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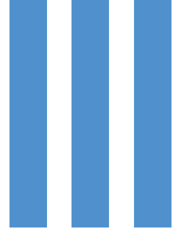

MAKING BETTER USE OF PUBLIC FUNDING

THE ROLE OF NATIONAL PROMOTIONAL BANKS AND INSTITUTIONS IN THE NEXT EU BUDGET

■ EULALIA RUBIO
with the collaboration of Fleurilys Virel and Benedetta Pavesi

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EXECUTIVE SUMMARY

Financial Instruments (FIs) and budgetary guarantees have witnessed a marked expansion in the last two Multi-Annual Financial Frameworks (MFFs) and they are called to play an even more significant role in the forthcoming MFF.

The set-up and implementation of these instruments is an issue for the National Promotional Banks and Institutions (NPBIs). Their role in this field has grown in importance over time and there is also a more explicit recognition of the benefits of involving NPBIs in the implementation of the EU budget. Despite that, there is little information on how exactly NPBIs intervene in the design, management and implementation of EU FIs and guarantees.

This study explores in detail NPBIs' past experiences in the roll-out and implementation of EU market-based instruments. The main source of information is an on-line survey conducted between December 2017 to February 2018 to a representative sample of European NPBIs. On the basis of the results of the survey, and some in-depth interviews with EU and national experts, we assess the Commission's proposals concerning the next generation of FIs and budgetary guarantees and formulate some recommendations on how to improve the role of NPBIs in the next MFF.

Some background facts

- The landscape of NPBIs in Europe is very heterogeneous. The majority of NPBIs in Europe are medium-sized banks with a volume of total assets between €1bn and 9.9bn, but there are some very big banks with total assets superior to 100bn and an important number of small institutions with less than 1bn in total assets. There are also major differences as regards the years of functioning, type of public mandate and business model.
- There are two types of FIs financed by the EU budget: centrally-managed FIs, which are set-up by EU regulations and financed by the European budget's general headings, and FIs under shared management, financed by member states' European Structural Investment (ESI) envelopes and set-up by national ESI managing authorities.

- Centrally-managed FIs can be managed directly by the services of the Commission or indirectly by an entrusted entity. Whereas NPBIs are eligible to play this role, in practice the Commission has always entrusted the management of centrally-managed FIs to the EIB group.
- NPBIs can act as financial intermediaries in the implementation of EU debt-based instruments in support to SMEs (COSME LGF, InnovFin SMEG). Existing evaluations show that public intermediaries (that is, NPBIs) consistently perform much better than private ones (commercial banks) in targeting the businesses that are more likely to genuinely need a guarantee.
- ESI managing authorities can entrust the implementation FIs to different types of entities, including the EIB group and NPBIs. Whereas the EIB group can be directly awarded to undertake this task, in the case of the NPBI direct award is not automatic: managing authorities should prove that the promotional institution fulfils the criteria to be considered an 'in house entity' according to article 12 of the EU public procurement Directive.
- Whereas NPBIs are considered key strategic partners in the implementation of the European Fund for Strategic Investments (EFSI), as of December 2017 the number of EFSI-financed projects involving NPBIs is relatively modest. Evaluations also reveal NPBIs' complaints on the lack of additionality of EFSI financed projects.

The experience of NPBIs in mobilising and implementing the EU budget: main findings

- Practically all surveyed 16 NPBIs have experience as financial intermediaries in the implementation of centrally-managed FIs. In contrast, only 4 out of 16 (all of them big banks) have participated as co-investors (that is, investing with the EIB group in a project or a pan-EU investment platform funded by a centrally-managed FIs).
- Many NPBIs complain of unfair competition with commercial banks when acting as financial intermediaries in the implementation of centrally-managed FIs.
- The majority of surveyed NPBIs (10 out of 16) have the legal capacity to operate abroad and would be willing to manage a EU-level instrument.

- All NPBIs in charge of ESI-financed FIs have been directly appointed by the ESI managing authority but some NPBIs mention "unclear rules on eligibility" as a negative point when asked about their experience in implementing these instruments.
- When asked about their experience in implementing ESI-funded Financial Instruments, practically all NPBIs complain about complex EU regulations, extensive administrative burden (particularly as regards to reporting and audit obligations) and lack of legal certainty concerning eligibility and state aid rules.
- While there is a balanced geographical representation in the participation of NPBIs in EFSI, there is a clear correlation between the size of the institution and the degree of involvement with EFSI.
- The experience of NPBIs in implementing EFSI is overall positive but the level of satisfaction is higher with the SME window (SMEW) than with the Infrastructure and Innovation window (IIW). Various NPBIs criticize that the NPBI involvement in the IIW has not been conducted in a systematic manner, resulting into some competition with NPBIs.
- NPBIs participating in Investment Platforms (IPs) are mostly big entities. Most NPBIs complain about the complexity of setting up these platforms.
- Among the 16 surveyed NPBIs, only 2 have participated in operations combining EFSI and ESI funding. Practically all NPBIs highlight the difficulties to undertake such type of operations given the complexity of applying different rules and regulations for each source of funding.
- Practically all surveyed NBPIs have signed a cooperation agreement with EIAH but in most of the cases cooperation is restricted to knowledge sharing and dissemination. Only 5 entities have signed an agreement to act as local point of entry for EIAH or to deliver services on behalf of the EIAH. Whereas most NPBIs are fairly satisfied with EIAH, 2 out of these 5 NPBIs having a deeper collaborative relationship with the Hub declare to be fairly dissatisfied.
- NPBIs have conservative views on the new generation of EU investment instruments. The majority express a preference to maintaining EFSI (with minor or major changes) rather than putting into

place a new EU instrument built on the experience with EFSI.

- Half of the surveyed NPBIs consider that access to the EFSI guarantee should not be restricted to the EIB group. When asked whether they would be interested in having direct access to EU funding instruments, only 5 NPBIs respond positively. Whereas only very big banks (more than 100bn in total assets) are "very interested", some medium and small banks also express interest to have direct access to EU financial instruments and guarantees.
- Practically all surveyed NPBIs agree on the need to move towards a single rule book and apply the same rules to all EU financial instruments but only half of them "agree" or "strongly agree" on merging all existing EU Financial Instruments into a single EU instrument.
- There is a negative correlation between the size of the entity and the preferences towards a single instrument: small entities are more in favor of a single instrument than big NPBIs.

Looking forward: The Commission's proposals for 2021-2027

- There are few novelties as regards the set-up and implementation of FIs under shared management but major changes are envisaged for the structure and functioning of centrally-managed instruments. The Commission proposes to merge EFSI and all existing centralised FIs into a new single EU structure, the "InvestEU Fund".
- A big novelty of the "InvestEU Fund" is that implementation will be opened to a plurality of institutions other than the EIB, such as NPBIs and International Financial Institutions. The EIB will remain however the Commission privileged implementing partner. Besides, NPBIs will be only eligible to be implementing partners if they cover at least three member states, either alone or forming a group for that purpose.
- Under the draft InvestEU Fund regulation, ESI authorities will be allowed to transfer part of their ESI resources to the new EU guarantee scheme (under the so-called "Member state compartment"). While the option of transferring ESI resources to the EU level is not new, a major difference with the existing "top up options" is that the implementation can be entrusted to different implementing partners other than the EIB group.

- The draft InvestEU Fund regulation does not include an article defining the criteria of "additionality" but the new EU Financial Regulation includes a series of principles and conditions applicable to all EU financial instruments and budgetary guarantees which should in theory guarantee an adequate additionality of InvestEU operations.
- InvestEU governance will be more inclusive than EFSI governance. NPBIs acting as implementing partners will have a seat in the new Fund's Advisory board.

Recommendations

1. **Facilitate the appointment of NPBIs for the implementation of ESI-financed FIs.** The new EU cohesion rules should explicitly mention NPBIs as entities to which ESI authorities can directly award the implementation of ESI-financial instruments. This will facilitate the establishment of ESI-financed FIs, and will also ensure consistency with the rules governing the transferr of ESI resources to the InvestEU Fund.
2. **Better exploit the potential contribution of NPBIs in the InvestEU Fund**. While NBPIs should be encouraged to form groups and apply together to the EU guarantee, the contribution of NPBIs to the EU compartment of the InvestEU Fund should not be limited to cases in which NPBIs cover at least three member states.
3. **Transparency and clarity in the selection of implementing partners.** As a rule, the selection of implementing partners for the InvestEU Fund should be based on the principles of transparency, equal treatment and non-discrimination. EIB's status as "privileged partner" should be justified at case-to-case basis.
4. **Give to NPBIs a preferential role when acting as financial intermediaries.** NPBIs should be treated as 'natural partners' in the implementation of EU debt instruments in support to SMEs. This could imply, for instance, that in countries in which there are NPBIs willing to act as financial intermediaries, and having a good track-record in the implementation of COSME or InnovFin SMEG, the EIF could give them the exclusivity in the implementation of the SME window in their national territory.

5. **More focus and prioritisation in EIAH's activities.** Given its limited resources, the Hub should concentrate on those interventions that provide real EU added value. In particular, it should provide capacity building support to those member states not having efficient advisory support markets, and play a major role in coordinating public sector service providers and pooling existing expertise across Europe.

INTRODUCTION

Financial Instruments (FIs) and budgetary guarantees have witnessed a marked expansion in the last two Multi-Annual Financial Frameworks (MFFs), and they are called to play an even more significant role in the forthcming MFF. This shift "from grants to loans", as it is popularly known, is driven by different factors. In a context of budgetary constraints, providing support through loans, guarantees or equity investments is seen as a way to 'do more' with EU public resources, as you can leverage additional private and public funds to support EU policy objectives. There is also a perception that EU grants have been too often used in the past to finance bankable projects which could have otherwise been financed (at least partially) by the private sector. Market-based instruments are also seen as a source of flexibility in a EU budget that has very limited capacity to adjust to changing needs and circumstances[1].

The set-up and implementation of such EU market-based instruments is an issue for the National Promotional Banks and Institutions (NPBIs). Their role in this field has grown in importance over time, with the increase in volume and number of centrally-managed FIs, the expansion of FIs supported by European Structural and Investment Funds (ESIF) and, more recently, the creation of EFSI. There is also a more explicit recognition of the benefits of involving NPBIs in the implementation of the EU budget (box 1).

BOX 1 ■ Main arguments for a deeper involvement of NPBIs in the implementation of the EU budget

Since the launch of the Investment Plan for Europe, the idea that NPBIs can play a strategic role in the implementation of the EU budget has become largely consensual. In EU documents[2], two main arguments are usually mentioned to support a greater involvement of NPBIs.

1. Thanks to their deep knowledge of national and local markets and investment conditions, NPBIs can be very valuable in transforming EU support into tailor-made technical assistance and financial support.

1. For more reflections on how to enhance the flexibility of the EU budget see Rubio, E., "The next Multiannual Financial Framework (MFF) and its Flexibility", In-depth analysis requested by the Committee on Budgetary Control of the European Parliament, November 2017.

2. Such as the Commission's Communication on "the role of National Promotional Banks and Institutions in supporting the Investment Plan for Europe", COM(2015), 0361 final

2. Being in close contact with national authorities, they have good knowledge of national policies and strategies and are key actors in the implementation of national investment support schemes. This makes them particularly well-placed to combine different sources of national and EU funding and identify risks of duplications.

A third possible argument is that, despite recent increases of the EIB group's capital and human resources, there is a natural limit to what can the EIB group do alone. Pooling resources with EIB's national counterparts (some of them having strong financing capacities) can be a way to significantly expand the use of EU financial instruments and guarantees.

Despite this growing involvement and recognition, there is scant information on how exactly NPBIs intervene in the design, management and implementation of EU FIs. EFSI evaluations and FIs reports provide some aggregate figures but do not say much about the possible motivations for NPBIs involvement, the differences in level and patterns of engagement, the possible obstacles or difficulties they encounter in rolling-out and implementing EU FIs or their experiences in cooperating with the EIB group for the deployment of EFSI and the provision of advice and technical assistance. This type of more qualitative information is particularly valuable to draw lessons from past experiences at the moment of discussing the next EU budgetary programs and instruments and the possible role NPBIs can play in them.

This study aims to address this gap. The objective is to explore in more detail NPBIs' past experiences in the roll-out and implementation of EU market-based instruments and, on the basis of this information, formulate some recommendations on how to improve the role of NPBIs in the post-2020 Multi-Annual Financial Framework (MFF).

Methodology and definitions

To carry out this study we employed several methodologies. The starting point was a review of key academic and policy literature on NPBIs as well as existing studies, policy reports and evaluations of EU financial instruments and the implementation of the Investment Plan for Europe. We also undertook some exploratory interviews with national and EU experts to improve our understanding of the subject and identify the main points of debate. On the basis of this information, we prepared an on-line survey that we sent to a total of 29 representatives of NPBIs (see point 1.2. for more information on the sample). The results of the survey were then complemented

with some telephonic and face-to-face interviews with Commission experts, representatives of NPBIs and representatives from the EIB group.

A first methodological choice was to clarify what we understand by 'National Promotional Banks and Institutions'.[3] The most commonly used definition among academics and practitioners is that of a bank fully or partially owned by the State[4] which has a clear legal mandate to develop certain socioeconomic goals in a given region or country. In this respect, national promotional banks (NPBs) is used as synonymous of "public development banks" or "State development banks" (Wruunk 2015, Volberding 2016, Mertens and Thiemann 2017, Mazzucato and Penna 2015), a sub-category of public banks, different from other publicly-owned financial institutions which do not have a promotional or development mission (such as postal banks or municipal credit banks).

This academic definition has some limits. To start with, many of the entities concerned are not strictly speaking 'banks' – that is, entities licensed to take deposits or other repayable funds from the public and to grant credits for its own account[5]. Many of them are financed by non-deposit resources, such as special accounts from the Ministry, loans from the state or bonds issued in international capital markets and backed by a State guarantee. The majority is not subjected to banking prudential and supervision rules and some of them are explicitly defined as public agencies or funds, even if they exert bank-like activities (Wruuk 2015). In this respect, it seems more appropriate to talk about "banks and other financial institutions".

Besides, the idea that NPBIs should be public entities can be contested. After all, what really matters is the extent to which the entity fulfils a public promotional mandate, either thanks to the dominant position of its principal in the shareholder structure or through other mechanisms of influence and control in the decision-making power. Moreover, there are some examples of privately-owned development banks in the world, such as the Banco del Desarrollo in Chile (UN 2005) or the Industrial Development

3. To our knowledge, the only two official lists of NPBIs at the EU level are the list of entities participating in the "NPBIs task force", a forum for information exchange created by the EIB at the moment of launching the Juncker Plan, and a list of NPBIs and Multilateral Development Banks (MDBs) involved in EFSI operations, managed and regularly updated by the Commission.

4. Some authors even specify the percentage of equity the State should hold of the entity so that it can be considered a NPBI - 30% for Luna Martinez and Vicente (2012), 50% for Volberding (2016).

5. Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Bank of Turkey (UN 2016). In Europe, there is the case of the Austrian Oesterreichische Kontrollbank (OeKB): founded in 1945, it is a 100% privately owned company which develops commercial activities but also carries out some tasks for the Republic of Austria (in particular it manages an export guarantee and acts as the auction agent for Austrian government bonds).

In an attempt to recognize this variation in ownership structures and legal status, the EFSI regulation (2015)[6] proposes a broader definition of NPBIs. National Promotional Banks and Institutions (NPBIs) are defined as 'legal entities carrying out financial activities on a professional basis which are given a mandate by a member state or a member state's entity at central, regional or local level, to carry out development or promotional activities'.

In this study we will take this broad definition of NPBIs. Our universe of analysis is however a bit more restrictive than the entities fulfilling the criteria of the EFSI definition.

First, we only focus on NPBIs carrying out a national mandate. We hence exclude all regional and local NPBIs, even if we recognize they play a relevant role in certain member states[7]. We also exclude NPBIs having a regional geographic scope of intervention such as the Italian Banca del Mezzogiorno.

