P7_TA(2012)0404

Innovative financial instruments in the context of the next Multiannual Financial Framework

European Parliament resolution of 26 October 2012 on innovative financial instruments in the context of the next Multiannual Financial Framework (2012/2027(INI))

The European Parliament,

– having regard to the Commission communications entitled ‘A Budget for Europe 2020’ (COM(2011)0500), ‘A framework for the next generation of innovative financial instruments – the EU equity and debt platforms’ (COM(2011)0662) (‘the communication on financial instruments’), ‘A growth package for integrated European infrastructures’ (COM(2011)0676), ‘An action plan to improve access to finance for SMEs’ (COM(2011)0870) and ‘A pilot for the Europe 2020 Project Bond Initiative’ (COM(2011)0660),

– having regard to the Commission proposals, in particular the proposal for a Council regulation laying down the multiannual financial framework for the years 2014-2020 (COM(2011)0398), the proposal for a regulation of the European Parliament and of the Council on the financial rules applicable to the annual budget of the Union (COM(2010)0815), the proposal for a regulation of the European Parliament and of the Council amending Decision No 1639/2006/EC establishing a Competitiveness and Innovation Framework Programme (2007-2013) and Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks (COM(2011)0659), the proposal for a regulation of the European Parliament and of the Council establishing Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020) (COM(2011)0809), the proposal for a regulation of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (2014-2020) (COM(2011)0834), the proposal for a regulation of the European Parliament and of the Council on establishing the Creative Europe Programme (COM(2011)0785), the proposal for a regulation of the European Parliament and of the Council establishing ‘Erasmus For All’, the Union Programme for Education, Training, Youth and Sport (COM(2011)0788), the proposal for a regulation of the European Parliament and of the Council establishing the Connecting Europe Facility (COM(2011)0665), the proposal for a regulation of the European Parliament and of the Council on a European Union Programme for Social Change and Innovation (COM(2011)0609), the proposal for a regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Council Regulation (EC) No 1083/2006 (COM(2011)0615/2),

– having regard to the Commission working documents entitled ‘Financial Instruments in Cohesion Policy’ (SWD(2012)0036) and ‘Elements for a Common Strategic Framework 2014 to 2020 – the European Regional Development Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and

Fisheries Fund' (SWD(2012)0061) ('the common strategic framework for the structural and cohesion funds'),

– having regard to the European Court of Auditors special reports No 4/2011 on the audit of the SME Guarantee Facility and No 2/2012 on financial instruments for SMEs co-financed by the European Regional Development Fund, and to Opinion No 7/2011 of the Court of Auditors on the proposal for a regulation on the structural and cohesion funds,

– having regard to its resolution of 8 June 2011 entitled 'Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe'[1], and its resolution of 6 July 2011 on the financial, economic and social crisis: recommendations concerning the measures and initiatives to be taken[2],

– having regard to Rule 48 of its Rules of Procedure,

– having regard to the report of the Committee on Budgets and the opinions of the Committee on Budgetary Control, the Committee on Industry, Research and Energy and the Committee on Regional Development (A7-0270/2012),

A. whereas, since the early years of the last decade, the EU institutions have developed a series of innovative financial instruments (IFIs) based on arrangements combining grants from the Union budget with public and/or private funding in order to boost the volume of investment available to achieve the Union's strategic objectives;

B. whereas, under point 49 of the Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, 'the institutions agree that the introduction of co-financing mechanisms is necessary to reinforce the leverage effect of the European Union budget by increasing the funding incentive. They agree to encourage the development of appropriate multiannual financial instruments acting as catalysts for public and private investors';

C. whereas it is estimated that approximately 1,3 % of the EU budget is currently devoted to IFIs, the Union having created, within the 2007-2013 MFF, 14 such instruments in the field of internal policies (EUR 3 billion, or 3,4 % of the available budget, under heading 1a, and approximately EUR 5,9 billion for regional and cohesion policy) as well as 11 in the field of external policies (EUR 1,2 billion, or 2,2 %, under budget heading 4, without taking into account those IFIs created in connection with the European Development Fund);

D. whereas the Union has already acquired experience in the management of IFIs, and numerous relevant evaluations and comparative impact assessments have been published;

E. whereas, according to its resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe, the implementation framework of the innovative financial instruments should be decided through the ordinary legislative procedure, in order to ensure a continuous flow of information and participation of the budgetary authority regarding the use of these instruments across the Union, allowing Parliament to verify that its political priorities are met, as well as a strengthened control on such instruments from the European Court of

[1] Texts adopted, P7_TA(2011)0266.
[2] Texts adopted, P7_TA(2011)0331.

