30 November 2016

EAPB Position Paper on the extension of the Investment Plan for Europe

I. Background and general remarks

In light of the future development concerning the Investment Plan for Europe (IPE) the European Association of Public Banks (EAPB) aims to explain its members‘ involvement in the implementation of the IPE. The aim is also to set out the priorities and concerns of the EAPB members in the context of the upcoming legislative process regarding the proposal "European Fund for Strategic Investments: extension of duration; technical enhancements for the Fund and the European Investment Advisory Hub" (COM(2016) 597) of 14 September 2016.

The intended extension of EFSI has to be critically reviewed. The Commission published its evaluation report on EFSI implementation on 14 September 2016. The European Investment Bank (EIB) published an evaluation report on the implementation of EFSI on 6 October 2016. These evaluation reports were welcomed by the EAPB members. However, we would like to stress that the proposed extension of EFSI should primarily take into account the independent evaluation, enshrined in the Article 18 of the Regulation (EU) 2015/1017, published on 14 November 2016. The conclusions of the independent evaluation, as well as of the Opinion 2/2016 of the European Court of Auditors "EFSI: an early proposal to extend and expand" of 11 November 2016, should particularly constitute the basis for amending the EFSI Regulation.

EAPB members play an important role in the implementation of the EFSI. Fourteen direct and indirect EAPB members have agreed to cover over 2,5 bn EURO of investment relating to EFSI operations primarily in the SME sector. As an example of successful cooperation with different NPIs, an unprecedented agreement between the European Investment Fund (EIF) and seven regional promotional banks in Germany paves the way in order to provide 110 million EURO of loans to innovative companies. This shows that the Investment Plan is gaining visibility through an easier access to finance for SMEs and therefore should encourage cooperation at national and regional level.

National Promotional Banks and Institutions at national and regional level (NPIs) have a very important role under the Investment Plan; therefore the following concerns should be taken into account in the further process.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone : +32 /2 / 286 90 71 Fax : +32 /2 / 231 03 47
Website : www.eapb.eu, Register ID: 8754829960-32

II. Specific remarks to the present proposal

ADDITIONALITY PRINCIPLE (see Art. 1(2) of COM(2016) 597)

- The EAPB very much welcomes the aim to enhance the additionality principle and recommends to adopt **a more ambitious definition of additionality** for EFSI projects. The additionality principle in general is a key feature of interventions under the EFSI which should be closely followed, to avoid crowding-out of other players.
- However, EAPB members do not clearly observe additionality in the investments financed so far, especially in respect to **large infrastructure projects**.
- The EIB group should concentrate its efforts on **higher risk projects** in order to make sure that every project is one, which could not be financed without EFSI.
- Increasingly the EIB directly finances smaller projects on local markets under the IPE. Previously, the EIB – as a supranational bank – was mainly involved in large scale infrastructure projects. Today, this shifted to a lending which offers solutions to a wide array of projects ranging from SMEs to regional, state or multi-country projects covering all sectors.
- This expansion of lending activity of the EIB has been accompanied by a greater local presence, notably via **new EIB offices**. In this context there is **no discernible additionality**. On the contrary, EIB offers **overlap with existing NPI products**. Moreover, NPIs are in a significant disadvantage given the fact that the **EIB is not subject to state aid rules so that NPIs are at risk of being crowded out.**
- EFSI is a market instrument. Projects benefiting from EFSI support provided on market conditions should be considered as free of state aid, also in parts funded on similar terms from sources other than the EIB, for example NPIs. EAPB members would welcome such rules as they would enhance cooperation and ease the financing solutions in general. The EU guarantee which is at present only available for the EIB should be extended to operations by NPIs.
- The EAPB suggests several concrete **policy recommendations in the section III.** of this position paper.

EXTENSION OF THE GENERAL OBJECTIVES (see Art. 1(5) of COM(2016) 597)

- The general objectives should be carefully consulted with Member States, regions and local authorities to ensure their compliance with the national and regional policy objectives.

