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The role of National Promotional Banks (NPBs) in supporting the
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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

**Working together for jobs and growth: The role of National Promotional Banks (NPBs)
in supporting the Investment Plan for Europe**

Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe

1. Introduction: Key role of NPBs in the implementation of the Investment Plan for Europe

On 26 November 2014, the Commission launched its Investment Plan for Europe¹, a coordinated and comprehensive effort to mobilise at least EUR 315 billion in additional public and private investment into the real economy in three years. While implementation of the plan relies mainly on the Commission and EIB working together as strategic partners, an effective involvement of National Promotional Banks (NPBs) is necessary to enhance its impact on investment, growth and employment due to their particular expertise and their knowledge of the local context, business and investor communities as well as national policies and strategies. Member States that do not yet have an NPB may consider setting one up. In addition, investment platforms can play a key role in pooling the resources of the EIB, NPBs and private investors. This communication gives guidance and provides clarity on how best to set up such banks and platforms.

To date, eight NPBs (from Bulgaria, France, Germany, Italy, Luxembourg, Poland, Slovakia and Spain) have committed to provide co-financing to projects and investment platforms, for a total financing volume of up to EUR 34 billion.

NPBs play an important role in catalysing long-term finance. In recent years, they have stepped up their activities, aiming to counterbalance the necessary deleveraging process in the commercial banking sector. They also play an important role in implementing EU financial instruments beyond the scope of the Investment Plan. A number of Member States that did not have an NPB before have decided to establish one, while others are considering setting up a new NPB.

During the consultation on the Green Paper on long-term financing of the European economy², calls were made for better exploiting the synergies between the EU budget, the European Investment Bank (EIB) Group and NPBs in policy areas such as climate change, environment, innovation and social and human capital development. Given the urgent need to boost investment and the limited fiscal space available on average in Europe, an optimal use of public resources is needed more than ever. A smarter use of public resources, in order to crowd-in private actors, is at the heart of the Investment Plan for Europe. Enhanced cooperation between NPB's on the one hand and the Commission and the EIB Group on the other is therefore a key condition for the success of the Plan. This is also clearly reflected in

¹ Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic And Social Committee, the Committee Of The Regions and the European Investment Bank – An Investment Plan for Europe, COM(2014)903 final, published on 26 November 2014

² See Communication from the Commission to the European Parliament and the Council on Long-Term Financing of the European Economy, COM(2014)168 final, published on 27 March 2014

the regulation on the European Fund for Strategic Investments (EFSI)³, which establishes the legal basis for the first strand of the Investment Plan.

Against this backdrop, the present Communication provides guidance to Member States intending to set up a new NPB, building on best practices. In addition, it sets out a number of key principles for the collaboration of NPBs with the EIB Group and the Commission as well as amongst each other in the context of the Investment Plan, in particular through investment platforms. It also clarifies the way contributions from NPBs to investment platforms should be accounted for, and the procedure regarding the State aid component of the co-financing.

2. Setting up NPBs

2.1 Rationale for setting up NPBs

For purposes of this Communication, NPBs 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, as set out in Article 2(3) of the EFSI Regulation. This definition comprises NPBs in very different forms, distinctive promotional products being offered according to country-specific needs. It remains up to individual Member States to decide whether an NPB should be established, as well as on its shape and form.

The principal economic rationale for a promotional bank is that market failures may lead to less investment and, thus, slower future growth than would be economically efficient, and that an institution with a public mandate is better placed than private operators to overcome these market failures.

Market failures can be the result of (i) asymmetric information, (ii) externalities and (iii) market power (weak competition). They affect both the demand and supply of investment. Typical examples include (i) credit rationing and high return requirements due to banks' high transaction costs for identifying viable investment projects (e.g. in the SME sector), (ii) underinvestment in areas such as research & development, infrastructure, education and environmental projects, where the benefits of investments can accrue also to competitors and (iii) under-supply of financial services resulting from market concentration due to mergers, exits of competitors or other impediments to effective competition. A specific externality in the EU context lies in the enhanced market integration fostered by cross-border projects.

