Fund for a ring-fenced use in their territory.

- **The EU Compartment**

The Article 8 par. 1.(a).(ii) states that the InvestEU policy windows shall address “Union wide market failure and suboptimal investment situations”. Here we have to point out that identifying and defining a Union wide market failure is extremely difficult. In order to avoid an unsuitable, too narrow definition of a "market failure", we would like to propose a different wording, such as “market insufficiencies” or “market disruption”.