

AECM on the InvestEU Interim Evaluation

The European Association of Guarantee Institutions (AECM) is pleased to provide feedback on the interim evaluation of InvestEU which is of utmost importance for our members.

AECM members are longstanding partners of the EIF for the intermediation of EU financial instruments helping to bring funding down to the final beneficiaries¹. Currently, guarantee institutions are preparing or already operating as implementing partners or financial intermediaries under InvestEU, at least five members via the direct access and at least eleven members via the EIF. The EU (counter-)guarantee is crucial not only for those members that do not dispose of a national counter-guarantee, but also for members that can complement their national counter-guarantee in order to reach more businesses or businesses in specific sectors and this at promotional terms that also the smallest companies can afford.

The introduction of InvestEU did not happen without a series of hitches. Our members do not only feel the consequences of the acute lack of funding, but they also encountered quite some technical issues. It is from our point of view paramount to take advantage of the mid-term review in order to achieve a few improvements in order to enable InvestEU to build on the success of COSME.

In the following, we are listing issues that our members encountered and for which a solution should be found in the mid-term review:

- There is a sharp **increase of information requirements** by the EIF which translates into high costs as additional resources are necessary to satisfy them. Furthermore they have a discouraging effect especially in cases where the final beneficiary who ultimately needs to provide information is very small. We **advocate for leaner reporting requirements and for a thorough respect of the principal of proportionality**.
- It seems that the EIF guarantee is easier to use for direct lending than as a counter-guarantee since it is more difficult for an institution not being directly

¹ During the previous financial period for example, 22 members have or had at least one contract under COSME. By the end of 2020, all of them together issued an outstanding guarantee volume of bEUR 6 under COSME. The market share of our members accounted for 35.8% in 2020 and 96.9% of AECM members' slice of COSME signatures were counter-guarantees. Eleven members were intermediating InnovFin, six members were intermediating CCS and one member EaSI. AECM Statistical Yearbook 2020, p. 20f, [Link](#)

in contract with the final beneficiary to ensure the required checks and reportings. This is highly unfortunate as the counter-guarantee solutions offers to share the risk more broadly and to achieve a higher leverage effect. We recommend **adapting required checks and reportings to the counter-guarantee solution.**

- The EIB goldplates ESG requirements by imposing compliance with an additional **annex regarding Paris alignment. This annex needs to be simplified** and adapted to SME financing.
- There is a **lack of clarity** what can be financed under the Sustainability Window of InvestEU and what not. There is the example of hybrid cars. As 90% of the financing needs to be green and only 10% can be not green, it is unclear in which way a hybrid car would be counted. **In the case of SME financial beneficiaries, provisions should be leaner and simple to fulfill.**
- Unlike COSME, the capped guarantee under InvestEU is not for free. This increases the cost of the guarantee and excludes the most vulnerable companies as they might not be able to afford a credit due to this fee. We argue that **in duly justified cases (such as small business promotion) the capped guarantee shall be offered for free.**
- The guarantee fee is to be paid upfront, and a reimbursement is not possible if the transaction will be later excluded from the portfolio. The risk remains with the financial intermediary. We argue that a **fee should be reimbursed in case the coverage is subsequently withdrawn.**
- The list of restricted assets is too restrictive and does not allow for the inclusion of projects that could still be financed under COSME (e.g. vehicles exceeding specific CO2 emission thresholds, but still necessary for the activity of certain companies, investments in power/heat production using biomass, investments in heating/cooling and power production of buildings). We therefore **recommend to revert to the COSME exclusion list** or to introduce a threshold for the principal amount below which the restrictions exceeding the COSME restriction list do not apply.
- Several members reported on difficulties with the topic **tax avoidance** which prevents them from finalising the pillar assessment. Because of this issue a highly bureaucratic procedure (e.g. an exhaustive questionnaire) has to be implemented that is not relevant for the typical SME and produces additional red tape.

- Regarding the negotiations on the direct access, members complained about the constant delay of the Commission's schedules as well as on the strictness of the implementation timeline. **For the third call, relevant documents and guidance should be available at an early stage** so as to enable implementing partners to meet the tight deadlines.

Regarding the budgetary situation, we note that **funding under InvestEU is by far not sufficient to meet the demand**. Small and medium-sized enterprises are facing enormous challenges. Besides being strongly affected by the current crises, first covid and then the Ukraine crisis, they need to tackle the challenges of the twin transition. Both require substantial investments that need to be financed. InvestEU unfortunately does not dispose of sufficient resources to meet these challenges. According to our information, deriving from member reports on the one hand and from EIF feedback on the other hand, InvestEU is hopelessly oversubscribed. The EIF reported at the AECM annual event in September 2022 that less than half of the demand can be satisfied. At a meeting with EIF in March 2023, it confirmed that it could do two to three times more, if sufficient budget was allocated.

The Innovation window is apparently already exhausted (as of March 2023) and also the SME window is much too tight on funding. In some cases, members receive only 1/3 or 50% of the amount they requested. On the other hand, it seems that demand is broadly satisfied when it comes to the Sustainability window and there is too little uptake under the Social window.

We urgently call on policy makers to review the budgetary allocation of InvestEU and to reinforce especially the SME and the Innovation windows. The reasons why this would make sense can be found in [our recent paper on leveraging the EU budget for investments](#).

InvestEU has of course also many positive sides. It offers both a capped and an uncapped version depending on the preference of the financial intermediary. Compared to COSME, it offers higher coverage rates depending on the policy objective and in the case of exposures above kEUR 150 it is no more necessary to prove that it is not eligible for the innovation programme in order to obtain funding under the SME programme. The cooperation with the EIF is highly valued by our members. It was reported to be very smooth and constructive. The technical support by a team that knows the specific market circumstances in the respective Member States, is very well received by our members.

To conclude, we would like to encourage policy makers to use the upcoming mid-term review to agree to targeted improvements of the features of the InvestEU pro-

gramme. **As COSME was several times topped up essentially by EFSI, this is required also for InvestEU**, either by injecting new money for example via a European Sovereignty Fund or by shifting existing funds to InvestEU and especially to the SME and the Innovation window. Moreover, **a few simplifications and adaptations are necessary** in order to bring requirements in line with the ambitions of the programme.

About us

The 46 members of the **European Association of Guarantee Institutions (AECM)** are operating in 31 countries in Europe. They are either private/mutual 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. This so-called SME financing gap is recognised as market failure. By guaranteeing for these enterprises, guarantee institutions help to address this market failure and facilitate SMEs' access to finance. The broader social and economic impact of this activity includes the following:

- Job creation and preservation of jobs by guaranteed companies
- Innovation and competition: crowding-in of new ideas leading to healthy competition with established market participants
- Structure and risk diversification of the European economy
- Regional development since many rural projects are supported
- Counter-cyclical role during crises

SME guarantees generally pursue a long-term objective and our members, if public, private, mutual or with mixed ownership structure, have a promotional mission.

AECM's members operate with counter-guarantees from regional, national and European level. At the end of the year 2022, AECM's members had about bEUR 267 of guarantee volume in portfolio, thereby granting guarantees to around 5.2 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU (counter-)guarantees from the very beginning in 1998.

Have a look at our [AECM brochure](#) and at our most recent publications:

[AECM brochure on Ukraine measures](#)

[AECM Statistical Yearbook 2021](#)

[AECM members' support programmes beyond standard debt guarantees](#)

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