Second, we also exclude those entities having a sector-specific mandate (such as promotion of agriculture) as well as those whose only mission is to manage an export guarantee or to hold stakes in strategic firms. Our logic here is to concentrate on those entities fulfilling a classic 'promotional mandate', that is, principally aimed at correcting market failures such as the lack of long-term financing (the inability of commercial banks to finance large-scale projects with long maturation periods), underinvestment in projects that deliver positive externalities that are greater than private returns (e.g. projects having an interest from a social or cohesion perspective, low-carbon projects) or under-investment in SMEs due to high information costs. We recognise, however, that promotional mandates can take different forms. Some NPBIs play both the role of long-term investors and holders in companies of strategic importance and others combine a typically 'market failure' role with the provision of credit to municipalities (Schmidt et al 2011)[8]. Moreover, as pointed out by Mazzucato and Penna (2015), NPBIs'

6. COM(2015) 361 final

7. Regional NPBIs are very relevant in some countries such as Belgium, Germany and Spain.

8. Schmidt, Mathias et al (2011), Public Financial Institutions in Europe, report commissioned by the European Association of Public Banks, march 2011.

mandates have broadened over time and, today, many of them complement the activities of 'market correction' with a more pro-active 'market-shaping' role, supporting the creation of new markets and new financial products and steering investment towards key long-term societal challenges.

On the basis of this operational definition, we identify 32 NPBIs in Europe (table 1). In the following section, we will discuss in more detail the characteristics of these 32 financial institutions.

TABLE 1 ▪ List of National Promotional Banks and Institutions (NPBIs) in Europe

COUNTRY	ACRONYM	FULL NAME
Austria	AWS	Austria Wirtschaftsservice
Belgium	SFPI	Société Fédérale de Participations et d'Investissement
Bulgaria	BDB	Bulgarian Development Bank
Croatia	HBOR	Hrvatska Banka za Obnovu i Razvitak
Czech Republic	CMZRB	CeskoMoravska Zarucni a Rozvojova Banka
Denmark	VF	Vækstfonden
Estonia	KredEx	KredEx
Finland	Finnvera	Finnvera
France	Bpifrance	Bpifrance
France	CDC	Caisse des dépôts et consignations
Germany	KfW	National Kreditanstalt für Wiederaufbau
Greece	CDLF	Consignment Deposits and Loans Fund
Hungary	MFB	Magyar Fejlesztesi Bank
Ireland	SBCI	Strategic Banking Corporation of Ireland
Italy	CDP	Cassa Depositi et Prestiti
Latvia	ALTUM	Development Finance Institution Altum
Lithuania	INVEGA	Invega
Lithuania	VIPA	Public Investment Development Agency
Luxembourg	SNCI	Société Nationale de Crédit et d'Investissement
Malta	Malta Development Bank	Malta Development Bank

Netherlands	NIA	Nederlands Investerings Agentschap
Netherlands	BNG Bank	Bank Nederlandse Gemeenten
Netherlands	NWB Bank	Nederlandse Waterschaps Bank
Poland	BGK	Bank Gospodarstwa Krajowego
Portugal	IFD	Instituição Financeira de Desenvolvimento
Portugal	SPGM	Sistema Português de Garantia Mútua
Romania	EximBank	Banca de Export Import a României
Slovakia	SZRB	Slovenská záručná a rozvojová banka
Slovenia	SID Banka	Slovenska izvozna in razvojna banka
Spain	ICO	Instituto de Crédito Oficial
Sweden	ALMI	Almi Företagspartner
United Kingdom	BBB	British Business Bank

Source: own elaboration (see annex 1 for more details)

1 . MAPPING NATIONAL PROMOTIONAL BANKS AND INSTITUTIONS IN EUROPE

It is widely known that the landscape of NPBIs in Europe is very heterogeneous. If we look at our list of 32 NPBIs, we can notice that their capital is fully or mostly public. They differ however in various aspects. A first distinction concerns the year of creation. Generally speaking, we can distinguish three clusters of NPBIs. The first cluster are those entities created before the 1990s, which includes very old banks established in the 19th or early 20th century (such as the French CDC, the Italian CDP, or the Polish BGK) or in the post-WWII period (like the German KfW) and more recent banks created during the 1960s and 1970s (the Luxembourgish SNCI, the Spanish ICO). The second cluster includes entities created during the 1990s and early 2000s, most of them created in CEE countries to promote the economic transformation of the transition economies (the Slovenian SID Bank, the Hungarian MFB, the Bulgarian development bank, the Croatian HBOR). Finally, since 2008 there has been a new wave of transformation in the European NPBIs landscape: some countries already having a promotional bank have created new entities or reorganized existing ones (the French BPI, the Latvian ALTUM, the Lithuanian VIPA) and other countries which did not have a NPBI have established one (Irish SBCI, British Business Bank, Portuguese IFD, Malta Development Bank).

1.1 Major differences in size, mandate and business models

Apart from the difference in the year of creation, NPBIs differ significantly in their size, type of mandate and business model. Some NPBIs are sizable, both by global standards and relative to the size of national GDP. Four of them have total assets superior to 100bn: the German KfW (the biggest one by far), the Italian CDP, the French CDC and the Dutch BNG Bank. Among the remaining 28 NPBIs, the majority (11) are medium-sized banks with a volume of total assets between €1bn and 9.9bn.

NPBIs also differ with respect to their mandate. Most of them can be grouped into two categories: entities fulfilling a broad mandate (financing both infrastructure projects and innovative firms and SMEs in a broad range of sectors) and those specialized in providing support to SMEs and mid-cap companies. There is a third category of NPBIs specialized in the

financing of infrastructure investments, notably in sectors such as urban development, housing, transport, energy and communication.

In terms of funding models, most NPBIs rely on a mix of funding sources, some (CDC, CDP) with an important part of deposits in their liabilities, others (KfW, ICO) with no deposits.

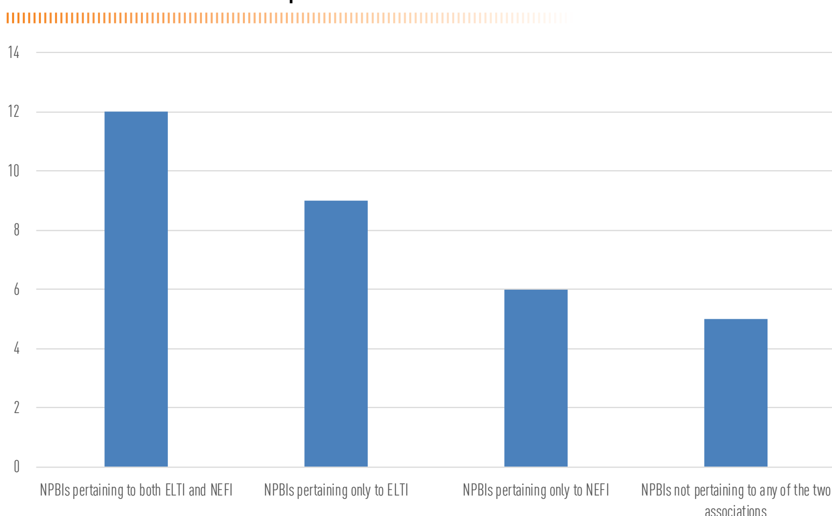
1.2 Institutional representation at EU level

NPBIs are members of different EU-level associations. Most NPBIs are part of ELTI, an association of long-term financial institutions created in the aftermath of the crisis (July 2013) to promote quality longterm investment in Europe. ELTI is generally viewed as the association that represents NPBI's interests at the EU level. It is the main interlocutor with the Commission on issues affecting NPBIs and provides a forum for exchanges with the EIB (which is permanent observer in ELTI).

Many NPBIs are also part of NEFI, a network of public financial institutions specialized in the provision of financial support to SMEs. Created in 1999, NEFI offers a platform for the exchange of information and know-how between its members and serves as a contact with the EU institutions on measures which are relevant for promotional financial institutions focusing on the facilitation of SMEs' access to finance.

ELTI actively participates in debates concerning the role of NPBIs in implementing the EU budget.. It has adopted various position papers on the next MFF. As shown in figure 1, 21 NPBIs (out of 32) are part of ELTI.

FIGURE 1 ▪ NPBIs' institutional representation at the EU level



Source: own elaboration

Apart from NEFI and ELTI, NPBIs are members of other EU-level associations (see box 2). EAPB, a large association of public financial institutions in Europe, includes various national and regional promotional banks. Some NPBIs are also members of AECM, an association of public and private guarantee institutions.

BOX 2 ▪ Different associations representing NPBIs' interests at the EU level

ELTI (European Association of Long-Term Investors)

The European Association of Long-Term Investors (ELTI) was launched in July 2013 to promote quality long-term investment in Europe. ELTI currently includes 28 entities from 20 EU member states. Among them, the association counts with Associate Members (7) notably multilateral financial institutions, regional financial institutions and non-banking institutions such as pension funds. EIB is a permanent observer.

NEFI (Network of European Financial Institutions for Small and Medium Sized Enterprises)

The Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI) was founded in 1999 to represent the interest of promotional financial institutions specialised on the provision of support to SME. It currently gathers 19 entities from 19 EU member states. All NEFI members share a public mission to facilitate the access to finance for SMEs by offering them financial services and expertise.

EAPB (European Association of Public Banks)

EAPB represents directly and indirectly over 90 public financial institutions with overall total assets of over €3.500bn and 15% market share of the European financial sector. EAPB members are very heterogeneous, including national

and regional promotional banks, municipality funding agencies and public commercial banks across Europe.

AECM (European Association of Guarantee Institutions)
AECM represents 47 member organizations operating in 28 EU countries, Bosnia and Herzegovina, Serbia, Russia and Turkey. Its members are mutual, private sector guarantee schemes as well as public institutions, which are either guarantee funds or Development banks with a guarantee division. They all have in common the mission of providing loan guarantees for SMEs.

2 . FINANCIAL INSTRUMENTS AND BUDGETARY GUARANTEES IN THE EU BUDGET: AN OVERVIEW

Whereas the provision of grants still constitutes the main form of EU budget support, the use of Financial Instruments (FIs) has significantly expanded over the last decades. These instruments can take different forms (equity or quasi-equity investment, loans, guarantees…) and have the capacity to attract funding from other public or private investors in areas of EU strong interest but which are perceived as risky by investors.

The EU budget supports very different types of FIs (see annex 2 for a detailed description of the types of financial support provided). From the point of view of the implementation, they can be classified in two main categories: those managed at the EU level, either under direct implementation (managed directly by the Commission) or indirect implementation (managed by one entrusted entity on behalf of the Commission) and those setup and managed at the national or regional level, financed by part of member states' cohesion envelopes (FIs under shared managed). There are important differences as regards to the rules governing these two types of FIs, and thus to the role played by NPBIs in their setup and deployment.

Apart from the classic "financial instruments", there is the European Fund for Strategic Investments (EFSI) created in 2015. EFSI is not legally speaking a FI but it shares most of the features of the classical FIs (see section 2.3. for more details). Initially established at EUR 16bn, the EFSI budgetary guarantee has been recently increased to EUR 26bn for the remaining MFF period. With this, the EU budgetary resources allocated to market-based instruments (financial instruments and budgetary guarantees) amount to EUR 61.3bn today, a fourfold increase with respect to the amounts allocated to FIs in the last MFF (EUR 16.1bn)[9], but still only 6% of the total EU spending.

9. European court of auditors, Opinion No 4/2015 concerning the proposal for a Regulation on the European Fund for Strategic Investments, March 2015

2.1 Centrally-managed Financial Instruments

Centrally-managed financial instruments are funded with the envelopes of different EU spending programs (such as Horizon2020, or Connecting Europe Facility) and managed under the responsibility of the Commission. The size and design of these instruments is defined in specific EU regulations adopted by the budgetary authorities -the European Parliament and the Council- on the basis of a Commission proposal.

The overall envelope for centralized FIs has increased from €5.7bn in the 2007-2013 programming period to €9bn in 2014-2020. There are currently 22 FIs for internal action, 14 corresponding to FIs established in the 2014-2020 period. The budget allocation for these 14 FIs amounts to €5.2bn[10].

An important number of FIs provide debt financing products for SMEs, small mid-caps and small-sized projects through financial intermediaries (COSME loan guarantee, SME Initiative, InnovFin SME guarantee, InnovFin Mid cap guarantee, SMEG CIP, Easi). Other FIs provide direct support to big projects and infrastructures, either through debt products (soft loans, guarantees) or equity and quasiequity investments (CEF debt and equity instruments, InnovFin large projects)[11]. Among the latter, it is worth mentioning the existence of some pan-EU equity funds such as the Marguerite Fund or the European Energy Efficiency Fund, which pool resources from the EIB group, the Commission (EU budget funding) and other public and private long-term investors.

2.1.1. Rules governing the role of NPBIs in the deployment of centrally-managed FIs

FIs can be managed directly by the services of the Commission or indirectly by any of the entrusted entities listed in article 58 of the EU Financial Regulation. Whereas NPBIs are eligible to play this role (as they fulfil the criteria of art 58.(v) or (vi) – see box 3), in practice the Commission has always entrusted the management of centrally managed FIs to the EIB group.[12]

10. According to the preamble of the Commission's proposal for a regulation establishing the InvestEU Programme (COM(2018) 439 final)

11. Even if the EIB also manages some FIs that work through financial intermediaries (e.g. the NCFF)

12. To our knowledge, there is only one experience of NPBI acting as entrusted entity in the management of a centrally-managed FIs: the experience of the KfW acting as one of the three entrusted entities (together with the EIB and the Council of Europe Development Bank) in the implementation of the European Local Energy Assistance (ELENA) facility, which combines the provision of grants for technical assistance costs with loans to energy projects.

While not acting as entrusted entities, NPBIs can participate in the implementation of these instruments in three ways.

They can co-invest in a project having received some funding from a EU financial instrument (e.g. provide a loan to a big infrastructure project having received another loan or a guarantee from the CEF debt instrument).

They can also invest in pan-EU investment funds commonly set up with the Commission (such as the Marguerite Fund, the European Energy Efficiency fund or the European Fund for Broadcast Infrastructures), and the EIB.

They can act as financial intermediaries for the implementation of EU debt instruments working via intermediate finance (such as COSME LGF or InnovFin SMEG). In general, these programs offer guarantees and counter-guarantees to financial intermediaries in a territory, which either lend directly to businesses or issue guarantees to other financial intermediaries providing loans to businesses.

Financial intermediaries can be private (commercial banks) or public (NPBIs or other public guarantee institutions). Typically, the EIB group provides counter-guarantees to public institutions (which then issue guarantees to private banks) and guarantees to commercial banks (which lend directly to business).

BOX 3 ▪ Article 58 - Methods of implementation of the budget

The Commission shall implement the budget in the following ways:

(a) Directly ('direct management'), by its departments, including its staff in the Union Delegations under the authority of their respective Head of Delegation, in accordance with Article 56(2), or through executive agencies as referred to in Article 62;

(b) under shared management with member states ('shared management'); or

(c) indirectly ('indirect management'), where this is provided for in the basic act or in the cases referred to in points (a) to (d) of the first subparagraph of Article 54(2), by entrusting budget implementation tasks to:

- (i) third countries or the bodies they have designated;
- (ii) international organisations and their agencies;
- (iii) the EIB and the European Investment Fund;
- (iv) bodies referred to in Articles 208 and 209;
- (v) public law bodies;
- (vi) bodies governed by private law with a public service mission to the extent that they provide adequate

financial guarantees;

(vii) bodies governed by the private law of a member state that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees

Source: Regulation (EC, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002

2.1.2. Main findings from existing evaluations and reports

There are significant differences as regards to the performance and preliminary results of centrally-managed FIs.

