Recommendations to Optimize EU Financial Instruments/Budgetary Guarantees and EU Promotional Policies

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- **Massive amounts of private capital are needed to finance the European economy and its green and digital transitions. These investments are held back by excessive risks, uncertainties, and lack of alignment of incentives to stimulate the desired underlying economic activities.**
- **Financial instruments and budgetary guarantees, especially EU-level guarantees for loans, loan portfolios and securitizations, can help to mitigate risks and "crowd in" private capital.**
- **To have optimal impact, financial instruments and budgetary guarantees have to be targeted, standardized, simple, digital and marketable.**
- **The EBF, as the representative of European private sector banks with a long-standing engagement in partnering with public sector institutions, is committed to cooperation with the EU and national authorities in the process of streamlining and optimizing these funds.[1]**

Introduction

The green and digital transformation of the EU economy fundamental for the future of the European society. Investments in this dual transition are also an opportunity for increasing Europe's competitiveness. The project requires massive levels of private investment, first of all because public budgets will not be sufficient by themselves for all the investments to be carried out households and corporations for de-carbonization, digitalization, and the deployment of other key technologies. The EU Commission estimates the additional investment requirement at 620 billion euros per year just to meet the objectives of the Green Deal and the "REPowerEU" plan.

Another reason why private investment needs to increase is that certain essential investments are best undertaken by the private financial sector (eg the risk capital financing of clean tech entrepreneurship). The EU is in need of more financing for technology start-ups and scale-ups in the clean tech sector. At the same time, the general conditions are challenging and increase risks in bank balance sheets, and capital markets remain fragmented and under-developed. In addition to these structural challenges, a weak

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economy, geopolitical risks and energy prices add to transition risks, compliance costs and complexities to constrain financing for these vital investments.

The EU can address these short- and long-term challenges by creating an enabling framework for the full scope of bank and market financing. A combination of bank loans, public and private funds and the capital market financing is needed. Risk-sharing instruments play a crucial role in enhancing banks' capacities for financing.

The EIB Group (EIB and EIF), acting as the financing arm of the European Union, has a crucial role in mobilizing public and private financing towards investment priorities shared by Member States.

There is a wide range of EU financial instruments and budgetary guarantees in place that are already positively received by the market. Nonetheless, further improvements of certain instruments could be made to maximize their impact.

Enhancing Market Attractiveness of InvestEU

The InvestEU program could be an excellent starting point to channel increased amounts of private capital into SMEs, sustainability, digitalization and social investments via guarantees. Banks qualify the program as helpful, where it is used as an off-the-shelf-product for existing exposures meeting the InvestEU criteria. In addition, the guarantee can be used for small and mid-cap exposures.

Increased level of complexity in the use of InvestEU

InvestEU is, nevertheless, very complex. Extensive **product requirements, reporting obligations, due diligence and other administrative requirements** for both financial intermediaries and the implementing partners, stemming from **the InvestEU regulatory framework** and the **EU Financial Regulation**, have led to an increased level of complexity. **Smaller banks** and/or banks specialized in SME financing might not be able to make use of InvestEU as they do not have the respective capacities and ticket sizes to achieve an attractive cost-benefit ratio. It is important to note that this level of complexity does not represent a **problem for small institutions** only, but it also affects **large institutions** with extensive experience in implementing EIB and EIF products in the previous MFF, for example.

Standardization of guarantee programs to enhance market uptake of InvestEU

A **simple, targeted, standardized, digital guarantee program for SME and sustainability financing** could enhance the market uptake of the program. It is the simplicity and ready-to-use design of budgetary guarantees and financial instruments that should make them attractive for the end-users, in comparison to grants that bear a heavier load of reporting obligations. If these advantages are not there, demand from applicants would be dampened.

Introduction of a dedicated help desk: support in the intermediation of EIB Group financial instruments

The introduction of a dedicated help desk to **assist banks in the intermediation of currently available products** would prove to be helpful and efficient in supporting banks in their **evaluation of complex projects** and **eligibility criteria**. In this respect, the rationale behind the EIBG's Green Gateway Helpdesk Portal Initiative, supporting "green" operations under the Invest EU umbrella, should be extended to all areas where complexity is expected (i.e. innovation and digitalization). Moreover, setting up a **general email address** at the implementing partner to solve **questions related to unclear methodology** could prove to be useful, as well as increasing the frequency of publication of FAQ. As those key implementation measures may lead to costs increase for the implementing partners, the limitations in the InvestEU regulation to recover those costs from the

EU budget should be put into question; otherwise, cost increases for the banks and financial intermediaries and final recipients would make the products less effective.

Increase the InvestEU budget available for banks' intermediation and the lending capacity of implementing partners

Banks do have the ambitions to extend the InvestEU guarantee for sustainability, digitalization and innovation. However, **InvestEU's budget envelope to distribute among banks is too constrained.** The current budget of 10.5 billion EUR for a period of 7 years should be topped up, combined with budgetary constancy, irrespective of the MFF.