Some of these market failures can be addressed by promotional banks or other intervention mechanisms. For example, a promotional bank can improve the supply of investment finance in areas affected by market failures. By contrast, structural policies are better placed to enhance the universe of profitable projects (e.g. by improving legal certainty, streamlining administrative procedures, lowering factor costs, etc.). This is why the regulatory and structural reform agenda forms an integral part of the Investment Plan. Establishing an NPB is not a substitute for necessary reforms.

³ Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments (OJ L 169, 01.07.2015, p. 1).

A variety of public institutions are active at national level. Among the largest, Kreditanstalt für Wiederaufbau (KfW, Germany), Bpifrance (France), Caisse des Dépôts et Consignations (CDC, France), Cassa Depositi e Prestiti (CDP, Italy), Instituto de Crédito Oficial (ICO, Spain) and the recently-created Green Investment Bank and British Business Bank (United Kingdom) provide financing to key sectors and invest in projects in innovative, environment-friendly and social areas where market failures have been identified. Portugal, Ireland, Greece and Latvia have also recently established NPBs.

2.2 Guiding principles for setting up NPBs

NPBs, by correcting market failures, can play a welfare enhancing role, but proper policies need to be put in place to ensure that possible negative side effects of NPB action do not materialize, for instance:

- Losses to the guarantor governments stemming from substandard underwriting;
- Misallocation of investments due to political interference;
- Maintaining inefficient market structures, sectors with overcapacity or supporting undertakings in difficulty;
- Crowding out of private sector financiers, thus holding back financial sector development.

The legal and regulatory framework for NPBs, as well as their governance structures, is crucial to guard against these risks and to ensure maximum benefits coming from NPBs.⁴ National, regional and local legislation, as well as NPBs' statutes should thus take into consideration the existing best practices:

- The NPB statutes usually stipulate clearly that the bank will focus its operations on sectors where market failures are pervasive and which are thus underserved by commercial banks or other private finance providers. Moreover, with respect to the level of the investee companies, a level-playing field should be ensured, in particular in markets where state-owned enterprises and private sector companies compete in order to avoid market distortions.
- To avoid market distortions the need for the intervention for any newly-created NPB, or new area of intervention or new financial instrument should be justified, helped by an independent *ex-ante* assessment of the market failure to be addressed by the NPB, its relative effectiveness and efficiency, the market interaction between existing financing channels (both private and public) and the financial instruments to be adopted by the NPB. Indeed, particular consideration can also be given to the need of streamlining activities, avoiding overlaps with financing alternatives and managing interfaces with existing support schemes. Independent *ex-post* evaluation helps verifying the *ex-ante* assessment of the initiative's value-added. When operating in markets already served by commercial banks, it proves to help maintaining a level playing field in the financial markets when the NPB distributes its products indirectly through the commercial banking sector. Such close interaction with the private sector can enable the NPB not only to align its product range with the existing market gaps, but also to give a positive signalling effect about the

⁴ See OECD “Guidelines on Corporate Governance of State-owned Enterprises”, 2005.

bankability of types of projects that are outside the traditional investment policies of banks, and thereby catalyse private finance in its areas of activity without crowding out private-sector activity. In this way, it can be ensured that on-lending commercial banks pass on all the benefits to the final beneficiary in the real economy.

- NPBs prove to work best where they focus on economically viable projects and operate with sufficient profitability (albeit below private operators' cost of equity) to maintain financial soundness without continued capital injections by the government (profits mostly being retained to bolster future lending capacity). High standards of transparency and accountability are important for NPBs' reputation in the market, as well as professional management and the necessary degree of independence. Prudential supervision exercised independently by a separate entity further strengthens this reputation.
- Strategic guidance and monitoring of management by NPB boards requires authority, competencies, integrity, accountability and objectivity. Separation between board membership and executive management strengthens the oversight function of the board. While the promotional activities of an NPB are usually subject to approval by the supervisory board and as such allow for a link to the government through its presence on the board, the operational or banking part of an NPB is left to professional management and remains free from political interference.
- Sound risk management and internal control procedures prevent NPB boards from taking hazardous financial and organisational decisions.