Generally speaking, existing evaluations find positive results and overall satisfaction with the EUfunded loan guarantees in support of SMEs (COSME LGF and InnovFin SMEG). Being essentially a continuation of previous FIs, they had both a quick start into the implementation phase. They also experienced a strong market demand, larger than expected, probably because of the context of crisis in which they started to operate.

However, a recent report from the European Court of Auditors (ECA)[13] show some weaknesses as regards to targeting. In particular, COSME support has not always gone to businesses struggling to obtain private financing and the InnovFin SMEG does not sufficiently focus on research and innovation with a high potential for excellence. These two instruments also suffer from major geographical concentration[14] and an inability to adapt to changing market conditions across the EU (for instance, the uptake of COSME was particularly low in member states in financial difficulties during the crisis).

Another finding from both the ECA report and the Commission's interim evaluation of the Horizon 2020's financial instruments[15] is the different performance of public and private intermediaries. Public intermediaries (that is, NPBIs) consistently perform much better than private ones (commercial banks) in targeting the businesses that are more likely to genuinely need a guarantee.

Finally, evaluations also show some overlaps between COSME LGF and

13. European Court of Auditors, EU-funded loan guarantee instruments: positive results but better targeting of beneficiaries and coordination with national schemes needed, special report n. 20, 2017.

14. At the end of 2016 75.3% of the financial support provided by COSME LGF went to only three countries (Italy, Germany and France) and the same countries received 51.3% of support from InnovFin SMEG.

15. European Commission, Interim Evaluation of Horizon 2020's Financial Instruments, July 2017.

InnovFin SMEG, loan guarantees for SMEs financed by EU cohesion funds and other national schemes. The Horizon2020 interim evaluation highlights the role played by certain NPBI in preventing these overlaps and ensuring complementarities between different sources of funding[16].

In contrast with EU-funded loan schemes in support to SMEs, other centrally-managed FIs have not been used to the expected extent. This is the case of the CEF debt instrument (CEF DI), which has suffered from the substitution effect created by EFSI. In fact, several projects initiated in the context of the CEF DI ended up feeding the EFSI project pipeline[17]. Apart from this low take-up, CEF instruments seem to be better targeted than those supporting SMEs (e.g. CEF instruments are almost exclusively focused on projects with a cross border dimension) and be complementary to national schemes. As COSME and InnovFin instruments, however, most of the support goes to Western-European member states. In fact, this is a general feature of centrally-managed FIs.

2.2 Financial Instruments under shared management

Financial Instruments under shared management are set-up by national authorities using part of their cohesion envelopes.

Estimated allocations of ESI funds to FIs have increased significantly from 2007-2013 to 2014-2020, partly thanks to changes in the EU regulations facilitating their use. The total amount committed to FIs in 2014-2020 is 21.5bn, compared to contributions of 11.5bn in 2007-2013. More than 90% of FIs are set up under the European Regional Development Fund (ERDF) and the Cohesion Fund, but planned allocations under the European Social Fund (ESF) are nearly two times higher than in 2007-2013 and FIs under the European Agricultural Fund for Rural Development (EAFRD) have increased more than three times.

16. "In many countries (e.g. in Germany) promotional banks combine resources from national programmes and InnovFin SMEG to support the same target group of beneficiaries. This means that, in practice, coherence with national programmes can be maximized by working through financial intermediaries familiar with the local market" (European Commission, Interim evaluation of Horizon 2020's Financial instruments, July 2017, p. 106).

17. Commission Staff Working Document accompanying the Report from the Commission on the mid-term evaluation of the Connecting Europe Facility (CEF), SWD(2018) 44 final, 14 February 2018

TABLE 2 ▪ Planned allocations to FIs under shared management, 2007-2013 and 2014-2020 (in EUR million)

	2007-2013	2014-2020
ERDF AND CF	10,800	20,000
ESF	498	1,000
EAFRD	125	420
EMFF	63.5	80
TOTAL	11,486.5	21,500

Source: European Commission, DG region, Financial instruments under the European Structural and Investment Funds. Summaries of the data. Situation as at 31 December 2016

Information on commitments to FIs shows that there is a wide cross-country variation in percentages of cohesion funding allocated to FIs in 2014-2020, with the UK planning to allocate almost 20% of cohesion envelope to FIs and other countries which do not plan to set-up any FIs (Ireland, Luxembourg, Denmark, Cyprus). This variation cannot be explained by differences among country size or the amount of cohesion enveloped received, and seems to be more related to country preferences or past experience in the implementation of FIs.

Whereas in the past programming period FIs were only authorized in the areas of support for SMEs, urban development and energy efficiency or renewables, FIs can be now used to address all ESI thematic objectives. The largest share of funding (50%) is however still assigned to support for SMEs, followed by investments in innovation and research and development (19%) and support to energy efficiency and renewable energy projects (16%).

2.2.1. Rules governing the role of NPBIs in the deployment of FIs under shared management

EU rules offer Managing Authorities different options as regards to the deployment of FIs under shared management. They can implement the FIs themselves in the case of simple instruments such as a loan scheme, or

decide to invest part of their cohesion envelope in existing funds (e.g, a venture capital fund). If they do not choose any of these two options, they have to entrust the implementation of the FIs to an eligible financial intermediary. These can be the EIB group, international financial institutions in which the member state is a shareholder, NPBIs or a private bank.

Article 38.4.b. of the Common Provision Regulation (CPR), which provides the list of eligible financial intermediaries, does not explicitly mention NPBIs: it talks of 'financial institutions established in a member state aiming at the achievement of public interest under the control of a public authority' (box 4). Apart from this lack of explicit reference, NPBIs are not on equal foot with the EIB group as regards the implementation of ESI-financed FIs. Whereas ESI managing authorities can directly award the implementation of FIs to the EIB group (which is exempted from the application of EU public procurement rules), in the case of NPBIs, to directly award them the contract they should prove that the NPBI is an 'in house entity' according to the criteria established in article 12 of the EU public procurement Directive (box 5).

BOX 4 ■ Article 38.4. of the Common Provisions Regulation (Regulation 1303/2013)

When supporting financial instruments (...) the managing authority may:

(a) invest in the capital of existing or newly created legal entities (..) dedicated to implementing financial instruments

(b) entrust implementation tasks to:

- (i) the EIB;
- (ii) international financial institutions in which a member state is a shareholder, or financial institution established in a member state aiming at the achievement of public interest under the control of a public authority;
- (iii) a body governed by public or private law

(c) undertake implementation tasks directly, in the case of financial instruments consisting solely of loans or guarantees.

BOX 5 ■ Article 12 of the EU public procurement Directive

In accordance with Article 12 of Directive 2014/24/EU, a contracting authority may directly award a public contract with a controlled legal person provided that three following cumulative conditions are met:

- (a) the contracting authority exercises over the legal person concerned a control which is similar to that which it exercises over its own departments;

(b) more than 80 % of the activities of the controlled legal person are carried out in the performance of tasks entrusted to it by the controlling contracting authority or by other legal persons controlled by that contracting authority; and
(c) there is no direct private capital participation in the controlled legal person with the exception of noncontrolling and non-blocking forms of private capital participation required by national legislative provisions, in conformity with the Treaties, which do not exert a decisive influence on the controlled legal person.

In the context of the 'Omnibus regulation', the Commission has proposed a rewording of art 38 CPR in[18]. The new article 38.4 is more clear in targeting NPBIs as bodies to whom the implementation of FIs may be directly entrusted by Managing authorities. However, direct award is only possible if a series of criteria are fulfilled (see box 6). This proposed article 38.4 has been criticised by ELTI, which considers that some of the conditions listed (such as not being a direct recipient of deposits from the public) are too restrictive and may exclude some existing NPBIs[19].

BOX 6 ▪ Commission's proposed revision of Article 38.4.b. of the Common Provision Regulation
When supporting financial instruments (...) the managing authority may:
(b) entrust implementation tasks, through the direct award of a contract, to:
(i) the EIB;
(ii) an international financial institution in which a member state is a shareholder;
(iii) a publicly-owned bank or financial institution, established as a legal entity carrying out financial activities on a professional basis, which fulfils all the following conditions:
- there is no direct private capital participation, with the exception of non-controlling and nonblocking forms of private capital participation required by national legislative provisions, in conformity with the Treaties, which do not exert a decisive influence on the relevant bank or institution;
- operates under a public policy mandate given by the relevant authority of a member state at national or regional level, to carry out economic development activities contributing to the objectives of the ESI Funds– carries out its development activities in regions, policy areas and sectors for which access to funding from market sources is

18. Proposal for a regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union and amending Regulation (EC) No 2012/2002, Regulations (EU) No 1296/2013, (EU) 1301/2013, (EU) No 1303/2013, EU No 1304/2013, (EU) No 1305/2013, (EU) No 1306/2013, (EU) No 1307/2013, (EU) No 1308/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014,(EU) No 283/2014, (EU) No 652/2014 of the European Parliament and of the Council and Decision No 541/2014/EU of the European Parliament and of the Council COM(2016) 605 final.
19. See ELTI, Common Provision Regulation 1303/2013 - Revision of Article 38. Recommendations from the European Long Term Investors Association Brussels, November 2016

not generally available or sufficient;
- operates on a non-profit maximisation basis in order to ensure a long-term financial sustainability;
- is not a direct recipient of deposits from the public; and
- is subject to the supervision of an independent authority in accordance with national law.

Source: COM (2016) 605 final.

In addition to the implementation options described above, the legal framework for 2014-2020 offers to Managing Authorities another option: to use their ESI resources to top-up centrally-managed FIs (such as COSME LGF or InnovFin SMEG). In this case, the EIB group adds these ESI resources to the COSME or InnovFin programme but ESI contribution is ring-fenced (that is, can only be used to finance projects in the Operational programme's area).

A particular version of this "top-up" option is the so-called "SME Initiative". This is a joint uncapped guarantee and securitization financial instrument in support of SMEs managed by the EIF and funded by different sources: EU funds (COSME or Horizon 2020), funds from the EIF and contributions from ERDF and EAFRD national envelopes. Managing Authorities can contribute up to 7% of its total ERDF and EAFRD allocation to the SME initiative. This ESI contribution serves to create a "national SME initiative", managed by the EIF and implemented in the national territory via national financial intermediaries.

2.2.2. Main findings from existing evaluations and reports

It is too early to assess the performance and results of FIs under shared management, but according to Commission reports[20] there are significant cross-national differences as regards the roll-out of FIs. At the end of 2016, some member states had not yet completed ex-ante assessments while some FIs were already operational and some were already on a second round of investments.

As regards the modes of implementation, if we look at data on ERDF and CF commitments to FIs (which represent more than 90% of allocations

20. European Commission, Financial instruments under the European Structural and Investment Funds, Summaries of the data on the progress made in financing and implementing the financial instruments for the programming period 2014-2020 in accordance with Article 46 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council Situation as at 31 December 2016, November 2017

to shared-managed FIs)[21], only four Managing Authorities have opted to implement FIs directly[22]. Five member states (Spain, Malta, Finland, Bulgaria and Romania) have transferred part of their ESI resources to EU level instruments, all of them contributing to the 'SME Initiative'. In the remaining cases, Managing Authorities have either invested in the capital of a dedicated entity (particularly for equity or quasi equity-type products) or entrusted the management of the FIs to a financial intermediary.

Table 3 shows the type of financial intermediates in charge of implementing FIs. As can be noticed, almost half of ESI-financed FIs are implemented by 'financial entities aiming at the achievement of public interest under the control of a public authority' (many of them NPBIs) and 42% are implemented by other public and private financial institutions selected through an open and competitive process. Only 5% of the FIs under shared management are implemented by the EIB group. "In house entities" are particularly relevant in the management of 'Funds-of-Funds' (that is, a fund set up with the objective of managing different types of FIs financed from one or more Operational Programmes).

TABLE 3 ▪ Type of financial intermediates in charge of implementing FIs, end of 2016 (ERDF and CF)

	Fund-of-Funds	Specific funds	Total
Bodies governed by public or private law	18	51	69
Financial entities aiming at the achievement of public interest under the control of a public authority	53	26	79
EIB	5	0	5
EIF	8	1	9
Total	84	78	162

Source: European Commission, Financial instruments under the European Structural and Investment Funds, Summaries of the data on the progress made in financing and implementing the financial instruments for the programming period 2014-2020. Situation as at 31 December 2016.

21. Op.cit.
22. Those of Berlin (DE), Brandenburg (DE), Cataluña (ES) and Lazio (IT).

2.3 The Juncker Plan

The Investment Plan for Europe (or "Juncker Plan") is the name given to a EU initiative launched by the Juncker Commission in 2014 to support investment in Europe. The original goal of the Plan was to help close the post-crisis EU investment gap by mobilizing up to 315€ billion of additional public and private investments by mid-2018. To this purpose, the plan proposed various actions organized in three interrelated strands (see box 7).

The plan included the creation of two new instruments; the European Fund for Strategic Investments (EFSI) and the European Investment Advisory Hub (EIAH). The two were set up in mid-2015 for a period of three years. In December 2017 the two EU budgetary authorities approved their maintenance until the end of 2020.

BOX 7 ▪ The three pillars of the EU's Investment Plan (2015-2018)

The EU's investment plan is popularly associated with EFSI but in fact the Plan comprised three interrelated pillars:

The **first pillar** included different actions aimed at boosting the amount of investment in EU's economy, The main element in this pillar is EFSI but there are some other complementary measures (such as the commitment to double the use of financial instruments within structural and cohesion policy).

The **second pillar** of the Plan included different initiatives aimed at supporting project preparation and the development of a pipeline of high-quality projects. The main elements in this pillar were the EU Investment Project Portal (EIPP), aimed at provide visibility to ongoing and future projects across the Union, and the EU Investment Advisory Hub (EIAH) providing advice and technical assistance for project structuring.

The **third pillar** of the Plan was devoted to removing regulatory barriers to investment at national and EU level, with actions such as the creation of a Capital Markets Union or a more systematic inclusion of reforms to boost investment in the country-specific recommendations.

2.3.1. The European Fund for Strategic Investments (EFSI) and the European Investment Advisory Hub (EIAH)

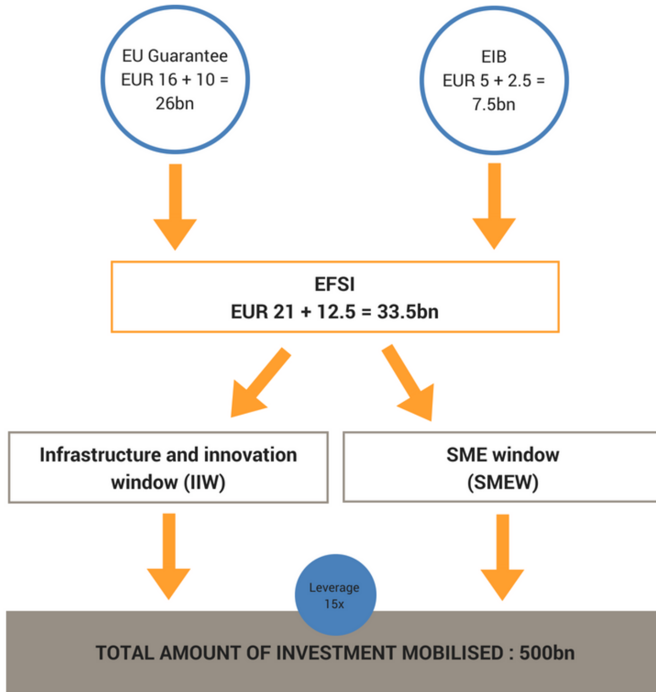
The European Fund for Strategic Investments (EFSI) is not a Fund properly speaking, but a EIB Commission program backed by a budgetary guar-

antee from the EU budget. On the basis of this guarantee, combined with some funding from the EIB's own capital, EFSI enhances the risk-bearing capacity of the EIB allowing the Bank to finance high-risk projects or riskier tranches of projects considered of strategic importance for Europe.

