AECM contribution to the Commission's call for evidence for a mid-term evaluation of the European Regional Development Fund, the Cohesion Fund, and the Just Transition Fund for 2021-2027

The European Association of Guarantee Institutions (AECM) welcomes the Commission's call for evidence for a mid-term evaluation of the European Regional Development Fund (ERDF), the Cohesion Fund (CF), and the Just Transition Fund (JTF) for 2021-2027.

Since the 2007-2014 programming period, AECM members have been channeling ERDF and CF funds playing an important role in EU cohesion policy by acting either as implementing bodies or as financial intermediaries and would therefore like to provide feedback based on experiences in implementing financial instruments co-funded by ERDF and CF.

1. Avoid delays in the implementation of the Cohesion programmes

The 2021-2027 programming period has faced unprecedented delays in adoption of the Cohesion policy package. The Common Provisions Regulation (CPR) and fund-specific regulations were adopted in mid-2021, six months after the start of the Multiannual Financial Framework (MFF). Consequently, the preparation of partnership agreements and programmes and their negotiation with the Commission slowed down significantly in 2021, with the majority of the Member States being able to kick-off the implementation of the operational programmes only in 2022.

This delay significantly impacts on the absorption capacity of the Member States who have to spend their allocated Cohesion policy funds for the 2021-2027 MFF in a shorter timeframe, compared to the previous programming periods.

For this reason, AECM urges the EU institutions to avoid delays in adoption of future Cohesion policy package in order to allow for an effective and timely implementation of funds.

2. Avoid, to the extent possible, the creation of new funds with limited timeframe overlapping with the start of the programming period

The recovery instruments supported by the NextGenerationEU – in particular the Recovery and Resilience Facility (RRF) and the 2021-2022 REACT-EU allocations under the 2014-2020 Cohesion policy, had a limited timeframe. As a result, Managing authorities were forced to prioritise these resources over 2021-2027 Cohesion policy programmes.

To this end, AECM suggests avoiding, to the extent possible, the creation of new funds at the start of the programming period, but rather build on the existing funds, by widening eligibility scope of activities. Alternatively, the Commission could consider creating ad-hoc funds, like the RRF having a longer implementation period to increase the administrative capacity of the Members States to implement the funds in an effective way, focusing on results, rather than on spending.

3. Increase the role of financial instruments in form of guarantees

Financial instruments are acknowledged to be a successful tool in achieving the ERDF and CF policy objectives. They have proved to be a resource-efficient way of using Cohesion policy resources due to their leverage effect as they can attract additional investments from private or public investors. Finally, they are a cost-efficient delivery mechanism with very low management costs and fees[1]. AECM strongly believes that in a situation where public resources are scarce, financial instruments make it possible to do more with less. Therefore, AECM trusts that financial instruments could play a greater role in Cohesion policy and suggests that the Commission encourages Member States to set up financial instruments in form of guarantees by working with our members as financial intermediaries who, for their part, work with commercial banks.
This could be done, for instance, by earmarking a certain percentage of Cohesion policy resources within each Operational Programme (OP) to financial instruments in form of guarantees, for the following reasons:

[1] https://ec.europa.eu/regional_policy/en/newsroom/news/2021/12/12-02-2021-eu-financial-instruments-supported-european-smes-during-the-coronavirus-crises-with-eur29-billion-in-2020

Firstly, the guarantee instruments channeled via guarantee institutions are designed to attract co-investments from other sources, including private investments, and to increase the amount of funds available in particular in sectors and areas where there are problems with access to finance.
Secondly, they allow the initial allocations of funds to be reused. For instance, flows of money go out of loan funds, which is not the case for guarantee funds, unless the recipient defaults, whereby the default rates are low. This way, guarantee instruments put EU funds to good and efficient use, ensuring that EU grants are complemented by financial products so that EU funding can be used again in a revolving manner creating an even greater impact.
Finally, it should be taken into account that credit guarantees play a major role in the SME finance ecosystem, both as a key countercyclical support measure, but also increasingly as an important lever for specific policy objectives. In this sense, the OECD SME finance Scoreboard documents that credit guarantees continue to be the most widely used policy instrument world-wide to support SME access to finance, and they are increasingly being targeted to specific segments or objectives. For instance, a 2023 survey of public and private financial institutions, undertaken by the OECD Platform on Financing SMEs for Sustainability, shows that green guarantees are being used to catalyse SME investments in greening.

4. Simplification

Given that the Cohesion policy funds for the period 2021-2027 are still at the initial phase of their implementation, there has not yet been time to assess the impact of the simplification measures, introduced for the programming period 2021-2027, which have been largely welcomed by Managing Authorities and final beneficiaries. However, already at this stage there is a need for further simplification for certain obligations. More precisely, the 'Do No Significant Harm' principle (DNSH) appears to pose burden on final recipients. To this end, AECM strongly advices to impose the checking of the DNSH principle only at the level of the programme and not at the level of individual projects.

Brussels, October 2023

About AECM:

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. Like the 5 partners of AECM, 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 address effectively this market failure and facilitate SMEs' access to finance. The broader social and economic impact of this activity includes the following:

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.

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Interest Representative Register ID number: 67611102869-33