New NPBs can benefit from the experience of established peers in a variety of ways to help them meet the above objectives. Several recently-created NPBs, such as the Portuguese Development Financial Institution and Ireland's SBCI relied on ad hoc bilateral cooperation with fellow NPBs.

In addition, the EIB and NPBs should be prepared to make available the expertise of the new European Investment Advisory Hub (EIAH) to share knowledge and best practices in areas within the scope of the EIAH's activities. NPBs can also make use of the EIAH as a local entry point for potential clients and stakeholders to accelerate project development. Finally the EIB and NPBs should be prepared to exchange staff on a temporary basis, which can be another valuable tool to build know-how within a newly-created NPB.⁵

2.3 State aid compatibility

NPBs are in most cases financed and supported by the State, which is a competitive advantage over private market participants. Their resources therefore constitute State resources in the meaning of Article 107(1) TFEU⁶ and their interventions qualify as State aid if all the other criteria of Art. 107(1) are met. As set out above, NPBs' fundamental economic rationale should lie in their ability to provide financing in areas where market failures lead to an undersupply of finance by private operators, or where the private market would not intervene at all. EU State aid rules are based on the same principle. They are designed to

⁵ These measures were agreed by a joint working group of EIB and NPBs with the participation of the Commission in preparation of the Investment Plan for Europe.

⁶ The classification of NPBs under national accounts (sections 2.4 and 3.3 below) is not relevant for Article 107(1) TFEU.

ensure that the interventions of NPBs are well-targeted to remedy market failures and thereby contribute to economic and financial development, while at the same time not distorting markets, crowding out private operators or keeping companies alive that would otherwise have exited the market.

Concerning the establishment, the remit and capitalisation of new NPBs, the recent decisional practice by the Commission sets out how the Commission assesses compatibility with State aid rules. Recent cases include the UK's Green Investment Bank⁷, the British Business Bank⁸, the Portuguese Development Financial Institution⁹, and the Latvian Single Development Institution.¹⁰ In those decisions, great emphasis was placed on the need to ensure that the NPBs in question will focus their operations on sectors where market failures are pervasive and which are thus underserved by commercial finance providers, typically banks, thereby avoiding that those NPBs' lending policy would crowd out private investment.

The participation in centrally-managed EU Financial Instruments was considered by the Commission to fall into the scope of activities of NPBs. For instance the remit of the British Business Bank involves participation in centrally-managed EU Financial Instruments or programmes implemented by the EIB Group. The Latvian Single Development Institution will also act as a financial intermediary by channelling co-funded programmes and projects of international financial institutions, such as the EIB Group, the European Bank for Reconstruction and Development (EBRD), or other national development banks, such as the Kreditanstalt für Wiederaufbau (KfW), in line with State aid rules.

The reforms introduced by the recent State Aid Modernisation facilitates the treatment of aid which is well-designed, targeted at identified market failures and objectives of common interest, and least distortive ("good aid").¹¹ Thus, in the Commission's recent decisions on State aid to NPBs, a detailed *ex ante* economic analysis of market failures was no longer deemed necessary for those activities which are in line with the *de minimis* regulations¹², fall within a block exemption regulation¹³ or are State aid measures approved under specific State aid guidelines. For other activities an *ex ante* study on market failures showed the need for intervention. Certainly, NPBs should also comply with the applicable State aid rules applying to final beneficiaries. For example, undertakings in difficulty should not be subsidised unless where explicitly allowed, e.g. in line with the Rescue and Restructuring Guidelines.¹⁴ In its

⁷ SA.33984 (2012/N), OJ C 370, 30.11.2012, p. 2.

⁸ SA.36061 (2014/N), OJ C 460, 19.12.2014, p. 1.

⁹ SA.37824 (2014/N), OJ C 5, 9.1.2015, p. 1.

¹⁰ SA.36904 (2014/N), not yet published.