EFSI is structured in two windows; the Infrastructures and Innovation Window (IIW), implemented by the European Investment Bank (EIB), and the SME Window (SMEW), implemented by the European Investment Fund (EIF). The IIW aims at financing debt and equity-type investments in a broad range of sectors identified in the EFSI Regulation (digital, transport and energy infrastructures, education and research, environment and resource efficiency, social infrastructures,..).The SMEWs aims at facilitating the access to finance for SMEs and mid-caps.

Initially, EFSI was based on a public guarantee of €21bn (€16bn from the EU budget and €5 from the EIB) and was expected to mobilize up to 315€ billion of additional investments by mid-2018. With the reform of the EFSI regulation in December 2016, however, EFSI's mandate has been extended until the end of 2020, the firepower of EFSI has been reinforced (with an increase of the EFSI guarantee from 21bn to €33.6 billion) and the investment target has been increased to €500 bn of mobilized investment by the end of 2020.

FIGURE 2 ▪ EFSI structure (after extension of mandate until 2020)



Source: own elaboration

EFSI counts with an 'ad hoc' governance structure. The strategic orientation is given by a Steering Board composed by three members of the Commission and one member of the EIB whereas the selection of the projects is done by an Investment Committee composed of eight independent experts. While, formally speaking, EFSI is not fully controlled by the EIB, in practice the EIB staff plays an important role. Project promoters who want to benefit from EFSI support contact first the EIB staff, who judges upon the merits of a project, particularly its economic viability and its consistency with relevant national and European legislations. When the EIB staff, following its initial assessment, identifies a project with a particular risk profile or added-value which makes it potentially eligible for EFSI, it thus sends the relevant project to the EFSI investment committee.

Apart from the difference in governing structures, EFSI differs from classical Financial Instruments in two other relevant points.

First, EFSI is not formally speaking a FIs but a 'budgetary guarantee'. Whereas in the case of FIs all the potential financial liabilities authorized are funded (meaning that the volume of investment authorized cannot exceed the amount of budgetary commitments made for the FIs), in the case of budgetary guarantees the EU budget only covers a percentage of the amount of the financial liability authorized[23]. In other terms, a EU budgetary guarantee creates an unfunded financial liability for the EU budget, and in doing so, allows the EU budget to leverage more.

The second relevant difference refers to the type of mandate. FIs are based on a legal act which sets an specific mandate from the Commission to the EIB in terms of goals, population targets and type of financial support provided. EFSI is based on a regulation that provides a broad mandate to the EFSI governance bodies. The EFSI guarantee can be used to finance projects in practically all type of sectors across all 28 member states, and the type of support provided can be very varied (loans, guarantees /counter-guarantees, mezzanine and subordinated finance, equity or quasi-equity participations,..). This converts EFSI into a very flexible tool compared to other FIs but, being market-driven, it also increases the risks of geographical or sectoral concentration. The EFSI regulation foresees some measures to counter-act these risks of concentration[24].

The European Investment Advisory Hub (EIAH) is a European platform for the provision of advice support and technical assistance for investments in Europe. Built on the various existing EIB and Commission advisory services and programs (particularly JASPERS, ELENA, EPEC, Fi-Compass and Innovfin), the goal of EIAH is to create a 'single entry point' to various types of advisory and technical assistance services supporting the identification, preparation and development of investment projects across the European Union.

The EFSI regulation confers many tasks to the Hub. It has to guarantee the support provided under existing programs to specific categories of projects or sectors (JASPERS, ELENA, EPEC, Fi-Compass and Innovfin) but address any type of requests for advisory support coming from public or private promoters across Europe. The Hub is also supposed to work on

23. Initially, the target rate for the provisioning of the EU guarantee to EFSI was 50 % but with the reform of the EFSI regulation in December 2016 this rate has been reduced to 35 % of the EU guarantee, giving a total contribution from the EU budget to EFSI of €9.1 bn (compared to an initial contribution of €8 billion).
24. In particular, the EFSI Steering board has the capacity to fix indicative geographical and sectoral concentration limits for the end of the investment period.

new sectors, helping develop new markets and identifying and addressing unmet needs (in areas such as circular economy or Smart Finance for smart buildings).

The EIAH is managed by the EIB under the supervision of a Coordination Committee consisting of four members (two from the EC and two from the EIB). The costs are shared on a 75:25 basis between the European Union (EU) and the European Investment Bank (EIB) and the annual EU grant for the EIAH is restricted to a maximum of €20 million per year. To secure broad coverage of EIAH services across the EU, the EIAH is expected to build upon the cooperation with national partners (particularly NPBIs).

2.3.2. Rules governing the role of NPBIs in the implementation of the Juncker Plan

While implementation of the Plan relies mainly on the Commission and the EIB group, NPBIs are seen as key strategic partners. A hot issue at debate during the negotiations of the EFSI regulation was the extent to which they could benefit from the EFSI guarantee. NPBs asked to be covered by the EFSI guarantee when co-financing a project eligible for EFSI. This was not granted in the EFSI regulation. In exchange, however, the EFSI Steering Board took the engagement of taking as a general rule subordinated positions when co-financing projects with NPBIs (that is, taking the first loss position or subordinated tranches of a project, or assuming a higher level of risk in investment platforms)[25].

NPBIs' involvement in EFSI can take different forms. They can co-invest with EFSI in individual operations or investment platforms, or act as financial intermediates (since part of the resources from the SME window have been used to extend existing EU programs -COSME LGF and InnovFIn SME- that operate through intermediate finance).

Given their good knowledge of national markets and the fact that they are key actors in the implementation of national investment support schemes, NPBIs are seen as key actors for the set-up and management of Investment Platforms targeted at smaller projects or displaying specific characteristics (for instance social infrastructure). These platforms can also be a powerful tool to combine EFSI with other sources of national funding (ESI funds, private funding). Since many NPBIs are involved in the implementation of EU cohesion and structural funds in their own country, they can

25. EFSI Steering Board, document 09-2016, Rules applicable to operations with investment platforms and national promotional banks or institutions, 18 February 2016.

also be particularly well-placed to combine EFSI with ESI funds, either at a project-level or at level of investment platforms.

NPBIs are also expected to play a role in the provision of EIAH services. The EIB-Commission framework partnership agreement governing the EIAH foresees three possible levels of collaboration with NPBIs:

1. NPBIs participate, together with the EIB and the European Commission, in knowledge and best practice sharing initiatives;

2. NPBIs act as the EIAH's national point of entry for potential beneficiaries and stakeholders;

3. NPBIs deliver advisory services locally on the behalf of the EIAH in areas of expertise that are not yet served by (and/or are complementary to) the EIAH's core advisory programs delivered at central level.

2.3.3. Main findings from existing evaluations and reports

The most recent figures of EFSI[26] indicate that the Fund is on track as regards operations approved and volume of investment mobilized. However, evaluations undertaken in 2016 showed some weaknesses and worrying trends in the implementation of EFSI, particularly as regards to the additionality and the geographical concentration of EFSI investment operations[27].

Concerning the participation of NPBIs, the number of EFSI-financed projects involving NPBIs is relatively modest. According to the 2017 EFSI annual report[28], as of December 2017 only 23% of the EFSI signed operations had involved a national promotional bank or institution. The share was much lower in the infrastructure window (14%) than in the SME window (31%), due to the fact that the SME window was originally used to expand some pre-existing programs (COSME LGF, InnovFin SME) in which NPBIs were already involved.

26. According to last figures as of April 2018, EFSI is expected to mobilize €284bn in investments, close to the original 315bn investment target established for July 2018, https://ec.europa.eu/commission/priorities/jobsgrowth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results_en
27. See EY, Ad-hoc audit of the application of the Regulation 2015/1017 (the EFSI Regulation) Final Report, 14 November 2016, and EIB, 2016 EFSI Report from the European Investment Bank to the European Parliament and the Council on 2016 EIB Group Financing and Investment Operations under EFSI.
28. European Investment Bank, 2016 EFSI REPORT From the European Investment Bank to the European Parliament and the Council on 2016 EIB Group Financing and Investment Operations under EFSI.

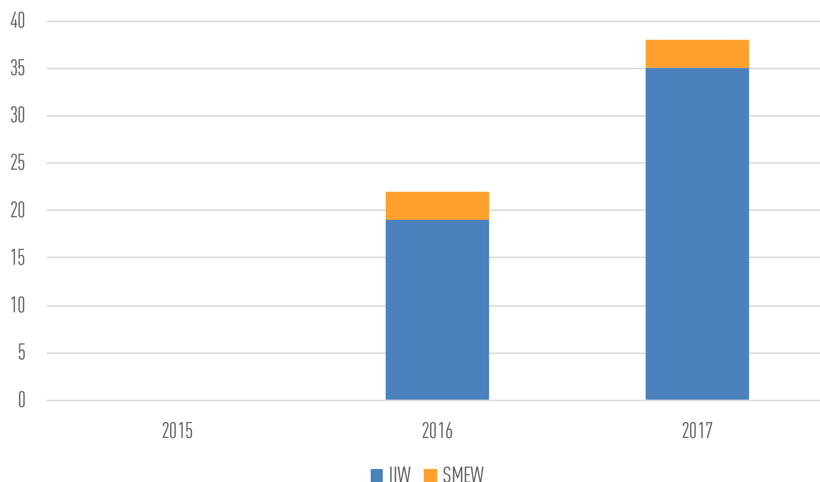
TABLE 4 ▪ NPBIs involvement in the implementation of EFSI (as of December 2017)

	EFSI signed operations	EFSI amounts signed (in €bn)
IIW operations	**278**	**27.4**
of which: operations involving NPBIs	39	4.7
in %	14	17
SMEW operations	**328**	**10.2**
of which: operations involving NPBIs	101	2.7
in %	31	26
Total signed EFSI operations	**606**	**37.6**
Total signed EFSI operations involving NPBIs	**140**	**7.4**
in %	23	20

Source: EIB 2017 EFSI report

As regard Investment Platforms (IPs), whereas no IP was created during the first year of EFSI the number of IPs has significantly increased in 2016 and 2017, probably reflecting learning effects and the long process it takes to set-up a platform and receive validation from the EFSI Investment Committee (figure 3).

FIGURE 3 ▪ Total number of EFSI Investment Platforms



Source: EIB 2015, 2016 and 2017 report

Less than half of IPs created in the IIW involve one NPBIs, whereas all 3 IPs approved under the SME window involve NPBIs. These are two national IPs established in cooperation with the national NPBs (the Italian CDP in both cases)[29] and one multi-country Platform established with several NP-BIs to revitalize the SME securitization market (the NPI-EFSI Multi-country Investment Platform for SMEs through securitization). In addition to these 3IPs, other arrangements have been established under the SMEW to foster cooperation between NPBIs and the EIF[30].

TABLE 5 ▪ NPBIs involvement in EFSI-financed Investment Platforms (as of December 2017)

	II window	SME window	Total
Number of investment platforms	**35**	**3**	**22**
of which: IPs involving NPBIs	14	3	11

Source: EIB 2017 EFSI report

Almost all 35 Investment Platforms approved under the IIW are located in Western European member states, with France, Italy and Spain having the highest number of IPs (table 6). It is also notable the number of multi-country IPs.

29. The CDP EFSI Thematic Investment Platform for Italian SMEs and ITAtech EFSI Thematic IP for technology transfer in Italy.
30. This is the case in particular of the EIF-NPI Equity Platform, a non-binding governance framework through which the EIF offers the possibility for NPIs to match the total budget of investments under SMEW on a 1:1 basis. Another type of cooperation initiative is the EIF-NPI Securitisation Initiative, an EIF/NPBIs cooperation and risk-sharing platform aimed at revitalising the SME securitisation market.

TABLE 6 ■ Investment platforms in the IIW (as of April 2018)

	Total number of investment platforms	Investment platforms with NPBIs involved
Multi-country	8	2
France	7	3
Italy	6	**2**
Spain	5	2
Germany	2	2
Finland	2	1
The Netherlands	2	0
Poland	2	2
Greece	1	0
Total	**35**	**14**

Source: EIB website

Existing evaluations and reports of EFSI and EIAH also give some hints on NPBIs views on EFSI. In general, NPBIs complain on the lack of additionality of EFSI financed projects. In interviews conducted in the context of a 2016 EFSI independent evaluation, many NPBIs report having experienced some competition with EFSI on big projects, particularly for debt products. They argue that in many occasions the high risk project targeted by EFSI could have been financed to the same extent or on the same time frame without EFSI support. By contrast, many NPBIs are very positive with the idea of setting up EFSI Investment Platforms, which are seen as very useful tools to address the financing needs of small-sized projects, currently under-financed.

As regards the EIAH, the 2016 annual report provides some information on the first years of functioning. As of December 2016, 20 NPBIs had signed a MoU to establish cooperation with the EIB in the context of the EIAH but only two NPBIs had shown interest in extending collaboration with the Hub to level 3. Apart from expanding the EIAH network, in 2016 the Hub undertook a reflection on how to best develop its local presence. A market gap analysis was commissioned to assess which specific sectors, type of advisory services and countries present the greatest advisory service needs across Europe. On the basis of this study, some priorities for cooperation

were derived in terms of geographical scope, types of advisory services and sectors. Concerning the geographical priorities, an emphasis has been given to provide capacity-building support to member states lacking an efficient and well-developed advisory services market. In addition to that, a call has been launched in December 2017 to support NPBIs' advisory services in line with the Hub's priorities. The call is open to all member states but the selection of projects takes into account both sectoral, activity and geographical priorities. In particular, projects located in priority countries may have up to 15 points more (out of a total of 100) in the final award score[31].

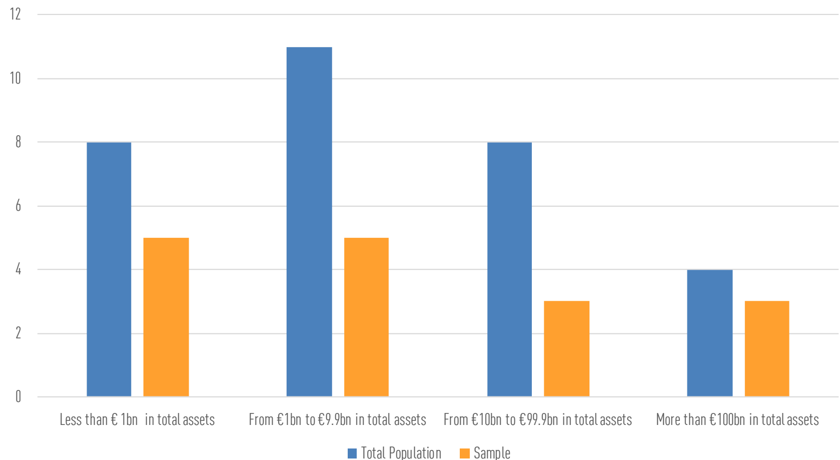
31. In particular, projects receive different points according to the following scale: Priority 1 member states: Bulgaria, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia (15 points); priority 2 member states: Cyprus, Czech Republic, Estonia, Greece, Malta, Portugal and Spain (12 points); priority 3 member states: Belgium, Finland, France, Germany, Italy and Ireland (5 points) and priority 4 member states: Austria, Denmark, Luxembourg, the Netherlands, Sweden and United Kingdom (1 point). Source: EIAH CALL FOR PROPOSALS, Delivery of local investment advisory services by National Promotional Banks (NPBs) Reference Number

3 . THE EXPERIENCE OF NPBIS IN MOBILIZING AND IMPLEMENTING EU FUNDING

Existing evaluations and reports give scant information on the role played by NPBI in mobilizing and implementing EU funding. To explore in more detail this question, we conducted a survey among NPBIs.

