Conference on European Economic Integration

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Panel: The EU budget

Introductory remarks by Stéphane SAUREL

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Dear Governor,

Ladies and Gentlemen,

I would like to share a strong conviction: one of the main challenges of the negotiation of the next multiannual financial framework (MFF) is how to do more with less.

In the coming years, the European Union (EU) will face a wide range of challenges, such as the digital revolution and globalisation, demographic change and social cohesion, economic convergence, migration and climate change.

At the same time, citizens are looking to the Union to deliver prosperity, stability and security in a fast-changing and uncertain environment.

And, further unexpected challenges might emerge.

Is the EU budget well and fully equipped to respond?

The constraints in terms of size, structure and composition of the EU budget are well known. And the negotiation will be even more difficult this time because, on top of that, there is the gap arising from the United Kingdom's withdrawal and from the financing needs of new priorities.

In order to address structural investment gaps and new EU policy priorities, in order to face significant internal and external challenges, there is a need to invest more within the EU and beyond. And it is pretty clear that public investment alone will not be sufficient. There is a need to crowd-in private investment.

Financial instruments, such as guarantees, loans and equity are key to allow us to do more with less and leverage the EU budget to deliver on EU policy priorities.

But there is one condition: they need to be well-designed. With a clear strategy and a set of criteria to determine which tools are most appropriate for market needs, beneficiaries, and objectives.

That is exactly where the European Investment Bank (EIB) enters the game, being the largest international financial institution in terms of volumes and impact.

There are three main building blocks of the next MFF, which are of particular interest for the EIB:

-InvestEU, which will replace the current European Fund for Strategic Investments, the so-called Juncker-plan;

-the Neighbourhood, Development and International Cooperation Instrument (NDICI), which is the future tool for support outside the EU, encompassing various current mandates;

-and the Cohesion policy, as Cohesion is at the very heart of the EIB operations, with more than 30% of our financing.

Let me further elaborate on those three blocks.

<u>First of all, InvestEU.</u>

The idea is to end the current fragmentation and replace all the existing equity, guarantee and risk-sharing instruments by one single programme, the InvestEU Fund.

The Commission proposed four windows:

-sustainable infrastructure;

-research, innovation, and digitalisation;

-Small and medium-size enterprises (SMEs);

-social investment and skills.

With a budgetary guarantee of 38 billion euros, InvestEU is expected to mobilise more than 650 billion euros of additional investment across Europe.

There are some positive points:

-one single framework/rule book for all the EU financial instruments;

-better incentives to mobilise structural funds for InvestEU;

-and less overlap with other EU instruments.

But there are on-going discussions between the European Commission and the EIB because the Bank expressed some concerns on the initial proposal:

-the duplication of banking functions by the Commission, which would be responsible for risk management, rating mapping and portfolio modelling;

-extra burdens with additional levels and layers of approval for EIB Group operations;

-a risk in relation with the geographical balance, as small or young National promotion banks (NPBs) or Member States without NPBs would be disadvantaged;

-and finally, duplication of resources would increase the overall costs to be borne by Member States.

The idea is therefore to build on the success of the European Fund for Strategic Investments.

This Fund is a success-story:

-the initial target of 315 billion euros of additional investments was reached in July 2018;

-according to the latest figures, 68.8 billion euros of EFSI financing have been approved for a total investment of almost 360 billion euros. Therefore, the EU is on track to reach the target of 500 billion euros by the end of 2020;

-smaller companies, research, development and innovation, energy and digital are the main sectors concerned;

-it is clearly a way to improve the citizens' life with for instance better access to high speed Internet, renewable energy or health care services;

-and the geographical coverage shows the cohesion orientation of this instrument, the countries benefiting the most of it in relation to their GDP are those with a lower GDP.

What are the key factors of such a success?

-a joint management between the European Commission, which is in the driving policy seat, and the EIB, which brings the financial expertise;

-a market oriented and client centric approach: private investment amounts 70% of EFSI co-investment;

-a flexible implementation structure focusing on product innovation and scale-up of functioning products. It is worth noting that 80% of clients are new to EIB;

-a close cooperation with NPBIs. 25% of EFSI operations are with NPBIs.

Why experimenting and changing a concept which delivers?

Building on the success requires a strong partnership between the European Commission and the EIB, based on strong EC policy steer and EIB Group banking competences.

The structure would be based on:

-EU guarantee granted by the Commission;

-two compartments: EU and Member States' compartments;

-the EIB providing all banking-related activities for the EU guarantee, with some adaptations for the Member States' compartment;

-EIB would implement the major part of the EU compartment through an EIB window, while NPBIs would get their own window and would also be involved in the context of the Member States' compartment;

-EIB would also managed the advisory hub.

<u>Second building block, NDICI.</u>

10% of the financing provided by the EIB are operated outside the European Union.

EIB signatures outside the EU reached 7 billion euros in 2017.

EIB share of EU official development assistance amounts 32%.

External Lending Mandate and the private sector focussed Investment Facility enabled the EIB to respond forcefully to EU policy priorities, such as migration, Ukraine, Economic diplomacy or climate action with a target of 35% outside EU by 2020.

The European Council emphasised several times that EU support to developing countries should not only be implemented through grants but also by increasing the use of financial instruments.

How could one build on the current framework to better reach our political goals in terms of development?

The EIB proposes an External Action Guarantee with three components:

-the European Fund for Sustainable Development Guarantee, managed by the European Commission, would focus on pre-bankable operations in fragile States and Least Developed Countries;

-the continuation of the External Lending Mandate would be managed and implemented by EIB;

-the Development Finance Institutions' component would be managed by EIB and implemented by Development Finance Institutions.

Third building block, the Cohesion Policy

EU Cohesion policy is at the very heart of EIB Group's operations as one of the main goals for its financing. More than 30% of its financing.

EIB involvement covers:

-pre-financing of the national co-financing share via Structural Programme Loans;

-managing Holding Funds of Development Finance Institutions (JESSICA or JEREMIE type);

-accompanying advisory services in the area of financial instruments;

-other important cohesion-related advisory services, including cohesion-related (JASPERS, ELENA);

-SME initiative.

EIB has three priorities as far as Cohesion policy is concerned:

-the continuation of providing national co-financing with Structural Programme Loans; EIB could even step up this activity in order to match funding gaps due to proposed lower EU co-financing rates;

-the continuing involvement in the implementation of financial instruments alongside and partnering with NPBIs;

-the mobilisation of EIB expertise to build capacity in project development, preparation and implementation and to set up financial instruments under shared management.

All that is crucial because it is about jobs and growth in Europe.

If you allow, as a conclusion, I would like to insist on two points:

-the EU budget and the EIB are the two major financing tools at EU level to support investment; they need to work hand in hand to match the political goals defined by the European Council;

-the negotiation on the next multiannual financial framework is still somehow at its early beginning as the Heads of State or Government will have their first substantial discussion in December. However, it is already clear that the budgetary constraints are so important that there is a need to be creative. Doing more with less is the way to reconcile political goals with budgetary constraints. EIB can help to square the circle.

Thank you very much.