INVESTMENT PLATFORMS (see Art. 1(6) of COM(2016) 597, and Art. 2(4) of the Regulation 2015/1017)

- Although there is a broad **definition of investment platforms** in the EFSI regulation, it is not broadly applied in practice. The creation of own regional investment platforms

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone : +32 /2 / 286 90 71 Fax : +32 /2 / 231 03 47
Website : www.eapb.eu, Register ID: 8754829960-32

by a range of NPIs — in order to reach scale by combining the financing of smaller projects and bigger SME-investments — would be another way for NPIs to contribute to the innovation and infrastructure window of the IPE and would boost investment in this area.

- Hence, the existing promotional structures in the Member States should be efficiently used and taken into account, considering especially the following aspects:
  - The geographical scope of NPIs' activities is often restricted by their statutes.
  - In light of business activity limitations differing between possible platform partners, the rules governing platforms under EFSI should be more flexible and allow the combination of different activity areas under a joint platform.
  - In its bilateral negotiations the EIB should not be allowed to impose minimum project sizes of joint platforms since good projects may also exist below these requested thresholds and should be able to benefit from EFSI support.
- The possibility of fully delegated credit decisions to NPIs should be available in practice, until now it seem that this option exists only in theory.
- Moreover, the requirements for an ex-ante assessment should be rethought, reporting requirements should be bundled and risk-sharing options proposed for such investment platform activities.

EUROPEAN INVESTMENT ADVISORY HUB (see Art. 1(9) of COM(2016) 597)

- The European Investment Advisory Hub (EIAH) provides technical assistance and tailored advice to project promoters, public authorities and private companies with the aim of strengthening Europe's investment and business environment could be an opportunity for EAPB members. In principle, the EIAH should be complementary to existing initiatives and activities on national and local level.
- Since the EIAH relies on the expertise of its local partner institutions it remains however unclear for a number of EAPB members, considering EIAH activities, which concrete obligations occur in case of a participation agreement, especially at regional level.
- The request of the Commission to provide technical assistance is very delicate for the NPIs due to **state aid rules.** The proposed contractual partnership as a basis for such cooperation is not helpful in this regard.

INFORMATION REQUIREMENT TOWARDS THE FINAL BENEFICIARIES (see Article 1(11) of COM(2016) 597)

- Under EIF financial instruments financial intermediaries are already obliged to inform beneficiaries of the existence of the EFSI support. Therefore no additional information requirements should be introduced through the EFSI regulation.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone : +32 /2 / 286 90 71 Fax : +32 /2 / 231 03 47
Website : www.eapb.eu, Register ID: 8754829960-32

COMBINATION OF EFSI WITH EUROPEAN STRUCTURAL AND INVESMENT FUNDS (see the Legislative Financial Statement relating to the proposal to amend the Common Provisions Regulation in parallel to the current proposal)

- **The proposed changes** to create synergies between the two instruments are welcomed. EAPB members report difficulties combining the EFSI and European Structural and Investment Fund (ESIF) as the targets of both instruments do not coincide. It will be observed how the pursued synergies shall develop in practice.
- **Combining the support from EFSI with ESIF should be much simpler.** The current guidelines do not provide sufficient simplicity and transparency. There is still a lack of information and clarity, especially concerning smaller operational programs.
- **The current guidelines must take into consideration the "national quota" principle of ESIF.** Therefore, when such funds are combined with EFSI and "national quota" principle is not applied on the level of EFSI financial instrument, no ESI funds shall be engaged as "first loss" coverage.

III. Remarks going beyond the present proposal

INSTRUMENTS AVAILABLE UNDER THE INNOVATION AND INFRASTRUCTURE WINDOW

- Based on the positive feedback, the EIB should **provide more guarantees and counter-guarantees** (optionally, on providing capital investments). Firstly, guarantee instruments allow achieving much **higher leverage**. Secondly, it ensures that other entities involved in financing on a particular market are **not crowded-out.** This should allow addressing the actual problem in the EU which is risk aversion, especially in case of innovative projects, and **not lack of liquidity.** A practical way to implement it would be to adopt the minimum level/share of (counter-)guarantee instruments under EFSI.