Auditors;

IFIs – the background

1. Recalls that the introduction of IFIs at European level was seen as a way of enabling the Union to stimulate investment in the real European economy in line with the Union's objectives at a time when, against the background of a constant fall in the volume of resources allocated to its budget, its political ambitions, and thus its needs**,** were steadily growing;

2. Emphasises that the ultimate purpose of and the rationale for IFIs is that they should act in situations of market failure or suboptimal investment as a catalyst which makes it possible, on the basis of a contribution from the Union budget, to mobilise funding – public and/or private – for projects which can secure no support, or only inadequate support, from the market; points out that intervention by the public sector thus makes it possible to reduce the risk-related costs, by defraying part of those costs, thereby facilitating the implementation of the projects concerned;

3. Points out that the IFIs developed thus far have been used to carry out an extremely wide variety of interventions, ranging from the taking of stakes in equity/venture capital funds to the provision of guarantees/counter-guarantees to financial intermediaries (in particular banks), via the creation jointly with financial institutions of risk-sharing instruments in order to stimulate investment, innovation and research;

4. Notes that this variety is justified by the diversity of areas covered (support for SMEs, energy, climate change, employment and micro-credit, research and innovation, transport infrastructure, information technologies);

5. Emphasises that the use of IFIs is governed by strict legislative (agreement of the legislative authority required) and budgetary rules; notes that the use of IFIs does not generate unforeseen costs for the Union budget, in that the liability borne by the Union budget is limited to the amount of the Union contribution committed to the IFI in question on the basis of annual budget appropriations, as agreed by the budgetary authority, and there shall not give rise to contingent liabilities for the Union budget; points out that in fact IFIs contribute to the sound and efficient management of public funds, given that the contribution paid from the budget may generate proceeds which can be reinvested (reflows) in the IFI concerned, thereby strengthening its capacity to provide support and enhancing the effectiveness of public-sector action; stresses the need, therefore, for IFIs funded operations to be properly audited by the EU Court of Auditors and for the co-legislators to be fully informed about any findings;

6. Points out that there are three types of investment situation: 1) optimal, where the investment is certain to generate a return and allows financing by the market, 2) sub-optimal, in which there is a return but it is not sufficient to secure financing by the market and justifies the use of an IFI, and 3) investment characterised by little or no return, which necessitates intervention by the Union in the form of grants, which may be combined with IFIs if the project permits;

7. Reiterates that the increased use of IFIs should not turn into a strategy to reduce the size of the Union budget but should serve to optimise its use, and welcomes the fact that in its communication on IFIs, as referred to above, the Commission acknowledges that 'the

intention behind an increased use of innovative financial instruments is (…) not to replace grant funding with financial instruments';

8. Emphasises that the experience gained thus far with IFIs is satisfactory in overall terms, even if their multiplier effect varies substantially depending on the area of intervention, the sectoral objectives to be achieved with IFIs**,** the type of IFI proposed and the arrangements for its implementation;

9. Points out that in the area of internal Union policies, IFIs are implemented either at European level (managed by the Commission itself or on the basis of authority delegated by it) or at the national level in the context of regional and cohesion policy (managed jointly with the Member States);

10. Emphasises that the implementation of IFIs thus depends on the involvement of a chain of actors running from the Commission, as the body responsible for disbursing funds under the Union budget, to the EIB group (European Investment Bank and European Investment Fund), via banks, whether national or local, commercial or specialising in investment or development, and private and public investors; stresses that, more generally, their success is contingent on the mobilisation of public, quasi-public and private financial intermediaries whose objectives vary depending on the area of intervention (micro-credit institutions, guarantee funds for SMUs, regional development organisations, research support funds, etc.);

11. Notes, in particular, substantial differences between the IFIs managed centrally at Union level and those implemented on the basis of shared management in the areas of regional and cohesion policy or external relations;

