Multiannual Financial Framework for the European Union

Brussels, 6. November 2017

In the context of new challenges for the EU budget combined with an ambitious debate on the future of the European Union a well-programmed and efficient Multiannual Financial Framework (MFF) is crucially important. As National Promotional Banks and Institutions (NPBIs) with a wide array of financial products, a deep knowledge of markets in 19 EU Member States, long time experience in the implementation of EU funding instruments and a combined balance sheet of EUR 1.5 trillion, we are ready to facilitate an efficient and speedy implementation of EU Funds – notably financial instruments – as partner of the European Institutions.

To ensure a smooth and quick implementation of EU financial instruments with a high level of engagement by NPBIs, at this stage of the discussion we wish to focus on the following principles on which the post 2020 MFF should be built on with regards to centrally managed EU financial instruments as well as financial instruments under cohesion policy:

I. A clear and open governance along the intermediation chain of EU financial instruments

- **A clear governance structure**: the European legislator is responsible for the definition of overall promotional goals and target groups at EU level and for defining the added value of a financial instrument. The challenge is to successfully set-up, roll-out and manage financial instruments in various markets and across various thematic areas in the EU. This is where NPBIs are already today key partners for the EU. In this context NPBIs should be able to either implement EU financial instruments directly and/or via the intermediation of a third institution mandated by the EU Commission for this purpose. In the latter case, a clear institutional separation between the management of the financial instrument by the intermediary and its effective roll-out (doing the actual financing) by the NPBIs would be essential to (i) prevent conflicts of interest and (ii) to ensure an efficient and consensus-based structuring framework and execution process.

- **A strong reliance on the network of NPBIs:** EU institutions will need strong and reliable partners rolling-out financial instruments. NPBIs are natural partners in this regard. They i) have a strong common track record in designing and implementing financial instruments, ii) combine significant financial and project engineering expertise with their comprehensive financing capacities; iii) have a deep knowledge of local actors and their political priorities as well as of European institutions; iv) act as a conduit between the public and the private sectors; v) can combine national and European funding, vi) have established an effective intra-European network.

European Association of Long-Term Investors (ELTI) a.i.s.b.l.
Rue Montoyer 51 – B-1000 Brussels (Belgium)
Transparency Register Identification No.: 977980112556-82
secretariat@eltia.eu; www.eltia.eu

- **An open structure of implementation**: as long as there is a clear governance structure, it is both possible and desirable to rely on a multiplicity of national long-term investors to roll-out the financial instruments on the ground. In such an open structure, a real « level playing field » among long-term investors should be achieved forthwith, both in the selection process and the state aid regime.

II. A supportive environment for the deployment of EU financial instruments

- **Strengthening EU risk sharing instruments**: the EU has successful programme-based financial instruments (Cosme/InnovFin) for SMEs that are managed along the lines described above. These instruments have a proven track-record and high additionality and should therefore be enhanced, notably to correct potential overlapping. In order to better share the risks and enhance the attractiveness of the projects to other investors, the EU Commission should consider the provision of guarantees on a project basis (e.g. for infrastructure financing with a high level of EU added value) to NPBIs. An independent and professional guarantee manager should be in charge of the management of such a guarantee (agreements with intermediaries, risk-management, reporting etc.) with the EU Commission deciding on EU added value of projects and NPBIs and EIB handing in projects.

- **An effective harmonization of essential rules:** building on the existing framework for EU centrally managed instruments an alignment of essential management rules would make the use of European Structural and Investment Funds (ESIF) financial instruments easier while increasing transparency and legal certainty. These rules cover: evidencing of the proper use of financial instruments funding to beneficiaries[1], reporting principles, depth of the audit trail. Given the revolving nature of financial instruments, the reporting process should be focused on examining the impact of financing provided instead of following detailed and burdensome procedures. A single rulebook based on targeted harmonisation providing a joint, flexible framework for all financial instruments (centrally managed and shared management instruments), including for reporting requirement, could be a considerable improvement to the current situation.

- **Allow for flexibility**: financial instruments are market driven policy tools that can vary considerably depending on the type and final customer Demand for such instruments can change substantially over time and may not be easily forecasted over a multi-year horizon. At the same time EU financial instruments should be complementary to financial instruments already existing at national level. In order to achieve this, flexibility is essential to adapt EU financial instruments to local markets. In setting up a new framework for financial instruments, the EU should leave the possibility to update or adapt individual instruments in order to respond to changing market conditions, needs and local market structures. A balance needs to be found between harmonization via a single rule book and sufficient flexibility. Under the current MFF both COSME and InnovFin provide good examples of such flexibility and thus should be considered as potential role models for future financial instruments, and for use under the cohesion policy.