¹¹ Communication from the Commission: "EU State Aid Modernisation (SAM)", COM/2012/0209 final, 8.12.2012. With further information available at:

http://ec.europa.eu/competition/state_aid/modernisation/index_en.html

¹² Commission Regulation (EU) No 1407/2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid, OJ L 352, 24.12.2013, p. 1; Commission Regulation (EU) No 1408/2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid in the agricultural sector, OJ L 352, 24.12.2013, p. 9; Commission Regulation (EC) No 717/2014 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union on de minimis aid in the fishery and aquaculture sector, OJ L 190, 28.6.2014, p. 45.

¹³ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187, 26.06.2014, p. 1, Commission regulation (EU) No 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union, OJ L 193, 1.7.2014, p. 1.

¹⁴ OJ C 249, 31.7.2014, p. 1.

decisions, the Commission noted positively when NPBs intervene indirectly via financial intermediaries to reduce risks of crowding out and discrimination of private finance providers, while the benefits of the aid should fully reach the final beneficiary.

In the Commission's recent decisional practice, market-based pricing policies were permitted typically in line with the Guarantee Notice¹⁵, the Reference Rate Communication¹⁶ or following the principles of *pari passu* investments, to avoid market distortions. In the case of the British Business Bank, for example, the investee company should show to that NPB that it has not been able to find financing on the market. Commercial activities by NPBs are however separated from their promotional activities in order to avoid cross-subsidisation.

The Commission's recent approval decisions foresee a review clause after four to seven years. Such a reassessment of the market failures and the remit of the newly created NPB is necessary to take account of economic development and the evolutions of the market and, by the same token, the evolution of market failures. On request by the Member State concerned, a review is also possible earlier; for instance, the initial scope of activities of the UK Green Investment Bank was extended in order to allow for investments in sectors additional to its initially approved remit as well as additional funding.¹⁷ Similarly, the decision on the Portuguese Development Finance Institution indicates that the Portuguese Government intends to extend the remit of the Institution to on-lending activities funded by multilateral financial institutions and other NPBs.

The Commission has also clarified, in its decision on the British Business Bank, that the mere regrouping of existing entities and/or ongoing activities, without additional capital or public funding to the resulting entity, is considered an internal administrative reorganisation of the Member State and is therefore not subject to notification.

Member States intending to set up a new NPB are invited to contact the Commission early on in their plans so as to facilitate the compliance with State aid rules in view of the standstill obligation laid down in Article 108 TFEU.

2.4 Statistical treatment of NPB lending and borrowing inside or outside the general government under the Stability and Growth Pact (SGP)

Lending and borrowing by NPBs meeting the guiding principles set out in sections 2.1 to 2.3 above is generally accounted for outside the general government statistics because lending decisions are taken at arm's length from the government and the members of the NPB's governing bodies are independent from the government. NPB operations meeting these requirements thus fall outside the scope of the EU Stability and Growth Pact, under these conditions.

If, to the contrary, financing decisions require government endorsement or the members of the relevant governing bodies (e.g. the Board) are government officials or otherwise act under the guidance of the government, the NPB becomes a captive financial institution and must be included in the government sector in national accounts. Detailed guidance on the accounting treatment of NPBs is provided by Eurostat's European System of National and Regional

¹⁵ OJ C 155, 20.6.2008, p. 10.

¹⁶ OJ C 14, 19.1.2008, p. 6.

¹⁷ SA.37554, OJ C 210, 4.7.2014, p. 1.

Accounts (ESA 2010)¹⁸, the Manual on Government Deficit and Debt on the implementation of ESA 2010¹⁹ and specific advice to Member States²⁰.

3. NPB cooperation and the role of investment platforms in the context of the Investment Plan for Europe

BOX 1:

To date, eight countries have announced that they will participate in the EFSI project via their NPBs (or similar institutions): Bulgaria, Slovakia, Poland, Luxembourg, France, Italy, Spain and Germany. At present, among the eight NPBs mentioned below, the only one classified inside government is the one of Luxembourg, while classification is being discussed at present in the case of the two Slovak units, the Bulgarian unit, the Spanish unit and Bpifrance.