12. Notes that in the cohesion policy field IFIs have been performing differently across Member States and across types of IFIs; acknowledges that IFIs in the context of cohesion policy have been beset by poor legislative framework resulting in delays in implementation, problems in achieving critical mass and substantial multiplier effect, and lack of oversight and coordination; welcomes in this regard the Commission's proposal to strengthen the legislative framework and thus enhance the use of IFIs in cohesion policy in the next programming period (2014-2020);

13. Notes, as regards the use of IFIs in the external policy field, that the number of international financial institutions involved is very high, as is the multiplier effect generated by the Union contribution, but that the range of instruments, the number of which has increased in recent years in particular and now totals 13, is too wide;

14. Notes that these IFIs are implemented on the basis of agreements even more complex than those concluded in the internal policy field and involve a range of different management procedures and actors (EBRD, international organisations);

15. Notes that, under these conditions, there is sometimes a lack of visibility surrounding the effect of Union budget action on economic operators and citizens;

16. Notes that in the external policy field most IFIs generate reflows which can be reinvested, whereas in the internal policy field the reverse is true;

17. Notes that**,** depending on requirements**,** IFIs have developed in accordance with different

strategic objectives and resources and not always in a coordinated manner, which has given rise to problems of overlapping;

18. Notes that implementing IFIs takes time and calls for sophisticated investment skills, careful preparation of projects and detailed knowledge of market mechanisms, but that potentially such instruments can improve the management and effectiveness of the projects supported, through the combination of skills and know-how specific to the actors involved; points out that IFIs offer an incentive to pool financial and human resources with a view to achieving common and strategic European objectives;

Commission proposals for the period covered by the next Multiannual Financial Framework (2014-2020)

19. Notes that for the period 2014-2020, the Commission is proposing for the internal policy field a small number of IFIs with a broader scope; welcomes this development, which should improve the visibility of these instruments for actors, help them achieve critical mass and improve the way the risk associated with these instruments is spread and diversified, on the basis of a portfolio approach;

20. Welcomes the Commission's proposal to create platforms for the equity and debt instruments; notes that these platforms are designed to simplify and standardise the IFIs implemented under the Union budget and make them more coherent in overall terms; stresses that for the platforms to be operational and successful in implementation, the framework for application and other technical details should be presented in a timely manner and certainly before the start of the next programming period 2014-2020;

21. Draws attention, in this context, to the imminent creation of a Union platform for external cooperation and development, designed to improve the quality and effectiveness of the ‘blending’ (combination of grants and loans) mechanisms used in the context of those policies, whilst taking proper account of the regional frameworks governing the Union’s relations with its partner countries; notes that the purpose of the platform is to facilitate both the assessment of the existing external policy instruments and the design of the new instruments for the period 2014-2020;

22. Welcomes the fact that the application of financial instruments (FIs) is being extended under the cohesion policy to all thematic objectives and all CSF funds, and to those projects, project groups or parts of project programmes that will generate income and profits and which therefore are appropriate for FIs in the next programming period; stresses, nevertheless, that a better overview of applied FIs is necessary in order to mitigate the risk of poor coordination and overlapping of different schemes;

23. Notes that uniform model instruments will be made available to national management authorities (‘off-the-shelf instruments’); takes the view that their success will be contingent on timely introduction of technical details and more intensive upstream exchanges of information between the Commission and local authorities;

24. Welcomes the fact that Regulation (EU, Euratom) No 966/2012 is henceforth the legislative framework of reference for the definition, design and use of IFIs, thereby ensuring compliance with the objectives and interests of the Union;

25. Takes the view that the creation of the platforms referred to above could be accompanied by

the introduction of continuous, centralised coordination of IFIs by the Commission; notes that an interdepartmental experts group on financial instruments (FIEG) has been set up, and considers that it should be given the task of strengthening the Commission's institutional capacity to monitor IFIs;

26. Takes the view that the introduction of innovative IFIs under the umbrella of the Union will help put finance at the service of the real economy for projects with European added value;

