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Danish comments on the Europe 2020 Project Bond Initiative

Denmark supports the effort to seek alternative ways to leverage and make most efficient use of the EU budget so as to achieve more value for money. Certainly in a time where public budgets face constraints it makes good sense to exploit other possible ways of financing EU projects as an alternative to pure budget financing. Denmark therefore welcomes the Commission's reflections.

Financial instrument in general

The Danish Government has two main reflections in relation to new financial instruments. Firstly, the new financial instruments should in general help *replace* part of the financing of the coming budgets and not *supplement* these. Second, new financial instruments should not unnecessarily expose public funds to risks – including funds from the EU budget. Risk exposure should always be limited to a minimum.

Any new financial instruments - including the Project Bond Initiative – should be assessed in this context.

In light of the discussion concerning financial instruments Denmark welcomes the Commission's general principles for financial instruments and projects below.

- Only projects that have undergone an analysis which clearly point at a <u>sub-optional investment situation</u> – such as market failure, high innovation risk – should be considered.
- Projects financed through EU financial instruments must <u>ensure EU value added</u> and be clearly motivated as opposed to an intervention at national/regional level.
- EU financial instruments shall create a <u>multiplying effect</u> by mobilising investments several times the EU commitment.
- Financial instrument operations – such as procedures for budgeting, awarding funds, implementation etc – shall be <u>fully transparent.</u>
- A legislative or delegated act shall insure <u>harmonization and simplification</u> of all financial instruments.
- Financial instruments with great similarities in their targeted policy area and product shall be <u>integrated</u>.
- The EU will ensure to <u>restrict risk exposure</u> by preventing that liabilities – generated by the financial instrument – exceed the limit of the budget contribution.
- Financial instruments shall be <u>flexible</u> so that they can respond to market conditions.
- The management and implementation of financial instruments will in general be <u>delegated</u> to the EIB Group, other international financial institutions or public financial institutions.

Denmark does not support the approach, where generated revenues from the investments (reflows) are reused for further investments. Denmark believes that such an approach blur the transparency (as it becomes complicated for member states to follow how revenues are invested).

Denmark supports the idea of replacing EU intervention – in cases where the private sector is direct beneficiary and in infrastructure projects with a user payment schemes – with financial instruments. Denmark finds it important to continue developing this idea to extend it to include other sectors.

Streamlining financial instruments

There is currently a certain fragmentation of instruments with considerable overlaps in regards of projects and beneficiary groups targeted. Before any new measures or instruments are introduced it is relevant to examine whether existing instruments can be adjusted to cover new identified needs, and – if need be - whether a possible new initiative can replace some of the already existing instruments.

Denmark therefore calls for a thorough examination, which must form the basis of a concentrated effort to eliminate overlaps, so as to use possible new instruments such as Project Bonds as a substitute to existing financial instruments rather than a complement.

Specifics on Project Bonds

Specifically concerning Project Bonds, Denmark remains however sceptical towards a number of elements:

Denmark believes that the initiative shall be used as a means of replacing budget interventions and shall not contribute to an increased infrastructure budget. This also means that a project which cannot attract the expected financing through project bonds do not automatically have access to other financing.

The risks taken by EU and EIB shall be clearly identified and fenced. Denmark finds it crucial that the EU budget is not exposed to greater risks than what has politically been estimated to be appropriate. Based on this a more detailed estimation over risk evaluations are called for including more details about diversification and other measures of reducing risks.

It is essential to Denmark that the Project Bond initiative as well as other financial instruments are fully transparent to all member states, making it possible for them to follow the further development of the instrument. In addition the administrative cost for the Commission and the user should be clearly and transparently defined and kept at a level comparable to the actual leverage impact

In regard to the Commission’s estimated infrastructure investment needs (between 1500 and 2000 billion euro) Denmark calls for a more detailed analysis and prioritization of these needs.