In addition, the United Kingdom announced in July that it will make guarantees available to co-finance EFSI infrastructure projects in the UK (€8,5(£6bn)). The UK contribution is not via an NPB.

In detail, the amounts of the announced national contributions via National Promotional Banks are at present as follows:

- Bulgaria, June 2015, €100 million, Bulgarian Development Bank,
- Slovakia, June 2015, €400 million, Slovenský Investičný Holding and Slovenská Záručná a Rozvojová Banka,
- Poland, April 2015, €8 billion EUR, Bank Gospodarstwa Krajowego (BGK) and another public institution Polish Investments for Development (PIR),
- Luxembourg, April 2015, €80 million via Société Nationale de Crédit et d'Investissement (SNCI),
- France, March 2015, €8 billion via Caisse des Dépôts (CDC) and Bpifrance (BPI),
- Italy, March 2015, €8 billion via Cassa Depositi e Prestiti (CDP),
- Spain, February 2015, €1.5 billion via Instituto de Crédito Oficial (ICO),
- Germany, February 2015, €8 billion via KfW.

3.1 Cooperation between EIB and NPBs

Due to their complementary product ranges and geographic reach, NPBs play an important role in the implementation of the Investment Plan for Europe. While direct participation of NPBs in EFSI is allowed under the EFSI regulation, so far NPB's have expressed a clear preference for cooperating at the level of investment platforms and on the level of individual projects. Furthermore, the EFSI regulation provides that NPB's are eligible for coverage by the EIB guarantee provided by EFSI under a counter guarantee of the EU Guarantee.

¹⁸ <http://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF>

¹⁹ <http://ec.europa.eu/eurostat/documents/3859598/5937189/KS-GQ-14-010-EN.PDF/c1466fde-141c-418d-b7f1-eb8d5765aa1d>

²⁰ <http://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/advice-to-member-states>

The proposals of the working group on enhanced cooperation between the EIB Group and NPBs, which was set up at the request of the September 2014 EU Economic and Financial Affairs Council (Ecofin), reflect these preferences. While calling for flexible cooperation models, the group recognises the complementarities between the EIB and NPBs, where the latter can bring particular value-added based on their knowledge of the local context, business and investor communities as well as national policies and strategies. Cooperation can take place both on a bilateral and multilateral (e.g. via investment platforms) basis. Leveraging private sector resources constitutes a key objective in both cases.

Possible financial products for collaboration, in addition to co-financing at project level, include, among others, risk-sharing products to provide cover for unsecured lending and other riskier types of financing, joint securitisation platforms, venture capital funds, and other investment funds and platforms.

Cooperation on advisory services and staff exchanges should complement the financial cooperation to disseminate best practices across all institutions, including new and smaller NPBs.

More synergies between the EIB and the NPBs could be achieved when co-financing in terms of reducing administrative burden and achieving more standardisation. That could lead for example to a mutual recognition of due diligence procedures.

3.2 Cooperation through investment platforms

One possible way to foster cooperation between NPBs and the EIB is through investment platforms. Investment platforms are in essence co-investment arrangements structured with a view to catalysing investments in a set of projects (as opposed to individual projects). Investment platforms are a means to aggregate investment projects, reduce transaction and information costs and provide for more efficient risk allocation between various investors.

Investment platforms can be special purpose vehicles, managed accounts, contract-based co-financing or risk sharing arrangements or arrangements established by any other means by which entities channel a financial contribution in order to finance a number of investment projects. The scope of investment platforms may include national or sub-national platforms that regroup several investment projects on the territory of a given Member State, multi-country or regional platforms, that regroup partners from several Member States or third countries interested in projects in a given geographic area, or thematic platforms that gather investment projects in a given sector.

Well-designed platforms have the potential to attract investment from private institutional investors, such as pension funds, and thus boost the impact of the public funds.