---

[1] ESIF financial instruments management should be light and proportionate. To that end, evidence that the support provided through the financial instrument is used for its intended purpose should be limited to the ex-ante check of the eligibility of the beneficiary by the financial intermediary in regards to the financial instrument conditions.

European Association of Long-Term Investors (ELTI) a.i.s.b.l.
Rue Montoyer 51 – B-1000 Brussels (Belgium)
Transparency Register Identification No.: 977980112556-82
secretariat@eltia.eu; www.eltia.eu

- **Creating a supportive environment for enhanced cooperation between the EU Commission, the EIB Group and NPBIs:** A supportive environment for a stronger cooperation with NPBIs would greatly enhance the implementation speed and impact of EU financial instruments. Further joint instruments and initiatives like national, regional or multi-country programmes, crowding-in private resources wherever possible, could be developed by NPBIs under the framework of the next MFF. Investment platforms which allow for the pooling of resources from several of investors (public and private) should have a strong backing in this context. They further have the advantage of encouraging sector or specific theme initiatives.

- **Preserving an extended scope for the use of financial instruments at all levels:** financial instruments can be useful tools to finance projects at the regional, national or EU level. In this respect, financial instruments can play an essential role for the regional development and notably if their implementation is facilitated through the direct award of implementation tasks to the NPBIs due to their potential flexibility and the key role granted to local actors in their deployment and delivery on the ground.

III. <u>A qualitative approach of EU added value</u>

- **A focus on the final beneficiary:** financial instruments should be tailored to meet the characteristics of the projects and the needs of the final beneficiaries, including the transfer of benefit. To do so, it is necessary to make the most of the full range of financial instruments including those that may not necessarily flow back to the EU budget or even generate fee income and those which blend grants. In this respect, a "blended" EU grant which is a subsidised financial instrument at the level of the final recipient should be considered as a financial instrument by the financial regulation, irrespective of the size of the grant component. In addition, special attention should be given to the design of technical assistance programmes and to technical assistance support which are essential in the development of a strong pipeline of projects.

- **EU added value at the centre**: EU added value is an important guiding principal for the design of new financial instruments and EU spending in general. As such it should be demonstrated taking into account respective market needs and demand, which may vary between Member States. We thus encourage the EU Commission to adopt a flexible approach towards EU added value tests.

NPBIs are strongly committed to a solid and efficient implementation of EU financial instruments in various fields, inter alia infrastructure, energy and energy efficiency, environmental protection, digitalisation, SMEs and innovation financing, social infrastructure or municipal financing. NPBIs will be key players of the next MFF 2021-2027. Along with them, ELTI, representing its members, is ready to be an integral part in the forthcoming discussions about the design of EU financial instruments and will gladly work alongside EU Institutions to shape the EU budget for the benefit of European citizens and the European economy.

About ELTI

ELTI members represent an European-wide network of responsible long-term investors who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-boarder solutions or investments with an 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 of the members offer various debt-products but not all members have a mandate for investment in equity. This ensures that specific needs are adressed by a specific solution notably for investments where a "one-size-fits-all" approach doesn't lead to optimal soulutions.

This statement is endorsed by 26 ELTI members, representing a combined balance sheet of over Euros 1.5 trillion, who are members of the European Long-Term Investors association (ELTI) a.i.s.b.l. 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 the promotion of public policies at 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 such as pension funds and associations [3].

[2] Oesterreichische Kontrollbank (OeKB) Austria, Bulgarian Development Bank (BDB) Bulgaria, Federal Holding and Investment Company (SFPI) Belgium, Croatian Bank for Reconstruction and Development (HBOR) Croatia, Ceskomoravska Zarucni a Rozvojova Banka (CMZRB) Czech Republic, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, National Bank of Greece (NBG) 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, Public Investment Development Agency (VIPA) Lithuania, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Bank of Valletta (BOV) Malta, Bank Gospodarstwa Krajowego (BGK) Poland, Banco BPI (BPI) Portugal, 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), NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, INVEGA Lithuania, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey