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WORKING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party of Financial Counsellors
Subject:	InvestEU - Commission non-paper on the main figures and assumptions

Delegations will find attached the Commission non-paper on the Main figures and assumptions regarding InvestEU new proposal discussed in the Financial Counsellors Working Party on 8 June 2020.

Disclaimer

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WORKING DOCUMENT OF THE COMMISSION SERVICES n° 25

InvestEU new proposal – Main figures and assumptions

This non-paper aims at explaining the new figures included in the InvestEU proposal and clarifying some of the underlying assumptions behind them.

Note: the amounts included are in **current prices**, unless otherwise specified. Annex 1 provides a comparison of the budgetary figures in constant and current prices.

On 29 May 2020, the Commission put forward a new proposal for the InvestEU Programme¹ to the European Parliament and the Council. The new proposal replaces its earlier proposal presented in May 2018, while fully reflecting the partial agreement already reached between the European Parliament and the Council in April 2019².

The new proposal introduces a new fifth window, the Strategic European Investment Window and substantially increases the financial envelope available to the InvestEU programme. This working document focuses on the financial aspects and clarifies the figures of the new proposal.

1) Budgetary resources

The proposal foresees to use EUR 1,424,293,000 of the EU budget under the 2021-2027 MFF, EUR 33,000,440,000 from the Next Generation EU instrument and EUR 1,000,000,000 from reflows stemming from EFSI and existing financial instruments (all amounts in current prices). These amounts are foreseen to be utilised for three purposes: i) the second round of EIF capital increase foreseen after 2020, ii) advisory services (InvestEU Advisory Hub), the InvestEU Portal and other accompanying measures iii) provisioning of the InvestEU Fund. They would be allocated in the following manner:

(EUR thousands)	EIF capital incr.	InvestEU Advisory	InvestEU Provisioning	Total
MFF 2021-2027	900,000	524,293	-	1,424,293
Next Generation EU	-	200,440	32,800,000	33,000,440
Reflows	-	-	1,000,000	1,000,000
Total	900.00(*)	724,733	33,800,000	35,424.733

* In addition, EUR 500 million is foreseen for EIF capital increases under the previous MFF in the proposed amendment to the EFSI regulation.

¹ COM (2018)439.
² 2018/229 (COD).

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2) The EU guarantee and the split by window

The size of the EU guarantee is proposed to be EUR 75 153 850 000. Based on a provisioning rate of 45%, the amount to be provisioned is EUR 33,800 million. The following table compares the indicative allocation of the EU guarantee between the policy windows under the original proposal, the amounts that would have resulted from the proposal discussed by the Council in February 2020³ and the new proposal:

InvestEU guarantee by window (EUR thousands)	Commission Proposal 2018	Council February 2020	Commission Proposal 2020
Sustainable infrastructure (SIW)	11,500,000	10,392,540	20,051,960 (*)
Research Innovation and Digitisation (RIDW)	11,250,000	10,166,620	10,166,620
SMEs (SMEW)	11,250,000	10,166,620	10,166,620
Social Investment and Skills (SISW)	4,000,000	3,614,800	3,614,800
Strategic European Investment (SEIW)	-	-	31,153,850
Total guarantee	38,000,000	34,340,580	75,153,850

(*) Amount corrected following a rounding adjustment

3) The provisioning rate

The overall provisioning rate is set at 45% as compared to the 40% of the initial InvestEU proposal. The financial statement specifies that the provisioning rate of 45% represents a weighted average of a notional provisioning rate of 40% for the four windows originally proposed by the Commission and a notional provisioning rate of 52 % for the newly proposed Strategic European Investment Window.

The level of the provisioning is based on the mix of financial products deployed by the different implementing partners, the seniority of the EU guarantee vis-à-vis the financing provided by implementing partners to financial intermediaries and the riskiness of the underlying portfolios supported by such products. The provisioning rate of 40% originally proposed by the Commission took into account the experience under the EFSI and former financial instruments, notably default rates, and applied it to a similar product mix under the original four windows of InvestEU.

³ Estimated breakdown by window calculated by the Commission based on the overall provisioning figure indicated in the negotiation box of President of the European Council Charles Michel

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The impact of the Covid-19 crisis on the economic situation and on financial markets suggest a more cautious approach. The EU guarantee may be used to support riskier products and provide a higher coverage to allow the EIB Group and the other implementing partners to target the increasing market gaps and the sub-optimal investment situations while limiting the impact on their credit risk ratios. In this context, it was deemed appropriate to increase the overall provisioning rate to 45%. The provisioned amounts will be used for the whole instrument (no separate provisioning for individual windows).