- Taking into account the above, in case of a portfolio approach, the guarantee of the EIB should also **offer a real protection by guaranteeing the first loss piece**, at least to a certain cap limit. Guarantees pari passu are not an instrument for encouraging greater risk-taking, mostly they offer capital relief. An introduction of such a product into the range of options is needed.

- Notwithstanding the foregoing, **the EIB should retain the possibility of intervention with instruments other than guarantees in justified cases.** In these cases, the priority for the EIB should be to complement and not crowd-out the existing funding, and this should be secured in every project. In cases of co-investment, in which the EIB benefits from an additional guarantee of EFSI, the **EIB should always be subordinated**

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone : +32 /2 / 286 90 71 Fax : +32 /2 / 231 03 47
Website : www.eapb.eu, Register ID: 8754829960-32

to the other investors. Only in this way added value of the EU guarantee will be ensured.

- In addition, on a more technical side, to provide stable funding to the European economies, the EIB should offer **fixed rate financing in national currencies** on a pre-agreed level and not fixed once the funds are being drawn.

SME WINDOW

- **More resources should be allocated to well-functioning instruments under the SME Window, such as COSME.** In this context, the EAPB welcomes the agreement of 25 July 2016 between the European Commission and the European Investment Bank (EIB) Group allowing scaling up the SME window of the EFSI by shifting 500 million EUR from the EU guarantee from the Infrastructure and Innovation window to the SME window. The purpose of the EFSI guarantee to boost equity financing of SMEs and top up the InnovFin and COSME loan guarantee instruments as well as the EU Programme for Employment and Social Innovation (EaSI) is also very welcome. In this context, it should also be examined if the **Cultural and Creative Sector Guarantee Facility** could be included under EFSI.

- **Frontloading** – Financial instruments (e.g. COSME and Innovfin) were frontloaded in order to satisfy the high demand for operations under the SME window as from the beginning of EFSI. The EAPB is concerned about this practice as it has to be ensured that the **financial instruments are adequately equipped with sufficient financial means until the end of the current programming period until 2020 and beyond.**

- Guarantee instruments offered by the EIF should **remain as simple as possible and have broad coverage range.** Instruments focusing on market niches, defined in a too narrow manner, are not popular among financial intermediaries as they are very challenging to implement and do not provide economy of scale. Therefore in the case of COSME which remains to be the most universal instrument supporting SMEs, EAPB believes the legal maximum threshold should be increased, in order to reach even larger groups of European SMEs. The EIB group should facilitate this process.

- Under EFSI **mainly counter-guarantees should be used** as they ensure the involvement of existing local promotional banks and provide the benefits of a **much higher financial multiplier**, and thus a much more efficient use of funds allocated to SME support. In this respect, national and regional promotional banks and guarantee institutions should be the first contact point and **the partners of first choice for the EIB Group** in the geographical areas where they operate.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone : +32 /2 / 286 90 71 Fax : +32 /2 / 231 03 47
Website : www.eapb.eu, Register ID: 8754829960-32

- In case of the SME Sector, guarantees priced on market terms meet with a very low demand. If the EIF sets a market price on its instrument, ultimately this cost is transferred to the final beneficiary. Therefore EAPB believes that in case of the SME sector **the guarantee fee should be either set at preferential terms or dropped completely**.

- Last but not least, reporting remains a high burden from the SME point of view. **Reporting requirements should not be too extensive** as the ultimate burden is always on the side of the final beneficiary. In the future instruments, at minimum, these requirements should not be extended, also because every change requires costly adaptations in the IT systems of financial intermediaries.

- **NPI Equity Activities** – It is common that equity financing operations of NPIs are realised via subsidiaries. However, corresponding EFSI operations are targeted towards privately managed funds. As subsidiaries of NPIs do not qualify for this criterion, existing promotional structures cannot apply and thus, financing potentials remain unused. In the future adaptations should take the existing structures into account and allow NPI subsidiaries to qualify.

The European Association of Public Banks (EAPB) represents the interests of 30 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 93 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone : +32 /2 / 286 90 71 Fax : +32 /2 / 231 03 47
Website : www.eapb.eu, Register ID: 8754829960-32