EU financial instruments under the multiannual financial framework (MFF) 2021 to 2027:

Comments of UEAPME and AECM on the proposal of the European Commission for

a regulation establishing the InvestEU Programme

Brussels, 13 July 2018

A / Comments

- AECM and UEAPME welcome the Commission proposal, expressing their satisfaction that to a large extent their comments have been adequately considered1.
- AECM and UEAPME express full support for the general objectives of the InvestEU Programme, particularly to contribute to the competitiveness of the Union, including innovation and digitisation (cf. article 3).
- The Commission sets the correct priorities with the proposed four policy windows that shall address market failures especially rightly acknowledging the continuing need to support SMEs' access to and availability of finance (cf. article 7/1). Given the volume of SMEs in each Member State, there is a requirement to ensure that Europe maintains an adequate focus on the needs of SMEs so as to increase competitiveness and create growth and jobs. Considering the heterogeneity of SMEs and their business diversity, it is important to support the full cohort of SMEs and to do so along the entire business and company life cycle, i.e. from the creation through the start-up and scale-up phase to business transfer.
- The last point is of particular importance since business transfers will play a crucial role in the years to come. They should therefore be added to the list of eligible areas for financing and investment operations (Annex II, point 7).
- The suggestion that a financing or investment operation which falls under more than one policy window shall be attributed to the one with its main objective (cf. article 7/2) is a practice-oriented solution.
- The guarantee rate should be set in direct correlation to the impact to be achieved (focus on quality instead of on quantity), thereby fully safeguarding the principal of using funds more efficiently. This implies that a higher guarantee rate should be foreseen when several target factors are covered (e.g. an innovative start-up or a younger and smaller company lacking sufficient collateral) and when specific Union's policy priorities are met like in the areas of internationalisation or uptake of innovation.
- For those countries in which EU financial instruments are channelled via guarantee institutions, i.e. in which the parties involved are the EIF, the guarantee institution, the commercial bank and the customer, it is important to ensure a level playing field with EU financial instruments being channelled directly via commercial banks, i.e. the parties involved are the EIF, the commercial bank and the customer. The investment of the SME should be supported with the same amount of EU funding (= same EU risk volume, same EU resources) no matter how many parties are involved in the bank lending.

[1] Cf. inter alia http://aecm.eu/wp-content/uploads/2018/06/AECM-UEAPME-joint-paper-EU-Fin-Instr.pdf

- AECM and UEAPME strongly support the Commission's approach to streamline and to simplify EU financial instruments (single fund, single legal base, single rule book, single agreement with implementing partners).
- It is strongly welcomed that no threshold like the 150'k EUR one is included[2]. It is of utmost importance to make sure that this will not be changed via the investment guidelines.
- The requirement that implementing partners shall provide the information necessary to allow the tracking of investments to comply with an overall 30% target for climate and environment (cf. article 7/4), risks to create a considerable administrative burden (cf. also article 22/3) and should therefore be assessed in a practice-oriented way.
- AECM and UEAPME welcome that the InvestEU Fund shall be demand-driven and shall reach also smaller and local projects (cf. the explanatory memorandum, page 2) which is fully in line with the activity of guarantee institutions.
- The InvestEU Fund will also feature a Member State compartment for each policy area, meaning that Member States may add to the EU guarantee's provisioning by voluntarily channelling up to 5% of their Cohesion Policy Funds to these compartments (cf. articles 8 and 9). This set-up of Member States' compartments is strongly endorsed, whereby some flexibility should be given to the Member States to decide on the exact extent of their respective contributions of the funds under shared management.
- Incentives should be set to Member States to make use of this option which should not require any co-financing.
- AECM and UEAPME fully agree that a flexible approach as underlying the proposal is key to adjust to future policy challenges and to ever changing market needs.
- The main advantage of financial instruments lies in its revolving character, multiplier effect and much wider scope of intervention as compared to grants. Money paid back by investments can be reused for further support and play an important role as a national policy measure for the years to come. Yet, grants and financial instruments are and remain complementary. Therefore, the envisaged possibility to blend different resources including financial instruments and grants, is indeed imperative and blending needs to be as seamless as possible.
- EFSI demonstrated successfully the effectiveness of a budgetary guarantee scheme. AECM and UEAPME fully agree to determine the provisioning rates under InvestEU in line with the respective risk profiles.
- Complementarity between EU level and Member State's level is key to comply with the additionality requirement referred to in article 11/1 (a). Synergies should be pursued at all levels, i.e. regional, national and supranational, to align incentives and create "win-win" situations for all players along the guarantee value chain, including public authorities, guarantee institutions, banks, and SMEs. It is imperative to create real EU added value.

[2] The COSME loan guarantee facility provides SME financing up to 150,000 EUR for any type of SME. Above this threshold, which got newly introduced in the current programme period, COSME is only applicable if the SME does not fulfil any of the criteria to be eligible under InnovFin.

