

# Innovative financial instruments in the context of the next multiannual financial framework

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The European Parliament adopted a resolution on innovative financial instruments (IFIs) in the context of the next Multiannual Financial Framework in response to the Commission's communication entitled "A framework for the next generation of innovative financial instruments – the EU equity and debt platforms".

**Financial instruments to date:** according to the resolution, 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 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).

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.

Parliament 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. It 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 welcome the fact that the Commission acknowledges that the intention behind an increased use of innovative financial instruments is not to replace grant funding with financial instruments.

**Designing new financial instruments:** the resolution 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**. 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.

In a context where project promoters are facing a credit squeeze and are finding it more difficult to borrow money on the capital markets, Members are convinced 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.

Parliament formulates a series of **recommendations** in respect of innovative financial instruments:

- 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;
- **ex ante assessments** are necessary for 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. The Commission is urged to propose objective criteria in this regard;

- given that the increase in the number of IFIs is posing many challenges in the areas of regulation, governance and the monitoring of their effectiveness, **the legal framework should be as simple, clear and transparent as possible**, so as not to increase the administrative burden on intermediaries and recipients and make IFIs attractive to public and private investors;
- the **capacity for flexibility and adaptability to local circumstances**, should be as high as possible; Members propose, 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;
- 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.

Parliament requests as a matter of urgency 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.

Members believe 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 Member States, in the capitalisation of infrastructure projects (characterised by long-term return on investment). 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.

Lastly, the Commission is called on 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.