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EAPB remarks and recommendations concerning the preparation of the InvestEU Programme in the context of the recently introduced Sustainable Europe Investment Plan

The InvestEU Programme is supposed to be launched on 1 January 2021. Much work has been done in order to prepare its successful implementation. Nevertheless, the prospective implementing partners and financial intermediaries gathered in the European Association of Public Banks (EAPB) would like to raise several outstanding issues concerning the InvestEU Programme and its connection to the European Green Deal Investment Plan (EGDIP) / Sustainable Europe Investment Plan (henceforth SEIP), announced this January by the European Commission. The Sustainable Europe Investment Plan is the investment pillar of the European Green Deal, which aims to secure a net climate-neutrality of the European Union by 2050.

- **Sustainable Europe Investment Plan**

The EAPB members are in their essence committed to sustainability and fully support the Union's goals. Nevertheless, there is real concern among our members that the Sustainable Europe Investment Plan could drain resources from other programmes, such as ESIF or the NPBI window of the InvestEU Programme, decreasing the available **funding of other core policy areas like SME or RDI financing**.

Moreover, any financing programmes under the Sustainable Europe Investment Plan must respect the **principle of a single fund** introduced by the InvestEU Programme. It took many political efforts to resolve the long-standing problem of fragmentation of EU financial instruments. All centrally managed financial instruments in the MFF 2021-27 must therefore run according to the InvestEU rulebook. National and regional promotional banks and institutions once again warn against an increased proliferation of single smaller instruments and pilots outside of the InvestEU Programme. This warning also applies to the announced **EIB Public Sector Loan Facility** of which functioning is not entirely clear.

Despite the political pressure on the European Commission to deliver quickly, the **SEIP must be thoroughly discussed with relevant stakeholders** – particularly national and regional promotional banks. The Just Transition Fund and JT Mechanism shall be implemented on a regional, NUTS 3 level. They have subsidiarity enshrined in their very essence as they are mainly targeted to coal-dependent regions. They should therefore be **implemented in cooperation with promotional banks**, allocating **additional funds for local green transition**. EIB operations, particularly within the foreseen Public Sector Loan Facility, must be coordinated and agreed on with national and regional promotional banks to prevent crowding out effects.

Other related aspects:

- **Risk-taking and additionality**

There needs to be sufficient risk taking from the EU budget (beyond the simple junior risk tranche – expected losses) if there is supposed to be any incentive for risk-taking and addressing the market gap by other finance providers. Otherwise, only low-risk, marketable operations will be supported, which is not the intention of the InvestEU Regulation, or the fees charged by the implementing partner will price the instrument out of the market. With only a junior tranche risk covered by the European Commission, any significant deterioration in market environment will lead to immediate losses for the implementing partner and potential failure of the programme.

- **Sustainability proofing**

Sustainability proofing should not lead to excessive complexity for decentralized distribution chains. One solution could be to integrate sustainability aspects in the design and purpose of the financial instrument (e.g. housing insulation programmes). Each policy window would thus offer two sets of instruments – general and sustainable ones. Especially the SME window must have an adequate threshold to exclude small investment projects from the mandatory sustainability proofing.

Moreover, as representatives of the financial sector, we kindly remind the policy-makers that any regulatory approach to sustainability must be mainstreamed. The InvestEU Programme must be linked to the Sustainable Finance Taxonomy.

- **Provision of uncapped guarantees**

The InvestEU Programme must ensure that both capped and uncapped instruments in all policy windows are available at affordable costs for financial intermediaries. The existing model of joint risk-taking by the Commission and EIF should be continued.

Many financial intermediaries are concerned about the future of the InnovFin-type uncapped guarantees, which are very beneficial for RDI financing. They are very beneficial for less granular and higher risk portfolios common in RDI financing and among young, innovative enterprises with a lack of equity and collateral. Moreover, uncapped guarantees provide especially smaller financial intermediaries with a significant capital requirements relief, thus increase their risk appetite, and allow for more risk-taking in RDI financing, indispensable also for green financing.

- **Innovation criteria**

The innovation financing under InvestEU is crucial to develop innovative technologies and products for green investments. The InvestEU Programme should therefore build on the current innovation criteria and include national and regional support schemes as in the InnovFin predecessor. This would maintain the funding chains along the development and scale up process of innovative companies in Europe.

Furthermore, our members need to fund investments in sustainability and resource efficient production which are mainly tangible assets and which always imply higher risks and are not really suitable as collateral for banks. Because of bank regulations, highly innovative investments are no relevant collateral customary in banking. This means that although promotional banks have tangible assets the loan cannot be collateralized. Therefore the proposed innovation criterion under the SME Window, that two thirds of the costs of innovative investments has to be intangible, is too restrictive and does not meet the financing needs for investments in (eco-)innovation.

- **Handling fee**

A handling fee for the administrative costs can have a discouraging effect in a very low interest rate environment. Especially for capped instruments, the price sensitivity and demand elasticity are very high, which could mean that even at one to two basis points, the instruments may not be marketable. If a handling fee were to be imposed, it would seem logical that the costs should be a fixed flat fee instead of a percentage, since the costs are independent from the size of the underlying guarantee operation.

- **Currency fluctuations**

The InvestEU Regulation states that guarantees shall be denominated in EUR. This may affect the level playing field for NPBIs originating from non-Eurozone member states. We call on the Commission to examine potential solutions to solve this problem especially against the background of article 13 (1)(a)(iii) of the InvestEU regulation: *"The EU guarantee for debt products shall cover losses arising from fluctuations of currencies other than the euro in markets where possibilities for long-term hedging are limited."*

For many NPBIs outside the Eurozone, the lack of long-term hedging markets can be seen. We urge the European Commission to present a proposal which would bring implementing partners' financing projects in non-Euro currencies into a position to prepare financial products in the very near future.

The European Association of Public Banks (EAPB) *gathers over 30 member organisations which include promotional banks such as national or regional public development banks and local funding agencies, public financial institutions, associations of public banks and banks with similar interests from 17 EU Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders.*