Designing the new IFIs

27. Emphasises that since the mid-1990s, public investment in the EU has been falling steadily, and that this trend has become more pronounced since the start of the financial crisis in 2008; notes, further, that project promoters are facing a credit squeeze and are finding it more difficult to borrow money on the capital markets; is convinced, therefore, that the continued development of IFIs at national and Union level could become a contributing factor if the Union is to ensure a coordinated return to smart , sustainable and inclusive growth

28. Emphasises that, according to Commission estimates, implementing the EU 2020 Strategy and its seven headline initiatives would require investment throughout the Union totalling EUR 1600 billion between now and 2020; notes that these investments meet objectives ranging from the implementation of major infrastructure projects to the provision of support for smaller-scale projects that offer significant potential for growth at local and regional level, including measures to foster social cohesion;

29. Reiterates that IFIs are intended to help or facilitate projects regarded as fundamental to the achievement of the Union's strategic objectives, and must therefore take better account of, and fit in with, programme time scales;

30. Firmly believes that IFIs must address one or more specific policy objectives of the Union, in particular those outlined by the EU 2020 Strategy, operate in a non-discriminatory fashion, have a clear end date, respect the principles of sound financial management and be complementary to traditional instruments such as grants, thus improving the quality of spending and contributing to the guiding principles of ensuring optimal use of financial resources;

31. Takes the view that innovative IFIs can facilitate the implementation of public-private partnerships by attracting more private capital for public infrastructure projects;

32. Emphasises the importance of ex ante assessments in identifying situations of market failure or sub-optimal investment conditions, investment needs, potential private sector involvement, possibilities for economies of scale and questions of critical mass, and in verifying that the instrument does not distort competition within the internal market and does not violate the rules on State aid; calls on the Commission to propose objective, polythematic and relevant criteria to govern the role and use of ex ante assessments; believes firmly in the principle of evidence-based policy making, and believes that such assessments will contribute to the efficient and effective running of IFIs;

33. Regards it as essential, as part of a results-based approach, that a reasonable number of simple qualitative and/or quantitative indicators should be incorporated into the ex ante and ex post assessments of all IFIs, both as regards the financial performance of the instrument

and as regards its contribution to achieving the Union's objectives; takes the view that this requirement must not serve to impose an excessive administrative burden on project managers; emphasises, in this respect, the break in continuity in the use of an innovative IFI that may ensue from its requisite ex post assessment;

34. Notes, however, that the increase in the number of IFIs is posing many challenges in the areas of regulation, governance and the monitoring of their effectiveness, and that it is essential to strike a balance between the need for transparency and monitoring, on the one hand, and a sufficient level of effectiveness and speed of implementation, on the other; takes the view that reducing the number of the financial instruments could minimise disparities and ensure a sufficient critical mass;

35. Emphasises, therefore, the importance of a legal framework which is as simple, clear and transparent as possible, which does not increase the administrative burden on intermediaries and recipients and which makes IFIs attractive to public and private investors;

36. Takes the view, in particular, that the rules on reporting should be improved in order to be clear and, as far as possible, uniform, so that a reasonable balance can be struck between the reliability of information and the attractiveness of IFIs; calls on the Commission to put in place the appropriate management and control systems that will ensure the enforcement of the existing auditing rules;

37. Calls on the Commission to provide Parliament with a single, separate annual summary report on IFIs, covering the purposes for which they are used and their performance by type of fund, thematic objective and Member State;

38. Given the inherent lack of visibility of these financial instruments, urges the Commission to take measures to ensure adequate communication about this type of intervention using the European budget, directed not only to potential investors but also to European citizens; underlines the importance of an extensive EU-level information campaign on the new financial instruments in order to allow access for all investors, regardless of the size of the institution they represent;

39. Stresses that the leverage and multiplier effects vary considerably from one area of intervention to another; takes the view that the European legislator must not set targets that are too uniform in this field since these effects are, by their very nature, determined to a large extent by economic circumstances and by the characteristics of the area concerned;

40. Emphasises that the scope for implementing IFIs is still vague, and likely to change quickly; notes, accordingly, that the creative capacity, or the capacity for flexibility and adaptability to local circumstances, should be as high as possible; proposes, therefore, that it should be possible for the budgetary authority to adjust the annual amount allocated to each instrument if this is likely to facilitate the achievement of the purposes for which it was created;