A number of multilateral platforms, such as the Marguerite infrastructure fund²¹, the European Energy Efficiency Fund (EEEF)²² and the European Fund for Southeast Europe (EFSE)²³, are already in use and could be developed further. Each of these funds has a number of core investors, including the EIB and NPBs such as CDC, KfW, CDP, ICO and

²¹ <http://www.marguerite.com/>

²² <http://www.eeef.lu/>

²³ <http://www.efse.lu/>

PKO Bank Polski SA. These are complemented to varying degrees by private co-investors both at the fund level and at the level of individual projects supported by the platform. The platforms thus pool investments from a variety of sponsors to invest in a diversified portfolio of projects in the fund's target areas. While the examples mentioned above have legal personality, investment platforms can also be implemented contractually via co-financing and risk-sharing agreements between the participants.

With public institutions acting as anchor investors and independent management, investment platforms have the potential to attract investment from institutional investors and, possibly, sovereign wealth funds at a significant scale. Where necessary, credit enhancement can be provided from EFSI to facilitate the entry of private co-investors by mitigating specific project or portfolio risks.

Technical assistance for the creation of investment platforms could be made available via the EIAH. As per existing practice, NPBs and EIB are encouraged to maximise synergies with EU policy objectives by collaborating with Commission services early in the process.

3.3 Statistical treatment of platforms under the Stability and Growth Pact (SGP)

The treatment of investment platforms under the Stability and Growth Pact (SGP) depends in the first place on the statistical classification of such platforms by Eurostat. The statistical treatment, on or off the government's balance sheet, is governed by the same Eurostat rules as those pertaining to NPBs themselves (ESA 2010 and the ancillary documents cited in section 2.4 above). Investment platforms with legal personality could be treated as Special Purpose Entities (SPEs) for this purpose.

In general terms, SPEs are classified inside government if they are established by the government and serve a government unit. In the case of an investment platform with multiple shareholders or sponsors, the platform's status depends on the entity or entities controlling it according to national accounts rules.

Should the NPB be classified inside government or their operations rerouted through government, the main issue becomes which is the entity setting up and controlling the SPE.

Therefore, in situations where the investors in the investment platform will be mainly non-captive financial institutions and private investors, and where no government exercises control over the SPE by other means, the SPE will most likely be classified outside the government's accounts. Likewise, in cases where government (directly or through a captive financial institution controlled by government) is a minority investor and does not control the SPE via other means, the SPE typically remains off that (and other) government's balance sheet.

Finally, where the SPE is jointly controlled by a group of NPBs classified outside government and not acting on instruction of government (and not by a single government), or by private entities and/or the EIB and where the SPE will invest in different countries thematically, it will most likely not be classified inside government.

At the time of the adoption of the EFSI regulation, the Commission issued the following statement on its assessment of one-off contributions within the context of the EFSI initiative for the purpose of implementing the Stability and Growth Pact:²⁴

"[W]ithout prejudice to the prerogatives of the Council in the implementation of the Stability and Growth Pact (SGP), one-off contributions by Member States, either by a Member State or by national promotional banks classified in the general government sector or acting on behalf of a Member State, into the EFSI or thematic or multi-country investment platforms established for the implementation of the Investment Plan, should in principle qualify as one-off measures, within the meaning of Article 5 of Council Regulation (EC) No 1466/97^[1] and Article 3 of Council Regulation (EC) No 1467/97^[2]."

Thus, Member State contributions to multilateral investment platforms should in general be considered as one-off measures in the sense of the Stability and Growth Pact, in line with one-off classification principles. This interpretation is without prejudice to the provisions of the budgetary surveillance under the Stability and Growth Pact. This comes in addition to their operational advantages, such as better portfolio diversification and economies of scale.

3.4 State aid rules

Beyond the general principles for setting up NPBs derived from the decisional practice set out in section 2.3 above, to ensure it can complete its task of State aid control, the Commission has committed to put in place a fast-track process that will aim to complete the State aid compatibility assessment of national co-financing of projects financed by the European Fund for Strategic Investments within six weeks of receiving the complete notification from the relevant Member State.