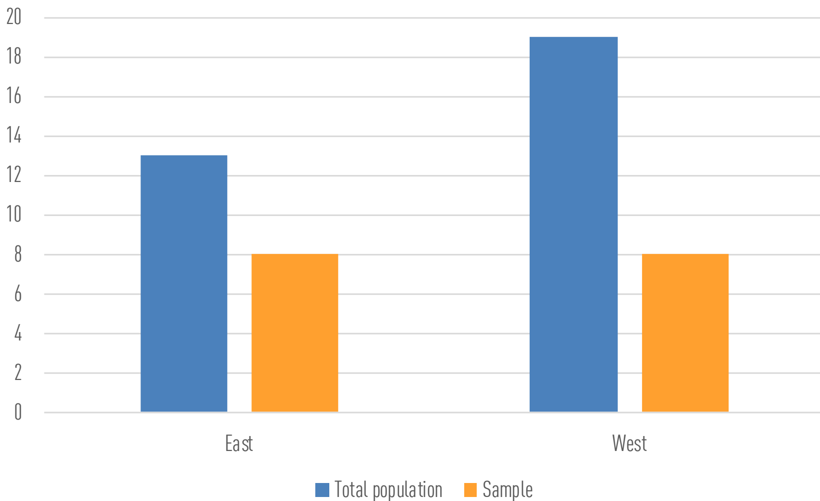
The survey was undertaken between December 2017 to February 2018. An on-line questionnaire was sent to 25 NPBIs and we received responses from 16, which represents half of the 32 NPBIs identified in our mapping (see table 1 and annex 1). The survey sample is representative of the total population of NPBIs in Europe, both in terms of size and geographical location (see figures 4 and 5).

FIGURE 4 . TNPBIs according to size (in total population and in sample)



Source: own elaboration

FIGURE 5 ■ NPBIs according to geographical location (in total population and in the sample)



Source: own elaboration. Note: "East" includes all member states having acceded to the EU after the 2000s. "West" includes all the remaining member states.

The questionnaire was structured in four parts. The first three parts focused on NPBIs' experience in the implementation of the Juncker Plan, centrally-managed FIs and FIs under shared management. In the fourth section, we explored NPBIs' views on the post-2020 European Financial Framework.

3.1 The role of NPBIs in the implementation of centrally-managed FIs

12 out of the 16 NPBIs surveyed have participated in the deployment of centrally-managed FIs.

Practically all of them (11) have experience acting as financial intermediaries in the implementation of EU FIs. In contrast, only 4 NPBIs (all of them big banks) have participated as co-investors (that is, investing with the EIB group in a project or a pan-EU investment platform funded by a centrallymanaged FIs). There is a West-East division: whereas all Western European banks have experience in implementation of these instruments, 3 out of 8 Eastern NPBIs have never been involved in the deployment of centrally-managed FIs.

Generally speaking, NPBIs have a positive perception of centrally-managed FIs. They recognize their high economic impact and appreciate their simplicity and easiness of implementation compared with FIs under shared management. Some entities mention in particular the fact of being exempted from state aid rules and ex-ante assessments as a great advantage[32]. When asked about the weakness of these instruments, practically all NPBIs agree on mentioning the "one-fits-all approach". They complain in particular about the little capacity to adapt to local needs and demands and the lack of consideration of national and local specificities in the implementation.

TABLE 7 ▪ NPBIs (by size) involvement in the implementation of centrally-managed FIs

	less than €1bn	from €1bn to €9,9bn	from €10bn to €99bn	more than €100bn	TOTAL
COSME LGF	2	2	2	2	**8**
InnovFin SME	1	2	2	2	**7**
CIP SME	1	1	0	1	**3**
RSFF	1	0	2	0	**3**
Cultural and Creative Sector Guarantee	0	0	1	1	**2**
InnovFind Midcp	0	0	1	0	**1**
Projects Bonds	0	0	0	1	**1**
CF debt instrument	0	0	0	1	**1**
CEF equity instrument	0	0	0	1	**1**
Total	**5**	**5**	**8**	**9**	

Source: own elaboration

NPBIs are particularly satisfied with the functioning of COSME LGF and InnovFin SMEG. When asked which are the most effective EU financial instruments, 13 out of 16 banks mention these two programs. These are also by large the two FIs in which NPBIs are more involved (table 7). They consider however that there is room for improvement in these programs.

32. When setting up a FI under shared management, managing authorities must assess State aid compatibility and elaborate an 'ex ante' analysis. This is not the case with centrally-managed FIs, which are financed by Union resources (and therefore exempted from State aid rules) and do not require an ex ante analysis.

Three of them argue that the threshold for loans guaranteed by COSME should be raised, and two of them believe that InnovFin should cover all Mid-caps and not only the small ones. The assessment is less positive as regards EU debt financing products for big infrastructure projects. In particular, one NPBIs report that the Project Bonds initiative and the Loan Guarantee for TEN-Transport (LGTT), now included in the CEF debt instrument, were burdensome and not successful in crowding in private money.

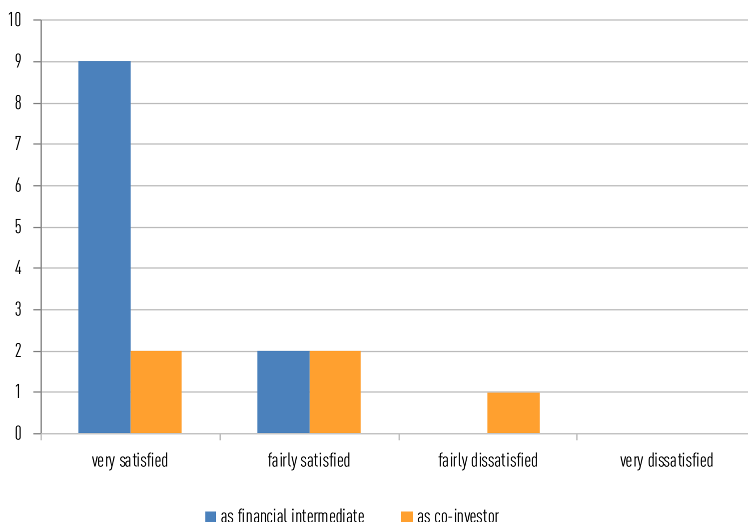
Some NPBIs say that EU FIs have been used to increase the capacity of existing national guarantee schemes. As regards the relationship between COSME and InnovFin SMEG and similar FIs financed by cohesion funding, there are different views. Some banks believe that the central instruments overlap with similar FIs set up under ESFI, whereas others consider centralized instruments have been very useful in providing funding before the start of implementation of ESI funding.

3.1.1. Experience as financial intermediaries

While experience of NPBIs as financial intermediaries is clearly more satisfactory than as coinvestors (figure 2), various NPBIs complain of unfair competition with commercial banks when acting as financial intermediary. They argue that they are subjected to unequal treatment as regards to state aid rules, which apply to NPBIs but not to private actors. One institution also points out that, when contracts are signed directly with commercial banks in small countries, the competition is particularly hard and the public bank get worst customers.

Another aspect which is mentioned by one NPBI is the difference between the EIB and the EIF as regards the pricing policy vis-à-vis financial intermediaries. Whereas the EIB rules for pricing guarantees appear excessively complex and intrusive, those of the EIF (which applies a flat rate remuneration model for InnovFin SMEG) look more simple and advantageous.

FIGURE 6 ▪ Level of satisfaction in the implementation of centrally-managed FIs



3.1.2. Capacity and willingness to become entrusted entity

As mentioned before, NPBIs are eligible to manage centralized Financial Instruments but in practice the Commission has never entrusted one NPBI with this responsibility[33]. A necessary condition to manage a EU-level instrument is to have the legal mandate to operate beyond the national frontiers.

As shown in table 8, the majority of NPBIs (10) have the legal capacity to operate abroad and would be willing to manage a EU-level instrument. Among the five NPBIs not having the legal capacity to operate abroad, only one would be interested to take this responsibility.

TABLE 8 ▪ Capacity and willingness to manage a EU centrally-managed Financial Instrument

capacity and willingness	yes	no	total
yes	9	1	10
no	1	4	5
Total	10	5	15

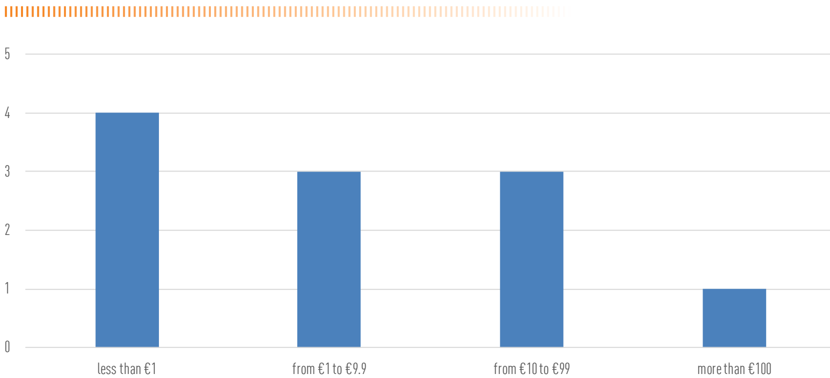
Source: own elaboration

33. Except for the management of some external FIs, which have been entrusted to KfW.

3.2 The role of NPBIs in the implementation of FIs under shared management

11 out of the 16 NPBIs participate or have participated in the implementation of FIs under shared management. Not surprisingly, the majority (7) are located in Eastern European countries, which are those countries receiving more significant amounts of ESI funding. As shown in figure 7, small banks are particularly active in the implementation of ESI-funded FIs, whereas only one big bank has participated in the deployment of FIs under shared management.

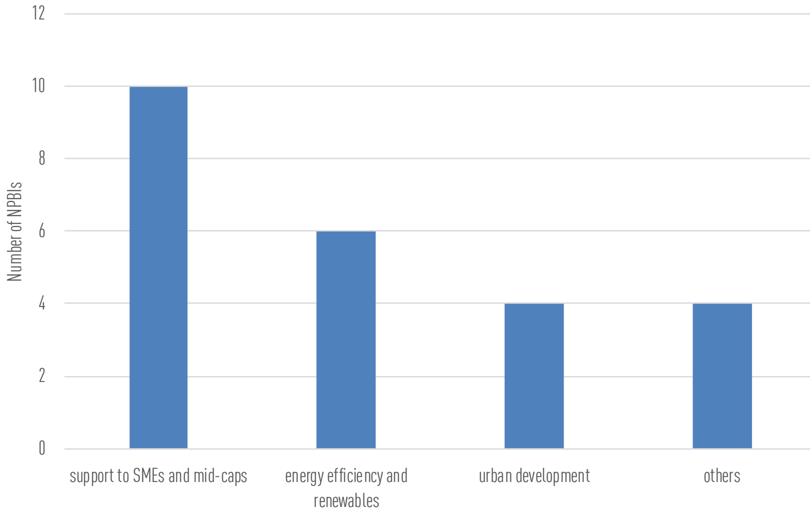
FIGURE 7 ▪ NPBIs involved in the implementation of FIs under shared management per size



Source: own elaboration

Whereas in the past programming period FIs were only authorized in the areas of support for SMEs, urban development and energy efficiency or renewables, in the period 2014-2020 Managing authorities can set-up FIs to address all ESI thematic objectives. Despite this change, the majority of ESI-financed FIs have been focused on the three original areas of intervention (SMEs, energy and urban development). Four NPBIs have used FIs in new policy areas: research and innovation (2 NPBIs), cultural heritage (1 NPBIs), broadband infrastructures (1 NPBI) and social economy and the labor market (1 NPBI).

FIGURE 8 ▪ FIs under shared management set up by NPBIs per area of intervention



Three NPBIs stand out for being particularly active, having been involved in the implementation of FIs in four or more policy areas (figure 9). These three institutions are all from Eastern European countries and have broad mandates from their respective governments. They differ however as regards to their size (figure 10).

FIGURE 9 ▪ NPBIs per number of policy areas in which they implement FIs (columns representing the size of NPBIs)

Source: own elaboration

3.2.1. A special relationship with ESI authorities

NPBIs in charge of ESI-financed FIs maintain a close and special relationship with ESI managing authorities. All of them have been entrusted by the ESI authority to set-up and manage the instrument through direct appointment and not by winning an open call for tender. Thus, it seems that the current wording of article 38.4 CPR has not prevented any NPBIs to be directly appointed for this task (see section 2.2.1). Having said so, some NPBIs mention "unclear rules on eligibility" as a negative point when asked about their experience in implementing the instruments, which seems to indicate that the fact that current article 38.4 does not explicitly mention NPBIs as group for the direct award of implementation tasks poses indeed some difficulties for the appointment.

In addition to being directly appointed, 6 out of 11 NBPIs have been invited to participate in the preparation of Partnership Agreements and Operational Programs, either through bilateral meetings with the ESI authorities or as members of a working groups or committees set up to support ESI programming. Curiously, one NPBI which does not implement any ESI-funded FI also reports having been deeply involved in the programming of ESI funds, both through bilateral meetings and as member of a working group.

3.2.2. Overall satisfaction, but complaints about complex regulations

The experience of NPBIs in implementing ESI-funded instruments is overall very positive. Only two banks express dissatisfaction, and 7 out of 11 report being very satisfied. What is most valued from ESI-financed FIs is the fact of being adapted to specific local market gaps and being designed and deployed by local actors. Some NPBIs also point at the fact that "the amounts are at disposal".

In contrast, practically all NPBIs complain about complex EU regulations, extensive administrative burden (particularly as regards to reporting and audit obligations) and lack of legal certainty concerning eligibility and state aid rules. These time-consuming procedures would have led to a huge time lap between the ex-ante assessment and the actual implementation of the FIs, according to some entities. Other NPBIs consider that the use of ESI-financed FIs may be penalized by sub-optimal size: being set up at regional level, these FIs are less effective than EU-wide instruments.

Finally, various NPBIs highlight the difficulties to combine FIs with grants.

3.2.3. Opinion on new top-up options and 'off-the-shelf' instruments

As explained in section 2.2.1, the legal framework for 2014-2020 offers to ESI Managing Authorities the possibility to transfer part of their ESI resources to the EIB group, either to extend centrally-managed FIs (such as COSME LGF or InnovFin SMEG) or to spend them through the so-called "SME initiative". Another option to ease the delivery of ESI-FIs instruments are the so-called off-the-shelf instruments. These instruments have standard terms and conditions established, such that they can be quickly set-up and implemented by ESI authorities. One of the main advantage vis-à-vis tailor-made FIs is that they are exempted from State aid notifications.

We ask to NPBIs their opinion about these new delivery options. A majority of NPBIs having experience in the implementation of ESI-financed FI (7 out of 11) have a good opinion about the option given to MSs to top-up centralised FIs with ESI funds. Opinions are less formed as regards to "off the self" instruments and the SME initiative. 5 NPBIs view "off-the-shelf' instruments as an interesting initiative and 3 entities declare the same on the SME initiative, but in both cases a substantial number of NPBIs do not answer the question or declare not having an opinion. In the case of the "SME initiative", only the NPBIs from a country having experience with SME initiative declares that it is a very interesting initiative.

3.3 The role of NPBIs in the implementation of the Juncker Plan

As seen above, NPBIs are expected to play a key role in the implementation of the European Investment Plan, both in the implementation of EFSI and as EIB partners in the provision of advisory support through the European Investment Advisory Hub (EIAH).