In order to determine the amounts of the EU guarantee under the different policy windows following the provisioning amounts indicated in the MFF Communication, it was proposed that the 5th window would notionally contribute with a higher percentage than the original four windows, taking into account the new focus of the instrument and the uncertainty regarding the mix of products, including the potential necessity for supporting junior positions to unlock the necessary financing.

4) Investment expected to be mobilised

The investment expected to be mobilised is a function of the available EU guarantee, the financial contribution provided by implementing partners and the multiplier on investment expected to be achieved by the combination of the EU guarantee and the financial contribution by implementing partner.

4.1) Financial contribution expected by the EIB Group and other implementing partners

The difference between financial contribution and own resources was already addressed in working document number 6 distributed to the Council and Parliament during the legislative process on the original proposal and is still relevant.

The original expected financial contributions by implementing partners amounted to around EUR 9.5 bn in the initial InvestEU proposal, ie 25% of the overall guarantee of EUR 38 bn. Article 10 of the partial agreement specified the share of financial contribution expected from the EIB Group (EUR 7125 million). The same article indicated that also other implementing partners were expected to provide a financial contribution, which was estimated to be proportional to the one provided by the EIB Group.

The 75% share of the EIB Group in terms of financial contributions remains unchanged. The same provision on its financial contribution is now included in Article 12 of the new proposal that provides for the EIB to contribute EUR 9.4 bn.

The changed economic and financial landscape, the increased risk associated to several market segments and the recognition of the limits of the risk taking capacity of implementing partners that are called to implement a doubled EU guarantee, led to lowering the relative share that financial contributions would have as a percentage of the EU guarantee. As a result, the new total risk sharing capacity will be in the region of EUR 87.7 bn that would in

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turn enable the implementing partner to provide financing (in cash or guarantee) to financial intermediaries or final recipients under InvestEU. The amount of 16.7% resulted from a weighted average of a notional contribution of 25% in the original four windows and 5% in the fifth window.

Risk bearing capacity (EUR thousands)	Commission 2018	Proposal	Commission 2020	Proposal
EU guarantee		38,000,000		75,153,850
Total financial contribution		9,500,000		12,557,000
Of which EIB Group (75%)		7,125,000		9,418,270
As a % of EU guarantee		25%		16,7%
Total risk bearing capacity		47,500,000		87,710,850

4.2) Multiplier and investment mobilised

As for the initial InvestEU proposal, the implementing partner financing will also attract other resources from other private and public investors. Under the initial Commission proposal, the InvestEU Fund was expected to mobilise EUR 650 bn of investment based on an expected multiplier of 13.7x.

For the new proposal, the expected multiplier was lowered from 13.7x to 11.4x to take into account the modified market environment and the higher risks associated to the Covid-19 crisis. As a result, the expected investment mobilised is EUR 1 trillion.

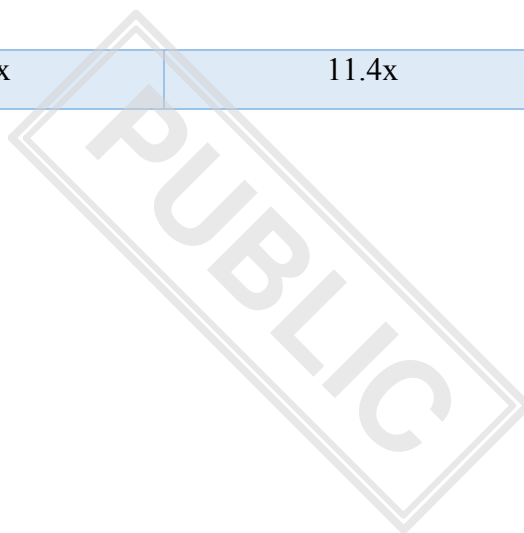
The delivery mechanism of InvestEU remains unchanged but certain assumptions have been revised to cater for the fact that the EU guarantee may represent a higher percentage of the financing provided by the implementing partners (internal multiplier) and the latter may represent a higher proportion of the overall investment expected to be mobilised in the context of InvestEU supported operations and projects.

Mobilised investment and multiplier (EUR thousands)	Commission 2018	Proposal	Commission 2020	Proposal
EU guarantee		38,000,000		75,153,850
Total risk bearing capacity		47,500,000		87,710,850
Expected mobilised investment		650,000,000		1,000,000,000

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Multiplier	13.7x	11.4x
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Annex 1

(EUR thousands)	Constant prices	Current prices
MFF 2021-2027	1,300,000	1,424,293
Next Generation EU	30,300,000	33,000,440
Total	31,600,000	34,424.733
Reflows		1,000,000
Overall total		35,424,733