3.5 Creating synergies between EIB, NPBs and EU instruments

The Commission is implementing an increasing share of EU budget funds through financial instruments, complementing the more traditional support via grants in order to maximise the impact of the public funds in the real economy.

Examples of financial instruments, which combine EU budget funds with promotional bank lending, include SME support programmes such as COSME and Horizon 2020 InnovFin, financial instruments under the Connecting Europe Facility, Erasmus +, and others. These instruments have a track record of meeting their leverage targets for the public funds invested in them. NPBs could in the future play a greater role in their deployment.

Under the EU's 2014-2020 multiannual financial framework (MFF), promotional institutions may complement national and regional administrations in allocating European Structural and

²⁴ See recital 10 of the EFSI regulation.

^[1] Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1).

^[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

Investment Funds (ESIF), including financial instruments such as risk-sharing instruments, (partial) loan guarantees, equity and mezzanine finance. The use of ESIF funds for providing credit or risk capital, rather than grants, has two principal advantages: First, it can generate leverage, i.e. each euro of ESIF funds can generate multiple euros of loans or equity financing and, secondly, the financial viability requirement ensures that scarce resources are allocated to efficient uses. The Commission has prepared a set of pre-defined, "off the shelf", financial instruments to enable a wider use of ESI Funds in a more standardised way. Managing authorities are encouraged to tap such instruments in operational programmes, relying on an expanding role of NPBs.

In addition, the Commission is working on concrete technical solutions to combine EFSI financing with ESIF. Firstly, EFSI could provide support to financial instruments established at national or regional level, potentially in addition to support by ESIF. Secondly, ESIF could directly support project development and implementation (in line with the contributing ESIF programme rules and applicable eligibility criteria)²⁵. Alternatively, ESIF programmes could contribute to an Investment Platform – with resources managed together but expected to cover distinct compartments in order to comply with ESIF legal provisions/in order to comply with Regulation 1303/2013. In such case, EIB/EIF, with EFSI support, would be expected to contribute to the Investment Platform whilst the ESIF programme contribution would come through a financial instrument.

Finally, the EU's Financial Regulation²⁶ has established the legal basis for NPBs to assume the role of entrusted entity (like the EIB or EIF) for EU centrally-managed financial instruments. Such activity, however, can be carried out only insofar as the NPB is provided with a national regulatory framework enabling internationalisation and cross-border operations. In order to maintain their focus on addressing market failures, NPBs are encouraged to operate in consortia and engage in international co-financing operations. There is thus further scope for NPBs to expand their role in the implementation of both centrally-managed EU programmes and ESIF.

4. Conclusion

A concerted effort drawing on the complementarities of the EIB, NPBs and private investors could achieve the Investment Plan's goal of mobilising at least EUR 315 billion in additional public and private investment into the real economy over the next three years. The above sections have made the case for a strong involvement, across all Member States, of NPBs in the Investment Plan. Member States that do not yet have an NPB may consider setting one up, based on the principles outlined above. In addition, investment platforms can play a key role in pooling the resources of the EIB, NPBs and private investors. NPBs could further strengthen their capabilities based on these best practices, which will enhance their ability to cooperate. A joint working group, led by the EIB and with the participation of the Commission, has already made valuable proposals, on joint investment platforms, knowledge

²⁵ Similar examples could be envisaged for the SME Window of EFSI which supports portfolios of SME finance.

²⁶ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298, 26.10.2012, p. 1.

exchange and advisory work. Over time, this deepened cooperation could evolve into an integrated system of public investment banks, which would be able to apply proven products and best practices across Member States. The EFSI evaluation in 2017/18 will provide an opportunity to look into the development of cooperation between NPBs and the EIB as well as among NPBs.

Tentative Timeline

4 July 2015: EFSI regulation enters into force

By 1 October 2015: first EFSI guarantees have been extended to NPBs

1 October 2015: First investment platforms established

30 June 2018: Completion of EFSI investment programme

After June 2018: EFSI evaluation, including role of and cooperation among NPBs