In addition, it is important to enable the InvestEU program to achieve a larger impact by increasing the lending capacity of implementing partners (e.g. increase of the provisioning rate of budgetary guarantees to allow for more risk-taking).

Also internal measures at the Implementing Partners may help in this respect. For example, we welcome the recent proposal to raise the gearing ratio of the EIB as this will enable the implementation of additional mandates from the EU budget, whilst preserving the EIB capital buffers and credit rating assessments.

Promotion of Securitization

Securitizations are suitable market instruments that can involve public and private capital with the purpose of financing the real economy: they can serve as a bridge between the European SMEs seeking financing, European financial institutions seeking capital relief and/or funding, and the investors of European debt capital markets. Securitizing corporate/retail loans enables banks and other FIs to relieve regulatory capital or access to additional funding, which creates additional capacity to originate new loans such as SME loans and green loans.

However, the EU's securitization market lags behind other economic regions: the number of operations carried in Europe in 2023 amounted to 213.3 billion EUR (vs. 1.3 trillion EUR in the US).

It is a positive signal to the market that the EIB Group is involved in securitization transactions. In principle, greater involvement of the EIB/EIF in origination, structuring and executing securitisation transactions could strengthen confidence in this instrument. An expansion of plausible investments in terms of securitisation structures and asset types to cover the entire spectrum of transition finance would enable this greater involvement. At the same time, a standardized procedure could improve the economic efficiency of such transactions.

In order to meet the financing needs of transition, banks must be offered some flexibility with regards to their balance sheets. Reviewing the prudential treatment of securitization for banks and insurance companies, as well as the reporting and due diligence requirements, is of utmost importance.

Securitization, whether through securitizing green assets or directing securitization use of proceeds towards green financing, plays an important role in ensuring the transition's success. The EU green bond standard (EUGBS) could serve as a point of reference for this, as it provides a chapter solely for the regulation of such green securitizations. However, its practicability and market acceptance need to be evaluated after it comes into application at the end of 2024. Yet, as EIB/EIF securitization transactions may tend to be increasingly connected with complex processing and reporting for financial partners, adding a green linkage to them must not lead to more bureaucracy, the costs of which may exceed the benefits.

Digitalization and simplification of EIB/EIF Programs

Commercial banks have many years of experience with EIB Group financial products, such as loans or guarantees offered to banks and other financial intermediaries. The attractiveness of such EIB/EIF programs arises from the opportunity for banks to expand their refinancing options and to de-risk and thus achieve greater lending scope for the financing of companies. In addition, end-borrowers benefit from favorable conditions and banks may improve their ESG reporting. Many of these operations (both guarantees offered by the EU or Member States to the EIB Group and operations directly entered by the EIB with end recipients) benefit (at portfolio level) from a coverage by the EU or the Member States (e.g. InvestEU, EGF); in such cases, some of the requirements are driven by those underlying EU programs.

However, the market acceptance of EIB/EIF programs suffers in some cases from excessively complex and outdated processing procedures:

- Documentation requirements on compliance with EU legislation included in EIB credit/guarantee agreements are way too bulky (e.g.30 pages when the EIB is included, compared to seven when the EIB is not). They should be reduced to the minimum needed, namely taking into account the fact that companies supported by the EIB undergo their bank‘s due diligence processes. This should also be recognized in the financial regulation and legal basis of the underlying EU programs (e.g. InvestEU) that may cover those agreements.
- The very complex definition of SME at the European level adds a further layer of complexity, requiring each bank to verify the SME status both at the level of the end-user of the financing and of the entire economic group. This implies the consideration of all associated companies, as well as the collection of audited financial statements from each of them, for three years prior to the financing: the goal is the verification of whether they meet the employees' thresholds, revenues and balance sheets to fit within the SME definition, adding a further layer of complexity in tasks to be performed by commercial banks. Also here the underlying EU programs should take this into account.
- Quarterly reporting has to be carried out via Excel lists sent by email and data manually requested from customers. In addition, the data to be reported to the EIB/EIF, particularly in the ESG area, does not necessarily match the data commercial banks have on their customers in their systems. This results in the need for large capacities for back office processes. Bureaucratic complexity in the preparation stage of the cooperation agreement between the bank and the EIB Group has shown to be increasing in new and more recently signed deals. This also links to the concerns raised in the first bullet point on heavier reporting requirements under EU programs which the EIB Group needs to pass on to its financial intermediaries where relevant.
- In some cases, the EIB/EIF checks for compliance with the funding conditions (economic activity, NACE codes, SME criteria) take several months. In the event of a negative decision, commercial banks must then use their own funds in order to be able to grant the company the contractually agreed credit conditions.

More generally, **simplification should be extended to the entire EIB Group**, **standardizing evaluation rules between the EIB and EIF** in areas in which they are both active, such as, for example, in the green sector. Standardized processes would allow for more **efficient interactions** and relationships both between the EIB Group and banks and, as a consequence, between banks and their customers.

Streamlined contracts and digitalized processing, together with reduction of administrative requirements at the EU level, could simplify procedures and could increase the market acceptance of EIB/EIF products.

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