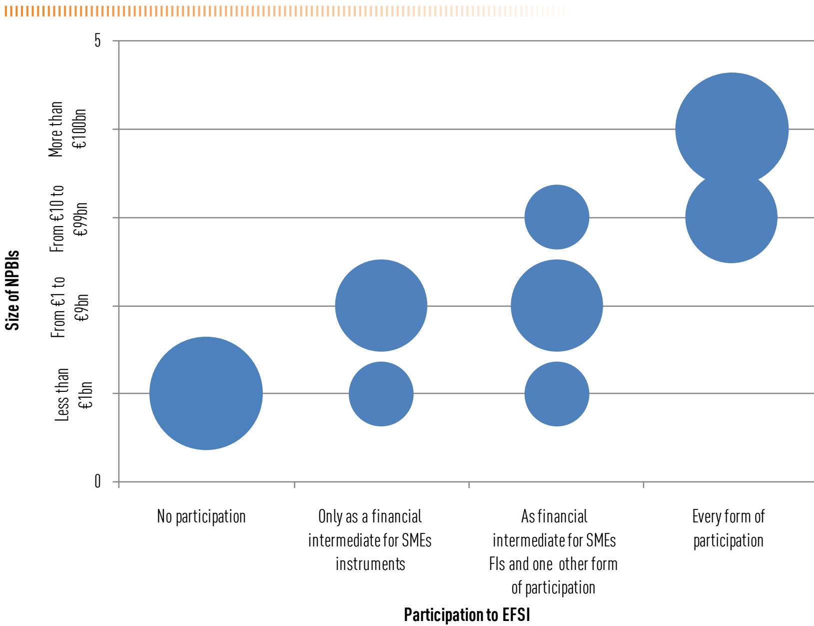
12 out of the 16 surveyed NPBIs have participated in the implementation of EFSI. The most common form of participation (12) is acting as financial intermediaries in the implementation of the SME window. 8 NPBIs have co-financed individual EFSI projects and 6 entities have participated in the set-up or implementation of EFSI-financed investment platforms.

If we look at the characteristics of those 12 NPBIs participating in EFSI, the first conclusion is that there is a balanced geographical representation, with 7 of them coming from Western European countries, and 5 from Central and Eastern European countries. However, there is a clear correla-

tion between the size of the institution and the degree of involvement with EFSI. As shown in figure 10, the 3 very big NPBIs (more than 100bn in total assets) have been involved in all possible forms of participation (as financial intermediaries, co-investors of individual EFSI projects and members of EFSI investment platforms) whereas the majority of very small NPBIs (less than 1bn in total assets) have not participated in EFSI.

NPBIs participation has been in some cases promoted by the national government. 10 NPBIs report that the national government has adopted measures to communicate about EFSI to potential beneficiaries. There is no correlation between governments' actions to communicate about EFSI and NPBIs' degree of involvement in the deployment of EFSI.

FIGURE 10 ▪ Participation to EFSI according to size of NPBIs (in total assets)



Source: own elaboration

3.3.1. Satisfaction with EFSI: greater for SMEW than for IIW

The experience of NPBIs in implementing EFSI is overall positive but the level of satisfaction is a higher with the SME window (SMEW) than with the Infrastructure and Innovation window (IIW): whereas most NPBIs are "very satisfied" with the functioning of the SMEW, a majority among them are "fairly satisfied" and some even "fairly dissatisfied" with their experience in the IIW.

When asked more details about their experience under IIW, many NPBIs criticize that the NPBI involvement in the IIW was not conducted in a systematic manner, resulting into some competition with NPBIs. It is also mentioned that the lack of additionality of EFSI financing in the IIW and the lack of transparency in the selection of projects.

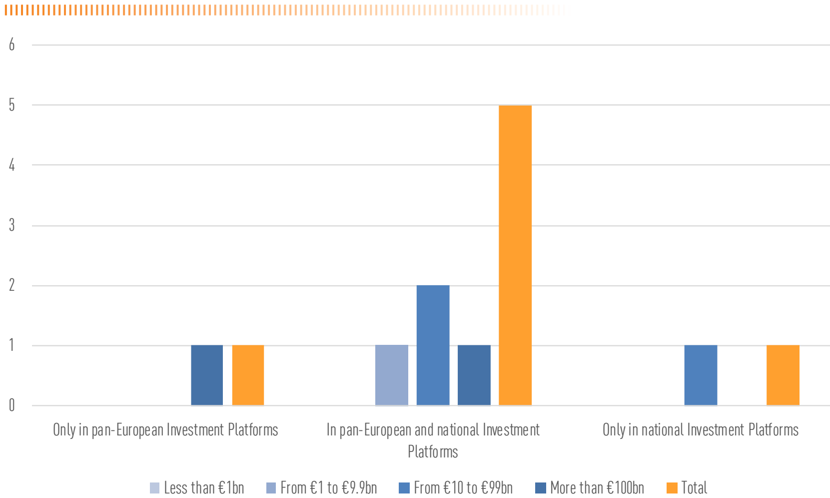
Perceptions are more positive as regards the functioning of the SMEW. A large majority of NPBIs mention the fast and efficient implementation of SMEW through the extension of existing programs (InnovFin & COSME programs) as a success factor. For many NPBIs, this extension was very useful in increasing the capacity of national guarantee programs to address crisis-driven market needs in a context of budgetary restrictions. Some NPBIs also mention the fact that SMEW is implemented by the EIF (and not the EIB) as one of the reasons of their positive assessment. Contrary to the EIB (which is a direct lender) the EIF operates through intermediate financing under the SMEW. In consequence, it does not stand as direct competitor of national financial institutions for the financing of a given project, as it is the case for the EIB under IIW.

Most NPBIs are in favor of some level of mutual recognition of technical due diligence when cofinancing projects with EFSI. This is seen as a good way for speeding-up and simplifying procedures. For two NPBIs, however, the process of recognition should be "bottom-up" and flexible so as to take appropriate account of the specificities of each NPBI. In particular, it is argued that for small NPBIs the EIB Group expertise can be valuable to guide and assist with the overall due diligence process.

3.3.2. ESFI Investment platforms: mostly for big NPBIs

7 of the 11 surveyed NPBIs declare having participated in an EFSI-financed Investment Platform. As shown in figure 10, those entities participating in EFSI pan-European Investment Platforms are also more likely to participate in the set-up and management of national EFSI-financed Investment Platforms.

FIGURE 11 ▪ Participation of NPBIs in EFSI-financed Investment Platforms under IIW



Source: own elaboration

NPBIs participating in IPs are mostly big entities. None of the very small NPBIs (less than €1bn in total assets), most to them located in small Member states, have experience with IPs.

NPBIs are overall satisfied with their experience with Investment Platforms. However, many entities complain about the complexity of setting up IPs, and in particular the long period it takes the EIB eligibility process. Another entity points at the importance of rethinking the way private sector is involved in IPs (the ultimate objective should be always to crowd in private investors), and making sure that EIB under EFSI is always subordinated to others investors. Marguerite I is cited as a successful experience of IPs, which has served as basis for the launch of new ones (Marguerite II, Ginkgo 2, Brownfield 3).

3.3.3. Blending EFSI and ESI: regulatory obstacles and mixed opinions as regards to its benefits

As argued in section 2.3.2, given their involvement in the planning and implementation of ESI funding and their knowledge of local investment needs, NPBIs are in principle well-placed to identify and exploit the possibilities to combine ESFI with ESI funds, either in an individual project or through Investment Platforms.

Among the 16 surveyed NPBIs, only 2 have participated in operations combining EFSI and ESI funding (a national Investment Platform in one case and a single investment project in the other). Practically both highlight the difficulties to undertake such type of operations given the complexity of applying different rules and regulations for each source of funding.

NPBIs have mixed views as regards to the benefits of combining EFSI and ESI funds. Some consider that this type of combinations should be more promoted due to its high potential in terms of crowding in public and private resources. Others are more sceptical. They consider the combination is only useful in countries with lower absorption rates of structural funds, or to realise certain projects that would otherwise have problems to be completed given their level of risk. It is also argued that the real challenge is to use EFSI and ESIF in a complementary way rather than to finance the same type of projects. In the context of SME financing, for instance, ESIF is more appropriate to finance the early phase of the SME development, which is riskier and happens at the local level, whereas EFSI shall be used to provide financing in a later stage, when the SME develops at national or European level.

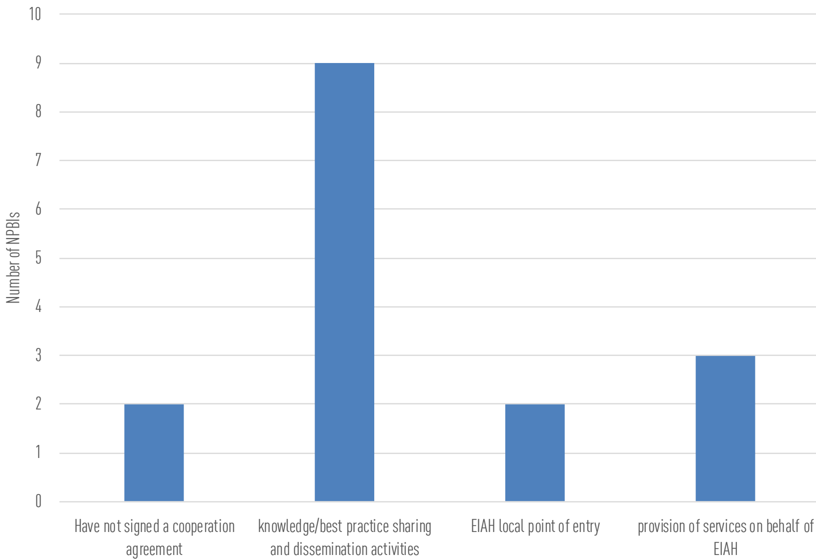
3.3.4. Experience with the EIAH

As seen in section 2.3.2, NPBIs can cooperate with EIAH in different ways. They can:

- Engage in knowledge and best practice sharing and organise dissemination initiatives on behalf of EIAH
- Act as NPBIs' local point of entry, undertaking the local screening of EIAH's potential beneficiaries
- Act as decentralised agency for the delivery of services on behalf of EIAH

Whereas practically all 16 surveyed NBPIs have signed a cooperation agreement with EIAH, in most of the cases (9) cooperation is restricted to knowledge sharing and dissemination. Only 2 NPBIs have signed to act as local point of entry for EIAH and 3 NPBIs have an agreement to deliver services on behalf of the EIAH.

FIGURE 12 ■ Level of cooperation with EIAH

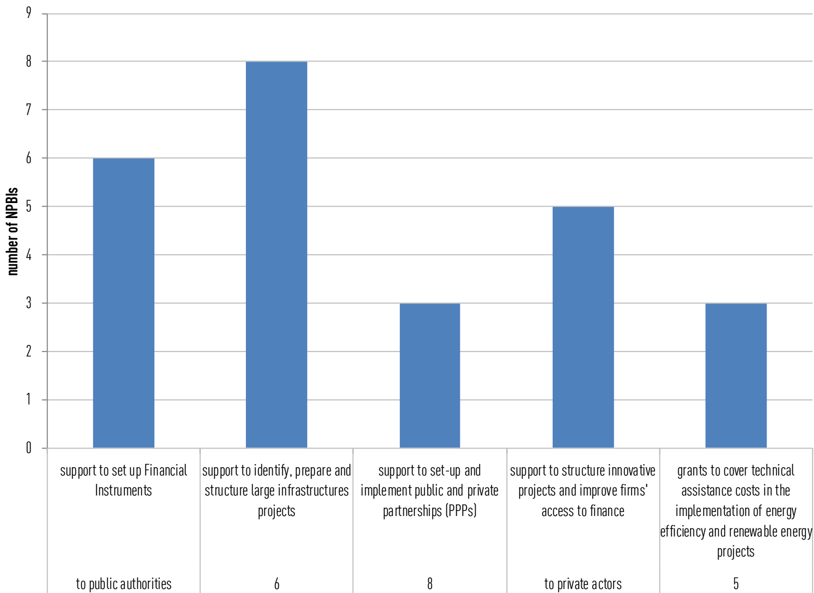


The low number of 'deep' cooperation agreements can be partly explained by the short time-lapse since the Hub is operational. Indeed, when asked their opinion about the EIAH, many NPBIs mention the short period of existence of the Hub and the difficulties to judge its performance. Curiously, however, while most NPBIs (11 out of 16) are fairly satisfied with EIAH, two of the NPBIs that have deeper relations with EIAH declare to be fairly dissatisfied. These two entities complain about the lack of focus and prioritization from the Hub. One of them argue that, based on the principle of subsidiarity, the Hub should concentrate the means on those member states not having a NPBI capable of delivering such assistance. For the remaining member states, intervention should be in the form of budget allocations to NPBIs developing advisory services similar to those provided by EIAH.

It is also worth pointing out that those NPBIs having established deeper cooperation relationship with the Hub do not present any visible common feature. Two of them are from the West and the remaining three are for the East, and whereas some are very small entities (less than 1bn in total assets) others are big banks of more than 100bn in total assets. The five NPBIs cooperating more deeply with the Hub also differ as regards to their experience as providers of advisory support at national level. Some are

very active, providing support to public authorities and private actors on a variety of aspects (see figure 13 on the different types of advisory support usually provided by NPBIs). Others do not offer advisory support at all, or only provide targeted support to certain categories.

FIGURE 13 ▪ Advisory support services provided by NPBIs



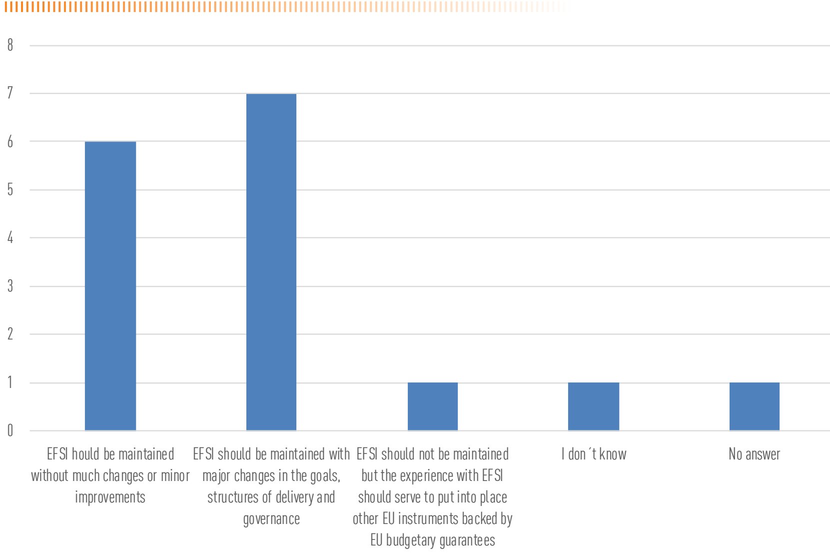
3.4 NPBI's views on the post-2020 Financial Framework

In the last part of the survey, we ask NPBIs about their visions on the post-2020 Financial Framework. The overwhelming majority consider that NPBIs should have a greater role in the next MFF. However, many of them do not express a clear idea of which type of instruments they prefer for the future.

Generally speaking, NPBIs have conservative views on the new generation of EU investment instruments. When asked whether EFSI should be maintained after 2020 and under which form, the majority express a preference to maintaining EFSI (with minor or major changes) rather than putting into place a new EU instrument built on the experience with EFSI (figure 14). This may reflect the fact that NPBIs have done important efforts to understand the functioning of EFSI (notably under the IIW), and may not be willing to re-invest time and resources to understand the functioning of a new mechanism.

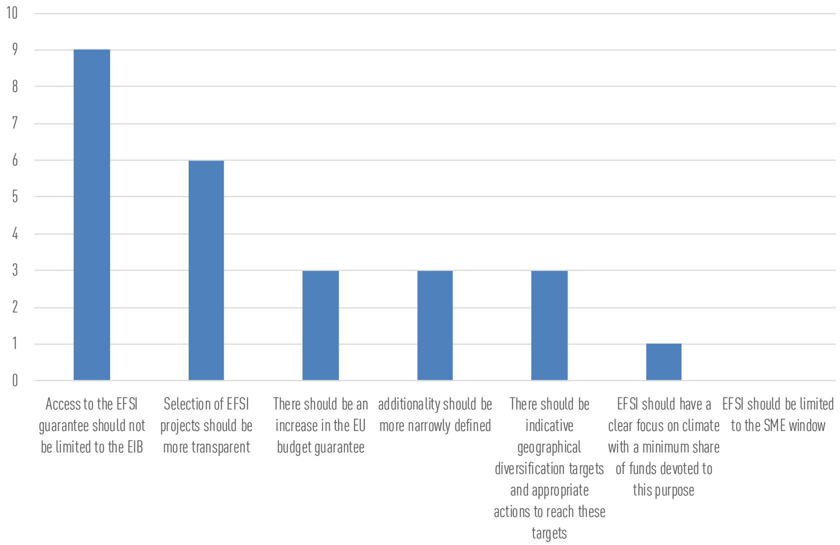
Asked how to improve EFSI, 9 out of 16 NPBIs mention that access to the EFSI guarantee should not be restricted to the EIB group (figure 15). Curiously, when asked whether they would be interested in having direct access to EU funding instruments, only 5 answer positively and a majority either say that they do not know or do not answer to the question (figure 16). While only very big banks are "very interested", some medium and small banks also express interest to have direct access to EU financial instruments and guarantees.