- To avoid potential overlaps, the envisaged evaluation (cf. article 23/6) should be fully supported and it is imperative that the gap analysis is undertaken in neutral way. It needs to be ensured that reliable and comparable data is available for undertaking monitoring- and evaluation-studies on the economic impact (measured by figures regarding innovation, employment and growth). AECM and its member organisations are prepared to help in an improved data collection through their networks.
- Also, the choice of a regulation is strongly supported to avoid any fragmentation. In this context the design of the respective investment guidelines (cf. article 7/6) will be decisive. UEAPME and AECM call on the EU legislators to ensure that all relevant stakeholders are consulted on a regular basis, i.e. when drafting and reviewing these guidelines to ensure that the system is adapted to reality. To illustrate:
    - Under the current Loan Guarantee Facility for Growth of COSME (LGF), the maximum term for loan guarantees is ten years, which does not match with the needs of some categories of SMEs (i.e. deep tech sector) and some types of investments (i.e. in buildings). Therefore, guarantee agreements should allow for an extension of this maximum term to at least 15 years, independent of the amount guaranteed.
    - It should be foreseen that both, a capped and an uncapped EU financial instrument will be available.

- As to the indicative funding of the SME window it is appreciated that a certain degree of reallocation is envisaged (cf. article 4/2 referring also to Annex 1).
- It needs to be ensured that sufficient funding is allocated[3] lasting not only during the program period but also for the transition period from one MFF to the next[4]. The SME pillar of InvestEU will be the successor of the current SME window in EFSI (1 and 2) as well as of the current COSME financial instruments and of the InnovFin instrument for Horizon 2020 as regards innovation finance for SMEs. All these elements together exceed the proposed volume for the SME pillar in InvestEU. Therefore, the part of InvestEU should be increased to make at least sure that the total amount of EU financial instruments available for SMEs are not reduced during the next financial period.
- Implementation in indirect management (cf. article 6), i.e. via the European Investment Fund (EIF), should remain the rule to benefit from the profound experience of the EIF, to achieve full coverage and to attain geographical balance.
- It is of utmost importance that the EU guarantee covers loans for working capital as well as mezzanine products like subordinated loans, which are used by traditional SMEs as quasi-equity instruments, as well as revolving loans and alternative finance (cf. also article 16/2 (a) (1)).
- It needs to be ensured that the envisaged governance (cf. article 17 to 19) makes speedy decisions.

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[3] At present, 2 billion euros are indicatively foreseen for all financial instruments under the SME window

[4] The COSME Loan Guarantee Facility (LGF) proves this demand: Already twice additional funding has been allocated to the LGF and it is far from evident that the current budget will be sufficient till the end of this programme period (= 31 December 2020).

- AECM and UEAPME strongly agree that the visibility of the Union funding shall be ensured (cf. article 27/1) and that awareness raising is key. To this extent a financial support of the implementing partners should be envisaged.
- The State aid modernization process conducted by the European Commission was clearly a step in a good direction and resulted in new opportunities for implementation of financial instruments. The state aid framework should be further reassessed so that a fair level playing field among financial intermediaries is created. Moreover, it needs to be ensured that the state aid framework is streamlined, flexible and more adaptable to changing market conditions. In addition, the notification procedure, being one of the common ways of starting the process of the implementation of financial instruments, should become less bureaucratic and quicker.

We cordially ask the EU legislator to take our reflections as explained in this position paper into kind consideration when negotiating and adopting the regulation establishing the InvestEU Programme.

B / Background

On 06 June 2018, the European Commission adopted its proposal to create the InvestEU Programme consisting of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal[5].

According to article 7, the InvestEU Fund will support the following four policy areas (1) sustainable infrastructure, (2) research, innovation and digitisation, (3) **small and medium-sized enterprises (SMEs)** and (4) social investment and skills.

Negotiations have started and during the upcoming months, the European Parliament and the Council will decide on this proposal in their double capacity as co-legislator and budgetary authority.

UEAPME, as *the* voice of SMEs in Europe, and AECM, whose members have the mission to enhance access to finance for SMEs and who have been using EU financial instruments right from the start in 1998[6], would like to share their observations in relation to this proposal.

[5] https://ec.europa.eu/commission/publications/investeu-programme_en

[6] The first contract ever signed for a EU guarantee instrument was between the EIF and the Austrian institution Bürges which later became part of aws. More than 50% of the investments supported by the SME Guarantee Facility under the EU programs MAP, CIP and COSME were / are generated by AECM's members. 18 out of AECM's 47 members have signed with the EIF one or several COSME agreements.

Annexe: About AECM and UEAPME:

The 47 members of the **European Association of Guarantee Institutions (AECM)** are operating in 28 countries in Europe. They are mutual-, private sector guarantee schemes, public institutions - either guarantee funds, national promotional institutions or national promotional banks - or mixed. They all have in common the mission to support SMEs during their whole business cycle in getting access to finance, thus, to foster economic growth, innovation, digitization, job creation, and social integration. More precisely, they promote SMEs by providing guarantees to them as well as to entrepreneurs and freelance professions who have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members in turn receive a counter-guarantee from regional, national and European level. At the end of 2017 AECM's members had over 126 billion of guarantee volume in portfolio, thereby granting guarantees to more than 3.2 million SMEs.

The European Association of Craft and Small and Medium-Sized Enterprises (UEAPME) is the employers' organisation representing crafts, trades and small and medium-sized enterprises (SMEs) from the EU and accession countries at European level. As the European SME umbrella organisation, UEAPME incorporates 67 member organisations from 34 countries consisting of national cross-sectorial SME federations, European branch federations and other associate members, which support the SME family. UEAPME represents about 12 million enterprises, which employ around 55 million people across Europe.