41. Reiterates that the reinvestment of interest and other income generated by a given instrument in that instrument ('reflows') must be the principle governing all IFIs, and that any exception to this rule must be duly substantiated; welcomes the progress in this sense recorded by the new Financial Regulation that is to come into force next year;

42. Believes that it is vital to develop the ability and technical capacity of managing authorities,

financial intermediaries and banks and local authorities to use and manage IFIs; recommends that exchanges of expertise should be stepped up between all these actors, in particular those familiar with the relevant national market, ahead of the adoption by the Commission of the implementing act intended to define the standardised instruments made available to the Member States; regards it vital that such exchanges are effected in a timely manner if cultural obstacles are to be overcome, ownership of IFIs is to be guaranteed and such instruments are to be ensured every chance of success;

43. Believes that the role of various national and regional banking institutions needs to be acknowledged, given their necessary experience and know-how in addressing local and regional specificities of relevance to the development and implementation of financial instruments;

44. Takes the view that the innovative nature of IFIs requires the establishment of a framework for the coordination of public financial institutions that will be delegated the power of budgetary implementation of the IFIs, and which would involve representatives of the Commission, the Council and Parliament;

45. Welcomes the prompt agreement reached between Parliament and the Council on the implementation of a pilot phase (2012-2013) for project bonds in the areas of transport, energy and information technologies[1]; expresses its willingness, on the basis of the full-scale independent evaluation of this pilot phase, to assess what future steps are to be taken in order to enhance the efficiency of Union spending as well as to increase investment volumes towards priority projects***;***

46. Requests as a matter of urgency, therefore, that the project bonds initiative be implemented and that an accurate evaluation be carried out of the appropriateness of a new, separate initiative for the issuing of European bonds for infrastructure, with the direct participation of EU capital in infrastructure projects in the common interest, with strong European added value, through the public issuing of project bonds on the part of the Union;

47. Believes that the European Union would send a powerful signal to public and private investors, as well as to financial markets, by participating directly, alone or with other Member States, in the capitalisation of infrastructure projects (characterised by long-term return on investment); believes that this EU participation in an investment capacity should ensure consistency with the Union’s long-term policy objectives and would represent a guarantee of realisation of the project, serving as a strong catalyst and an equally strong lever;

48. Welcomes, also, the agreement reached at the European Council meeting of 28 and 29 June 2012 to increase the EIB’s capital by EUR 10 billion, which will enable the EIB group to boost its lending capacity within the Union in coming years by approximately EUR 60 billion, and thus play a welcome countercyclical role as part of the concerted efforts to revive the European economy; points out that it is generally acknowledged that EIB loans have a multiplier effect of three; emphasises, therefore, that this new commitment must not undermine the parallel efforts to strengthen and improve the joint EIB-Union budget instruments used to share risk and take equity stakes, since these are used to support other types of projects and measures than those covered by EIB loans and have a higher multiplier effect than such loans;

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[1] Texts adopted of 5.7.2012, P7_TA(2012)0296.

49. Draws attention to the fact that, irrespective of the degree to which IFIs fulfil their intended purpose, they will generate their full impact only if the overall legal and regulatory environment is conducive to their development, as reflected, for example, in the treatment of long-term investments under the prudential rules which are currently undergoing revision (Basel III, Solvency II);

50. Is confident that the greater use of IFIs will have an extremely positive impact on the European economy, but fears that, in practice, this will be limited to projects offering short- to medium-term returns; fears that investment in projects equally fundamental to the achievement of the EU's strategic objectives for intelligent, sustainable and inclusive growth may not be realised because such projects are deemed too risky for investors, and because public funds are lacking; calls, therefore, on the Commission to submit, as quickly as possible, proposals to facilitate the release of savings, an underused resource at present, to support medium- and long-term projects which generate sustainable growth in the Union;

51. Takes the view that if the critical mass of a given innovative IFI is sufficient, this could be very attractive for the private capital market in light of the reduced risk resulting from the sizeable volume of the project portfolio and the possible fluidity of trade in the markets;

52. Emphasises the need to ensure that the possible emergence of a 'mixed financial economy' does not result in innovative IFIs becoming complex derivatives that can be securitised or diverted from their original purpose;

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53. Instructs its President to forward this resolution to the Council and the Commission.