FIGURE 14 ▪ Should EFSI be maintained after 2020?



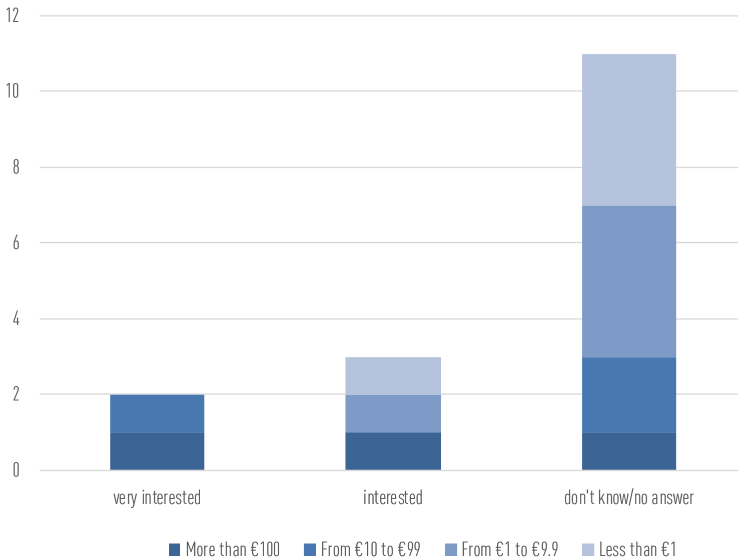
Source: own elaboration

FIGURE 15 ■ If EFSI is maintained with reforms, which type of reforms are needed?



Source: own elaboration

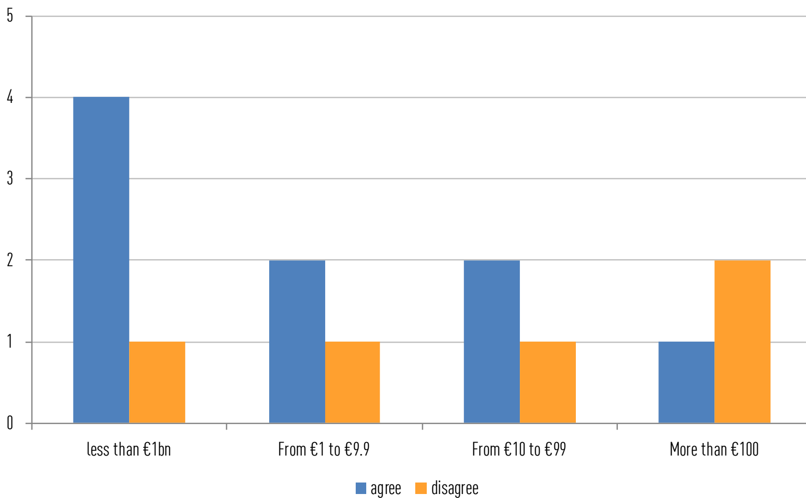
FIGURE 16 ■ Would you be interested in having direct access to EU funding instruments?



Source: own elaboration

NPBIs have mixed opinions about the advantages of creating a big pan-European instrument. Whereas practically all agree on the need to move towards a single rule book and apply the same rules to all EU financial instruments, only 9 out of 16 NPBIs “agree” or “strongly agree” on merging all existing EU Financial Instruments into a single EU instrument. Surprisingly, there is a negative correlation between the size of the entity and the preferences towards a single instrument (figure 17): very small entities are more in favor of a single instrument whereas two out of three very big NPBIs are skeptical about the benefits of merging all existing FIs into a single structure.

FIGURE 17 ▪ Number of NPBIs which agree or strongly agree on merging all existing Financial Instruments into a single EU financial instrument



4 . LOOKING FORWARD: THE ROLE OF NPBIS IN THE NEXT MFF

The results of the survey confirm the important role NPBIs play in the implementation of the EU budget, but also their willingness to play a greater role in the next Multi-Annual Financial Framework. In this last section, we describe and assess the Commission's proposals on financial instruments and EU budgetary guarantees for the period 2021-2027 in the light of the results from the survey and make some reflections on how to improve and clarify the role of NPBIs in the implementation of the next generation of EU investment instruments.

4.1 The Commission's proposals for 2021-2027: the "InvestEU Fund"

Overall, the Commission's proposals concerning the next generation of FIs and budgetary guarantees respond to NPBIs' demands for more recognition and involvement. The new EU regional policy legislative package, released on May 29, 2018, contains few novelties as regards the set-up and implementation of FIs under shared management. Managing Authorities will roughly have the same implementation options than in the current MFF– including the possibility to directly appoint NPBIs to implement FIs – but procedures and rules to set up FIs are being significantly simplified, which should be welcomed by NPBIs.

In contrast to ESI-financed FIs, major changes are envisaged for the structure and functioning of centrally-managed instruments. The Commission proposes to merge EFSI and all existing centralized FIs into a new single EU structure, the "InvestEU Fund". In the following, we will discuss the basic features of this new instrument.

4.1.1. Not more money, but more leverage

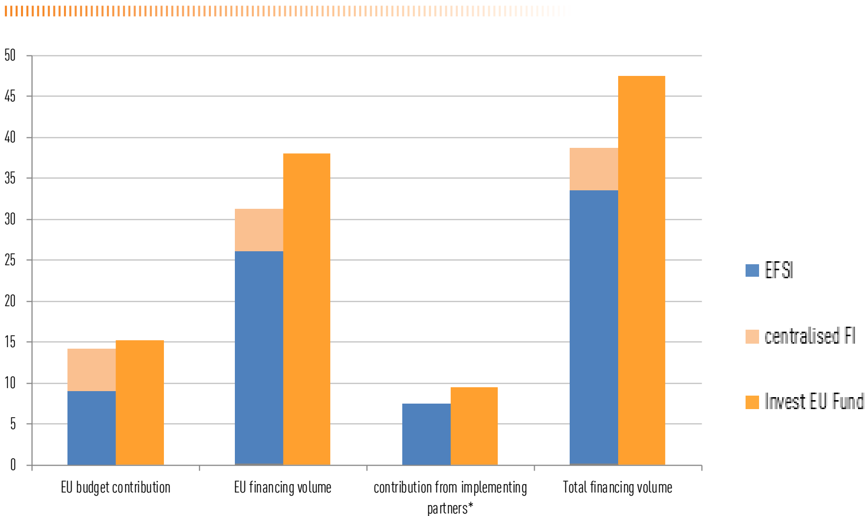
While there were expectations of seeing an increasing amount of EU budget resources deployed in form of market-base instruments, the "InvestEU Fund" roughly has the same size than EFSI and the current FIs together. The EU budget allocation for the new Fund is €15.2bn, only slightly higher than the total amount currently earmarked to EFSI and centralized FIs

(14.2bn). The €38bn guarantee, however, is 21% higher than the total EU financing volume provided by the EFSI guarantee and the 14 existing EU financial instruments (figure 1, column 2). If we add the expected contribution from the implementing partners (the EIB group and other partners such as national promotional banks participating –see section 4), there is a 27% increase in public risk-bearing capacity to finance projects of European interest.

The InvestEU Fund will be provisioned at a higher rate than EFSI (40% rather than 35%). The Commission also expects a slightly more conservative multiplier effect than under EFSI: whereas the EFSI guarantee is expected to mobilize up to 500bn of additional investments by 2020 (multiplying by 15 the amount of the EU guarantee), the EUInvest Fund aims to mobilize 650bn additional investments by 2027 (a 13.7 multiplier rather than EFSI's 15).

The Commission argues that the higher provisioning rate and slightly more conservative multiplier effect is due to InvestEU Fund targeting higher risk innovation projects and SMEs, as well as the greater focus on thematic areas that are more budget consuming and have a lower multiplier effect (see section 3). While these explanations are plausible, it is also true that the new Fund replaces not only EFSI but also existing centralised FIs, which have an even lower leverage effect as they are provisioned at 100%.

FIGURE 18 ▪ Comparing InvestEU Fund with current EU investment instruments



Source: own elaboration

**for EFSI: contribution from the EIB group. For InvestEU Fund: expected contribution from all implementing partners*

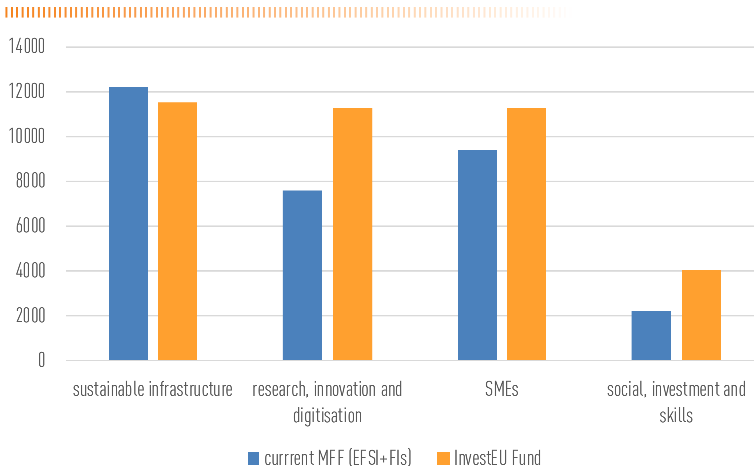
4.1.2. Thematic vision

While EFSI was only subjected to indicative sectoral targets, the InvestEU Fund is organised in four thematic windows: (i) sustainable infrastructure; (ii) research, innovation and digitisation; (iii) SMEs and mid-caps; and (iv) social investment and skills. Each window has a separate budget (€11.5bn, €11.25bn, €11.25bn and €4bn respectively) but the Commission keeps the right to adjust these amounts by up to 15% to adapt to evolving policy needs and market demands.

If we compare the allocation per policy area proposed to the allocation under the current MFF (that is, the amount of support provided by FIs and EFSI to different policy areas), we notice a slight reduction in the amounts for sustainable infrastructures (-6%) and increases in the remaining three areas.

A particular emphasis is given to "research, innovation and digitisation" (+33%) and "social investment and skills" (+44%). The social sector receives an allocation (€4bn) that almost double what is currently spent under existing EU budgetary guarantees and financial instruments (€2.2bn), in line with the recommendations made by the High-Level Task Force on Investing in Social Infrastructure[34].

FIGURE 19 ■ Allocation per thematic areas: comparing current MFF (FIs and EFSI) and InvestEU Fund (in €bn)



Source: own elaboration based on data from table 2, page 23 of Commission Staff Working Document accompanying the proposal of EUInvest Fund (SWD(2018) 314 final)

34. High-Level Task Force on Investing in Social Infrastructure in Europe, Boosting Investment in Social Infrastructure in Europe, European Economy Discussion Papers, num 74, January 2018

4.1.3. Possibility to transfer part of ESI resources to the InvestEU Fund

The InvestEU Fund also makes a distinction between two compartments in each thematic window: an EU compartment and a member state compartment. Both compartments will be subjected to the same rules but the EU compartment will cover actions with a clear EU added value (addressing Union-wide market failures or related with Union policy priorities), whereas the voluntary member state compartment will be financed by voluntary contributions from member states' cohesion policy envelopes (up to 5% maximum of their respective envelopes) and will invest on projects addressing country-specific market failures or sub-optimal investment situations.

BOX 8 ■ Different projects financed by the EU and the member state compartments

According to art 8, EU compartment shall address any of the following situations:

- market failures or sub-optimal investment situations related to Union policy priorities and addressed at the Union level,
- Union wide market failures or sub-optimal investment situations,
- new or complex market failures or sub-optimal investment situations with a view to developing new financial solutions and market structures,
- the member state compartment shall address specific market failures or suboptimal investment situations in one or several member states to deliver objectives of the contributing Funds under shared management.

The possibility to transfer part of ESI funds to centralised EU investment schemes is not new. In the current period, member states can do that, either by topping-up existing FIs (e.g. COSME LGF, InnovFin SMEG) or transferring funds to the 'SME initiative'. Few countries have made use of these options in the current period, but regional and national authorities may find more attractive to do so under the Invest EU fund. First, any funds channelled into the Fund will benefit from the EU guarantee and its high credit rating, giving national and regional investments more firepower. Second, member states' ESI resources channelled through the InvestEU Fund will be declared compatible with EU State aid rules as long as certain clear conditions will be fulfilled, thus facilitating the set-up of the FIs. Finally, a major difference with the existing "top up options" is that the implemen-

tation of national FIs covered by the EU guarantee can be entrusted to different implementing partners and not necessarily to the EIB group (see point 4.1.4).

4.1.4. A plurality of implementing partners, but the EIB group being a privileged partner

One of the most important novelties of InvestEU Fund is the fact that implementation is opened to a plurality of institutions, such as NPBIs and International Financial Institutions, and not only entrusted to the EIB group. Access to the EU guarantee for these other partners is subjected to some conditions.

To start with, the fact of being designed as NPBIs by its own national government do not give immediate right to be implementing partner of the EU guarantee. NPBIs wishing to play this role will have to pass the pillar assessment in line with article 60.2 of the Financial Regulation, which is required to all entities implementing the EU budget under indirect management (box 9).

BOX 9 ■ The Pillar Assessment for implementing bodies under indirect management

An important part of the EU budget in external action is implemented through indirect management. Implementing bodies, such as International financial Institutions or some NPBIs, are entrusted by the Commission after an ex ante assessment by an independent professional auditor that provides evidence that the entity meets requirements set up in the article 60(2). These requirements are clustered in seven pillars:

1. Internal control
2. Accounting
3. External audit
4. Grants
5. Procurement
6. Financial instruments
7. Sub-delegation

Only the pillars 1, 2 and 3 are always subject to assessment, and at least one of the Pillars 4 to 7 should apply and be subjected to assessment.

In addition to that, the Commission's proposed regulation set conditions for the selection of NPBIs as implementing partners. A distinction is made in this respect between the national compartment and the EU compartment.

For projects financed under the Member state compartment, the Commission will select the implementing partner proposed by the member state. This can be the NPBI of the country, providing the latter has passed the pillar assessment in line with article 60.2 of the Financial Regulation.

For projects financed under the EU compartment, the Commission will select the implementing partner by taking into account various criteria listed in article 12.2: the capacity to fulfil the objectives of the InvestEU Fund, to contribute their own resources, to crowd-in private investors, to provide adequate geographic and sectorial coverage and to contribute to new solutions to address market failures and suboptimal investment situations. However, the preamble of the Regulation also states that the EIB group will remain the privileged implementing partner under the EU compartment. Since this 'privileged' status is not mentioned in the articles, it is not clear how exactly it will be operationalised in the selection procedures.

Article 12.1 also mentions that NPBIs will be only eligible to be implementing partners in the EU compartment if they cover at least three member states, and that they may form a group for that purpose. The intention of the Commission is therefore to encourage NPBIs to form groups and apply jointly to the EU guarantee. This impression is reinforced by the intention expressed in the preamble to allocate around 75% of the EU guarantee under the EU compartment to implementing partners offering financial products in all member states.

