Strategic outlook

Activating the EU budget for long-term needs

Brussels, February 2024

- **Strategic challenges ahead are multifaceted and necessitate major investments**: climate and environmental objectives, enlargement prospects, strategic autonomy, geopolitical tensions, economic resilience, and demographic challenges - all of which will have major consequences for future EU budget related decisions.
- **Increased investment needs will face factors hindering investment decisions**: the return of inflation, resulting in high interest rates, the high level of uncertainty and, despite the growth rebound from 2020, fiscal deficits and higher borrowing costs will keep public debt levels high and limit fiscal space for growth-enhancing investments.
- **Public authorities (European, national, local) will not be able to face these urgent challenges alone. Leveraging public funds and crowding-in private capital** will become even more important in the coming decades to maximise the impact of financing initiatives.
- **Such leveraging can best be achieved by relying on Implementing Partners** (IPs), including the EIB Group as well as some International Financing Institutions (IFIs), such as the EBRD, the CEB, NIB, and National Promotional Banks or Institutions (NPBIs). As acknowledged by the European Commission[1], IPs can provide long-term financing, as well as the required signalling effect to crowd-in the private sector.
- Through their knowledge of specific regional and national needs, **NPBIs play a significant role in the deployment of the EU budget in a targeted way, providing custom-made solutions and aligning national and EU policy priorities with diverse market conditions** across the EU.
- To accelerate the leveraging of private capital via EU Financial Instruments, some **changes to the existing rules** would need to be proposed by the next EU Commission.

The members of the European association of Long-term Investors (ELTI) proposes 5 core principles that should be upheld in view of the next MFF for 2028-2034

I. <u>"Activating" the EU budget</u>

- "Doing more with less" will be the mantra for the years ahead. To do so, it is important to "activate public spending" by choosing the appropriate budget implementation modalities that best crowd-in other resources to achieve the various policy objectives.
- The need to address new challenges at European level during the past years triggered a discussion about the most adequate structure for the next MFF. Grants are very important to finance projects and initiatives that lack commercial viability as well as to de-risk some investments or to incentivise

[1] Lately in COM(2024) 63 final: "Securing our future – Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society", Strasbourg 6.2.2024

more ambitious ones, especially in those cases where private investment is still nascent. Grants only, however, have a limited leverage effect. By contrast, blending instruments that combine grants under direct management with debt and equity financing provided by the IPs as well as EU Financial Instruments entrusted to IPs under indirect management have higher, sometimes multiple crowding-in effects on public spending by catalysing private and other public investments.

- Moreover, EU Financial instruments generate revenues, e.g., through guarantee fees that remunerate the EU budget. They also offer the advantage of being deployed via IPs that are fully pillar-assessed by the EU and ensure the safeguard of taxpayers' interest and good administration of EU funds.
- Due to the increasing need for public financial promotion, on the one hand, and scarcer budget resources, on the other hand, the more intensive use of EU Financial Instruments and blending provides an effective solution to continue advancing EU policy objectives in the decade to come through the EU budget.

Principle 1: Select instruments that increase the crowding-in effect of public spending.

⇨ Systematically inject a blending component into EU directly managed grants (either as an eligibility criterion or as a selection criterion).

⇨ Extend the use of EU Financial Instruments under indirect management fostering at the same time a more streamlined and standardised approach whenever possible.

Principle 2: Whenever an EU programme allows for indirect management, systematically open implementation to all pillar-assessed institutions in line with the "open architecture" approach for the implementation of both the internal and the external action deployment.

⇨ Extend the fields of intervention of NPBIs to different sectors and cross-border projects.

⇨ Level the playing field with respect to state aid regimes (state aid consistency regime for all IPs) when it comes to indirect management.

II. Simplifying and reinforcing the political accountability of EU investment programmes

- Complex EU rules, substantial administrative burdens (particularly as regards reporting and audit obligations), duplications of requirements and lack of legal certainty, e.g., concerning eligibility and state aid rules, hinder the implementation of investment programmes. At the same time, the accumulation of various requirements stemming from different legislation blurs the information conveyed to the budgetary authorities and affects the democratic control over EU programmes.
- In this respect, it is crucial to better coordinate the various levels of intervention, while relying on national partners for implementation.

Principle 3: Simplify and standardise rules on EU financial instruments in the financial regulation.

⇨ Rely on the EU Pillar Assessment with respect to internal processes and procedures of IPs (leading to a simplified legal framework for all parties involved).

⇨ Refer to and rely on existing relevant regulations as much as possible (for instance, in terms of KYC requirements, AML checks, ESG reporting or other banking regulation issues).

⇨ When defining rules for financial instruments and blending, make them applicable across all EU programmes (both inside and outside Europe), provide clear terms and guidance, streamline application processes, and reduce administrative burdens.

Principle 4: Simplify reporting requirements.

⇨ Adopt simpler reporting frameworks to facilitate the implementation of the EU budget and promote market acceptance, making EU programmes more attractive to investors and project developers.

⇨ Focus more on impact than on processes (especially when the budget is implemented by Pillar Assessed Institutions).

⇨ Consider the perspective of final beneficiaries (adapting the number of required data to the complexity of the business, defining threshold for the disclosure of certain data, merging requirements stemming from different legislations, etc.).

III. <u>Looking forward: designing the next InvestEU programme</u>

- InvestEU has been an important milestone in the implementation of the EU budget, by extending the mechanism of budgetary guarantee and by replacing multiple existing instruments by one single mechanism with the InvestEU guarantee Fund and the InvestEU Advisory Hub complemented by the InvestEU Project Portal.
- InvestEU has taken a long time to be set up because of this radical change in approach. It is now time to build on what has been set up, simplify what can be simplified (e.g. language), and extend the scope to fields now covered by directly managed programmes.
- Based on the lessons learned so far, Europe can go a step further:
    - Technical assistance is key to build pipelines and to generate projects with high EU added value.
    - The guarantee fund is particularly relevant for projects that generate risks ("de-risking") – such as the financing of R&D, innovative SMEs or Social infrastructure.

      But when it comes to projects with high positive externalities (notably infrastructure projects that have high upfront costs not necessarily covered by recurring long-term revenues), the grant component in blending instruments can help unlock additional finance and seems to be more adequate to "internalise externalities".

Principle 5: Create an InvestEU 2.0 programme with four pillars (a guarantee fund, a technical assistance hub, a portal and a blending facility) thus offering a true one-stop shop for finance and funding opportunities.

- ⇨ Confirm and enhance the InvestEU guarantee Fund, also envisaging the possibility of a paid-in component for equity instruments, and Advisory Hub in the next MFF.
- ⇨ Considering that the double transition and social cohesion are essentially about financing externalities, complement the first two pillars of InvestEU with a third one dedicated to blending instruments (allowing for the combination of this new EU facility with debt and equity financing by IPs)

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 (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, Wallonie Entreprendre (WE), 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