AECM, NEFI and SMEunited combined contribution for the inter-institutional negotiations regarding Next Generation EU and the MFF

AECM and NEFI members as well as SMEunited welcome the fact that the Council was able to reach an agreement on 21 July 2020 regarding the recovery plan and the next MFF. Nonetheless, they express strong concerns regarding the budgetary cuts for flagship EU programmes, such as InvestEU and regret the rejection of a new Solvency Support Instrument. In consequence, we expect from the negotiations a final agreement that reflects both the importance of SMEs as the backbone of the European economy for employment, growth and innovation as well as the urgency of the situation of many small businesses suffering from lockdown and social distancing measures.

InvestEU succeeded the EFSI guarantee which was introduced to face the last financial crisis and proved to be a successful instrument especially for SME financing in Europe with EUR 514 bn additional investments into the economy and 1.4 million SMEs and start-ups supported.[1] It was also expected to address new final beneficiaries, especially under the social window, and to open up direct access to the EU guarantee to other implementing partners. In this regard:

- Our understanding is that with the reduction in the EU budget for the InvestEU programme the expected total volumes of investments triggered would shrink from EUR 650 bn in the 2018 proposal to a mere EUR 330 bn or even less– according to first estimates and, supposing that a leverage effect as planned in the 2018 EC proposal will be achieved. For the SME window the EU guarantee would be reduced to some EUR 5.6 bn to EUR 6.3 bn[2] over the entire period, depending on the provisioning rate (40% or 45% under a 4 window-set-up). This is far less than under the current MFF.
- A significant reduction of the provisioning rate on the other hand would likely lead to a situation where most risky portfolios, such as those under the SME and the social window, cannot be supported.
- According to the Council conclusion, the major part of InvestEU is placed under the Next Generation EU budget. The Council has set December 2023 as a deadline for legal commitments for the implementation of Next Generation EU funding. Most of these investments would now need to be triggered within the first three years and not over the entire 7 year period of the MFF. In economic terms, this raises many questions. For once, investments typically take longer to recover to pre-crisis levels. As such grants should indeed be used as quickly as possible, in the immediate aftermath, but demand driven financial instruments should be available over the entire period. Secondly, the requirement introduced by the Council makes it challenging to setup an investment programme in due time.

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[1] EIB's figures extracted from « EFSI factsheet » : https://www.eib.org/attachments/documents/efsi-factsheet-en.pdf

[2] If the distribution between policy windows remains the same.

- Reflections to delete the 5th window proposed by the European Commission in its 2020 proposal but to introduce the objectives into the remaining 4 windows while nearly halving the budget do not seem realistic.
- In addition, the proposal for a new Solvency Support Instrument, which would have been of high importance for SMEs suffering from high levels of debt due to the crisis and need some form of recapitalisation has been rejected by the Council.

In consequence, we call for:

- A return to, at least, the 2018 EC proposal's budget including for the SME window. The InvestEU allocation should also ensure a sufficient funding of the direct access for the implementing partners who have been working on designing products for months. The Pan-European Guarantee Fund (EGF), if very much welcomed, cannot substitute for InvestEU for two main reasons : first, the EGF will not trigger the same volume of investments and second, it will not allow NPBIs to become implementing partners.
- A transfer of all or a part of the InvestEU budget from Next Generation EU to the MFF budget in order to allow funding of new projects until the end of the 2021-2027 period and to ensure an appropriate funding volume for the implementing partners who will not be able to join the InvestEU programme before 2023. As an alternative, we call for extended eligibility for the resources from the Next Generation EU to 2027.
- Any additional objectives integrated into the InvestEU proposal should be met with additional funding for the EU guarantee.
- No major amendments to the 2019 Partial Agreement. The works on the investment guidelines and other guidance documents are already in a very advanced state. It should be avoided to start work from zero.
- Given the high indebtedness of SMEs due to the crisis, the InvestEU guarantee should also cover direct equity or quasi-equity investments by NPBIs under the SME window to compensate at least partially for the rejected Solvency Support Instrument.

European Structural and Investment Funds (ESIF)

- Regarding ReactEU, we consider that the relevant actions launched as from 1 February 2020 should be eligible for funding under the initiative. A retroactive deployment of the funds is of utmost importance in order to help workers and SMEs to alleviate the ongoing economic impacts of the COVID-19 crisis.
  Moreover, in order to avoid the absorption problems that have occurred in the current and previous programming periods and to ensure that resources can be spent on long-term programmes, we propose extending the current deadline for the use of the resources from the NGEU to 2027.
- We disagree with the proposed cuts to the second pillar of the Common Agriculture Policy i.e. **EAFRD**. Given the vital role of farmers and SMEs in rural areas in the green transition, there is a strong need to reinforce the budget for the EAFRD.

- Finally, we deplore the proposed heavy cuts to the **Just Transition Fund** from EUR 40 billion to EUR 17.5 billion, as these resources are fundamental to support re-skilling and help SMEs to create new economic opportunities while investing in the clean energy transition.

As a result, we call for:

- ReactEU to finance retroactively eligible measures launched as of February 2020.
- Resources under Next Generation EU to be used until 2027 instead of 2023.
- Higher allocation to the second pillar of the Common Agriculture Policy i.e. EARDF.
- Higher allocation to the Just Transition Fund.
- More support from Member States towards national intermediaries, by using part of the additional resources which have been shifted from centrally managed programmes to the Recovery and Resilience Facility.

Brussels, August 2020

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NEFI Interest Representative Register ID number: **44013762992-64**
SMEunited Interest Representative Register ID number: **55820581197-35**

About AECM, NEFI and SMEunited

*The 48 members of the **European Association of Guarantee Institutions** (AECM) are operating in 30 countries in Europe. They are either private sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members operate with counter-guarantees from regional, national and European level. At the end of 2019, AECM's members had over EUR 111 billion of guarantee volume in portfolio, thereby granting guarantees to about 2.8 million SMEs. AECM's members are one of the most important counterparts of the EIF concerning EU counter-guarantees, handling EU guarantees from the very beginning in 1998.*

***The Network of European Financial Institutions for Small and Medium Sized Enterprises** (NEFI), which was founded in 1999, consists currently of 21 financial institutions from 21 European Union member states. NEFI pursues the objective of following the financial, political and legal developments in the fields of European economic and financial policies and all measures adopted by the EU institutions which are relevant for promotional financial institutions focusing on the facilitation of SMEs' access to finance. NEFI serves as a contact for the European Institutions providing know-how and information on all matters concerning promotional banking.*

***SMEunited -Crafts and SMEs in Europe**, formerly known as UEAPME, is the association of crafts and SMEs in Europe with around 70 member organisations from over 30 European countries. SMEunited is a recognised employers' organisation and European Social Partner and acts on behalf of crafts and SMEs in the European Social Dialogue and in discussions with the EU institutions. SMEunited represents national cross-sectoral Craft and SME federations, European SME branch organisations and associate members and speaks on behalf of the 24 million SMEs in Europe which employ almost 95 million people. SMEunited is a non-profit seeking and non-partisan organisation.*