4.1.5 Additionality

Whereas the proposed InvestEU Fund regulation does not include an article defining the criteria of "additionality", the new Financial Regulation, which is soon to be approved, includes a series of principles and conditions applicable to all EU financial instruments and budgetary guarantees (art 201). In particular, the new Financial Regulation states that all EU FIs and guarantees shall address market failures or sub-optimal investment situations and achieve additionality by avoiding replacing potential support from other public or market sources.

The application of these principles set up in the Financial Regulation, and particularly the fact that additionality is defined as the avoidance of substi-

tution effects and not only on the basis of the risk profile of the operations financed, constitutes an improvement with respect to EFSI's definition of additionality. However, assessing whether there is a risk of substitution is not easy, and the level of real additionality will depend in the very end on how exactly this principle is interpreted by the InvestEU governance bodies and integrated in the selection procedure.

4.1.6 Governance

NPBIs acting as implementing partners of the InvestEU will be well-represented in the governance of the mechanism. The Fund will have an advisory board which will provide the strategic guidance. This board will meet in two configurations: (i) a more political configuration, with representatives of the member states, and (ii) a more technical configuration, with representatives of all the implementing partners.

NPBIs will also appoint members to the bodies in charge of the projects' selection. A project team composed of experts put at the disposal of the Commission by the implementing partners will prepare the scoreboard on potential financing and investment operations. This scoreboard will then be used by the Investment Committee to assess whether to grant the benefit of the EU guarantee to these operations or not. This Investment committee will have different configurations to best cover different policy areas and sectors. It will be composed of external experts selected by the Commission.

4.1.7 The new InvestEU Hub: novelties with respect to EIAH

The InvestEU Hub does not present major changes with respect to the current EIAH, but there are some improvements. The Hub will become more clearly associated with the InvestEU Fund, as one of its main goals will be to support the development of a robust pipeline of investment projects in each policy window. Besides, more emphasis is given to the need to support member states lacking efficient advisory support markets. The regulation also says that the Hub "will be implemented through indirect or direct management depending on the nature of the assistance¨, seemingly confirming the Hub's willingness to develop a more tailored approach to bring cooperation forward with NPBIs.

4.2 Recommendations

The Commission's proposals respond to NPBIs' demands for more recogni-

tion and participation in the implementation of EU investment instruments. However, there are some aspects that could be improved to facilitate NPBIs' involvement and fully exploit the synergies between them and the EIB group.

4.2.1 Facilitate the appointment of NPBIs for the implementation of ESI-financed FIs

NPBIs maintain a close and special relationship with ESI managing authorities. All of those entrusted by the ESI authority to set-up and manage the instrument have been given this responsibility through direct appointment. However, some of the surveyed NPBIs mention "unclear rules on eligibility" as a negative point when asked about their experience in implementing the instruments, which seems to indicate that the fact that the current EU regulation does not explicitly mention NPBIs as eligible for the direct award of implementation tasks has posed some difficulties for the appointment

The new EU cohesion rules should explicitly mention NPBIs as entities to which ESI authorities can directly award the implementation of ESI-financial instruments. This will facilitate the establishment of ESI-financed FIs, and will also ensure consistency with the rules governing the transferring ESI resources to the InvestEU Fund. Under these rules, ESI authorities can set-up ESI-financial instruments backed by an Union-wide guarantee and directly appoint the implementation of these instruments to their own NPBI (more precisely, the Commission shall select the implementing partner but the latter is "based on a proposal by the member state"). If the member state can directly entrust to its NPBIs the implementation of ESI-financed FIs backed by the InvestEU Fund guarantee, it seems logical to give them also the possibility to directly entrust NPBIs the implementation of other ESI-financed instruments.

4.2.2 Better exploit the potential contribution of NPBIs in the EU compartment

The Commission's proposal makes an effort to target the InvestEU fund to projects having a clear EU added value. Although article 8 recognises different types of rationales justifying an action at the EU level, a lot of emphasis is put on geographical coverage. This is welcomed, as in the past the distribution of FIs was too often strongly concentrated on few countries[35]. Addressing this problem, however, should not prevent us from exploiting other types of positive effects that can bring the action at the EU level.

35. At the end of 2016 75.3% of the financial support provided by COSME LGF went to only three countries (Italy, Germany and France) and the same countries received 51.3% of support from InnovFin SMEG.

Added value can also come from the capacity of the EU level to top up national spending in countries having the most pressing needs (e.g. reinforce support to SMEs in countries where commercial banks are under severe liquidity constrains), or to develop new financial solutions in front of new or complex market failures.

While the efforts to encourage NPBIs to form groups and apply together to the EU guarantee are welcomed, limiting the possible contribution of NPBIs to the EU compartment to a question of geographical coverage is a bit restrictive. NPBIs can make an important contribution in financing projects or actions related to Union policy priorities in their own territory.

Moreover, requirement of article 12.2 (making NPBIs only eligible to be implementing partners in the EU compartment if they cover at least three member states) seems a bit redundant, as article 12.1 already includes as criteria for selection "adequate geographic and sectorial coverage". It is also curious that NPBIs will not be allowed to use the EU guarantee to finance projects taking place in one single country (except if their own government transfers ESI resources to the Fund) whereas the EIB group will be allowed to do so.

4.2.3 Transparency and clarity in the selection of implementing partners

While the preamble of the Regulation also gives to the EIB group the status of 'privileged implementing partner', it is not clear how exactly this will be taken into account at the moment of selecting the implementing partner.

There is in fact a lack of information on the rules and procedures for the selection of the implementing body. Article 12.1 only says that the Commission will select them from among eligible counterparts and on the basis of article 154 of the Financial Regulation (which sets out general principles applicable to public contracts financed by the budget and specifies, among others, the need to respect the principles of transparency, proportionality, equal treatment and non-discrimination).

Any exception to this rule of non-discrimination should be well-justified. There may be operations in which the EIB clearly offers an advantage (given its capacity to operate in all member states and the existing experience under the current financial instruments and the EFSI), but in others it may not be the case. The criteria for selection may therefore be different from one operation to the other, and as a general rule the selection should be transparent, open and competitive. Finally, the Commission should also encourage as much as possible the co-financing between EIB and

NPBIs, by allocating the EU guarantee on an equal basis to two entities co-investing in a same project.

4.2.4 Give to NPBIs a preferential role when acting as financial intermediaries

The InvestEU Fund regulation does not give much detail on the specific functioning per thematic window, but it is clear that the SME window will build on the experience with existing programs such as COSME or InnovFin SMEG.

As seen in section 3, NPBPs are very fond of these programs and they are largely involved as financial intermediaries. However, they complain of unfair competition with commercial banks, which are not under state aid rules as they are. On the other part, existing evaluations of COSME and InnovFin SMEG show that NPBIs consistently perform better than commercial banks as financial intermediaries, as they are better in targeting the businesses that are more likely to genuinely need a public guarantee. They also ensure the coherence between EU and national guarantee schemes and, as they cooperate with all commercial banks in their domestic markets, they are able to cover all SMEs.

Given all these facts, it seems advisable to give greater recognition to NPBIs in their role as financial intermediaries. NPBIs could be given the status of 'natural partners' in the implementation of EU guarantee schemes. This could imply, for instance, that in countries in which there are NPBIs willing to act as financial intermediaries, and having a good track-record in the implementation of COSME or InnovFin SMEG, the EIF could give them the exclusivity in the implementation of the SME window in their national territory. Thus, the EIF would sign a counter-guarantee contract with the NPBI and would engage not to sign any other guarantee or counter-guarantee contract with any other actor in the same country.

4.2.5 More focus and prioritization in EIAH's activities

While nobody doubts on the benefits of adopting a EU-wide approach and improve the coherence in the provision of advisory services, the original EIAH vision of a "single gateway" providing investment support to any project across Europe through different local antennas seems at odds with reality. The reality is that advisory support requires a deep knowledge of local needs and demands, and that most NPBIs are already very active in providing advisory services to public and private promoters.

Given its limited resources, the Hub should concentrate on those interventions that provide real EU added value. Providing capacity building support to those member states not having efficient advisory support markets is one of them. The Hub could also play a major role in coordinating public sector service providers and pooling existing expertise across Europe. The 2017 December call for proposals include as possible eligible actions voluntary "twinning programs" between NPBIs (that is, programs through which one NPBI helps develop the advisory capacity of one of more other NPBIs). This type of actions should be more incentivized, as they are important to reduce existing geographical disparities in the quality and availability of advisory support services. In the 2017 December call for proposals, the establishment of such type of actions is only granted with 6 additional points (out of a total of 100) in the final award score.

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ANNEXES

ANNEX 1 ■ List of National Promotional Banks and Institutions (NPBIs) in the EU

The following list includes entities fulfilling the criteria established in art 2.3. of EFSI regulation ("legal entities carrying out financial activities on a professional basis which are given a mandate by a member state or a member state's entity at central, regional or local level, to carry out development or promotional activities"), excluding: a) entities operating at regional and local level and b) financial institutions having a sector-specific public mandate (e.g. support to agriculture), public export credit or development institutions (institutions whose only mission is to support development of third countries).

For the elaboration of the list, we have crossed different sources of information:

- List of members of the two EU-level associations representing financial entities with public mandates (ELTI and NEFI);
- Entities included in the "NPBIs task force" (a forum of exchange of information set up by the EIB at the moment of discussing the Juncker Plan;
- Entities included in the list of NPBIs and Multilateral Development Banks (MDBs) involved in EFSI operations, which is regularly updated by the Commission.

Country	Acronym	Full name	Member of ELTI	Member of NEFI	Member of NPBIs Task Force	Included in the list of NPBIs participating in EFSI (last up-date 2/2018)
Austria	AWS	Austria Wirtschafts-service Gesellschaft Mbh	no	yes	yes	yes
Belgium	SFPI	Société fédérale de participations et d'investis-sement	yes	no	yes	yes
Bulgaria	BDB	Bulgarian Development Bank AD	yes	yes	yes	yes
Croatia	HBOR	Hrvatska Banka za Obnovu i Razvitak	yes	yes	yes	yes
Czech Republic	CMZRB	Ceskomora-vska Zarucni a Rozvojova Banka AS	yes	yes	yes	yes
Den-mark	VF	Vaekstfonden	yes	no	no	yes
Estonia	KredEx	KredEx / Fund KredEx	no	yes	no	yes
Finland	Finn-vera	Finnvera PLC	no	yes	yes	yes
France	Bpi-france	Bpifrance	yes	yes	yes	yes
France	CDC	Caisse des Dépôts et Consigna-tions	yes	no	yes	yes
Germa-ny	KfW	National Kreditanstalt für Wieder-aufbau	yes	yes	yes	yes

Greece	CDLF	Consignant Deposits and Loans Fund	yes	no	no	no
Hungary	MFB	MRFB Magyar Fejlesztesi Bank ZRT	yes	yes	yes	yes
Ireland	SBCI	Strategic Banking Corporation of Ireland	yes	yes	yes	yes
Italy	CDP	Cassa Depositi e Prestiti	yes	no	yes	yes
Latvia	ALTUM	Latvijas Attistibas Finansu Institucija Altum	yes	yes	no	yes
Lithuania	VIPA	Public Investment Development Agency	yes	no	yes	yes
Lithuania	INVEGA	INVEGA	yes	no	no	yes
Luxembourg	SNCI	Société nationale de Crédit et d'Investissement	yes	yes	yes	yes
Malta	Malta Development Bank	Malta Development Bank	no	no	no	yes
Netherlands	NIA	Nederlands Investerings Gentschap	yes	no	yes	no
Netherlands	BNG Bank	Bank Nederlandse Gemeeten	no	no	yes	yes
Netherlands	NWB Bank	Nederlandse Waterschaps Bank	no	no	yes	yes

Poland	BGK	Bank Gospodarstwa Krajowego	yes	yes	yes	yes
Portugal	IFD	Instituicao Financeira Desenvolvimento	no	no	yes	yes
Portugal	SPGM	Sistema Português de Garantia Mutua	no	no	yes	yes
Romania	Eximbank	Eximbank	no	no	yes	no
Slovakia	SZRF	Slovenský záručný a rozvojový fond, s.r.o.	no	yes	no	yes
Slovenia	SID Banka	Slovenska Izvozna in razvojna Banka de Ljubljana	yes	yes	no	yes
Spain	ICO	Instituto de Credito Oficial	yes	yes	yes	yes
Sweden	ALMI	ALMI Företagspartner AB	no	yes	yes	yes
United Kingdom	BBB	British Business Bank	no	yes	yes	yes

ANNEX 2 ■ Types of FIs supported by the EU budget

FIs can support projects by providing five main types of financial products:

a. Loans. An agreement which obliges the lender to make available to the borrower an agreed sum of money for an agreed period of time and under which the borrower is obliged to repay that amount within the agreed time. As FIs, loans take the form of "**soft loans**" to firms not having access to commercial bank financing (loans with lower interest

rates, longer repayment periods or have lower collateral requirements). They can also consist into **microcredits** to very small firms or entrepreneurs which do not have access to credit because they lack collateral and a credit history. Loans are easy to administer and have limited management costs. They can be implemented through a financial intermediary (e.g. commercial banks) or directly implemented by the public authority (e.g. a credit line managed by the Commission or by the ESIF managing authority). They have a defined repayment schedule, which makes budgeting easier. However, they require more initial resources than unfunded products such as guarantees.

b. Guarantees. A written commitment to assume responsibility for all or part of a third party's debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default. Guarantees normally cover financial operations such as loans. Guarantees can be capped (on a loan-by-loan basis or on a portfolio basis) or uncapped (losses incurred are fully covered). They can consist into **direct guarantees** to banks and other financial intermediaries who extend loans to final recipients, or **counter-guarantees** to commercial guarantors, who issue guarantees to banks and other financial intermediaries providing loans to final recipients. Unfunded products such as guarantees require less initial support than funded products such as loans. However, they represent a risk reserve for the lender and do not provide liquidity.

c. Equity investment. It consist into the provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits. Since creditors are usually paid before owners in the event of business failure, equity investment is more risky that debt investment, even if the financial return depends on the growth and profitability of the business. As FIs, equity instruments are typically used to help firms in the early stage (covering high-risk seed and start-up investment) or to finance in mature highinnovative firms. Equity instruments are more risky than debt instruments (loan and guarantees) but provide higher returns. Its benefits can go beyond the provision of financial support, as the company may benefit from investor's management expertise and may encourage investment by local private equity industry. However, these instruments are more difficult to administer. They are time-consuming and cost-intensive, and

require an active role in project management and access to shareholder information for the investor.

d. Quasi-equity investment. A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. There are different forms of quasi-equity investment (also known as **mixed instruments or mezzanine investments**). They can consist into **subordinated loans** (loans that have a lower repayment priority than senior loans), convertible bonds (a bond combined with a share option where the holder may exchange the bond for a predetermined number of shares at a predetermined price) or **preferred stocks** (stocks that entitle the holder to a fixed-rate dividend, paid before any dividend is distributed to holders of ordinary shares). In general quasi-equity investments are more difficult to administer than classic debt instruments (loans and guarantees). As equity investments, they are time-consuming and costintensive. Their risk-return profile typically falls between debt and equity in a company's capital structure. They provide higher returns compared to pure debt instruments.

e. Risk-sharing mechanisms. A financial instrument which allows for the sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration. An example is the **Risk-Sharing Finance Facility** set up in 2007-12, by which the EU and the EIB were risk-sharing partners for loans provided by the EIB directly or indirectly to research and development projects. Some **pan-EU equity funds** such as the Marguerite Fund or the European Energy Efficiency Fund also enter into this definition. They typically merge funds from the EIB with those of other big National Promotional Banks and count with a contribution from the Commission (EU budget).

Sources: European Commission (2015), Guidance for member states on Financial Instruments – Glossary, EIB- Fi Compass (2015) Financial Instrument products: Loans, guarantees, equity and quasi-equity

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MAKING BETTER USE OF PUBLIC FUNDING

THE ROLE OF NATIONAL PROMOTIONAL BANKS AND INSTITUTIONS IN THE NEXT EU BUDGET

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