

## **AECM contribution to the European Commission's call for evidence on the application of the 'do no significant harm' principle under the 2028-2034 Multiannual Financial Framework (MFF)**

The **European Association of Guarantee Institutions (AECM)** and its members welcome the opportunity to contribute to the European Commission's call for evidence on the application of the 'do no significant harm' (DNSH) principle under the 2028-2034 Multiannual Financial Framework (MFF).

AECM considers this call for evidence, together with the forthcoming targeted public consultation on the draft guidance, as an important opportunity to improve the practical application of the DNSH principle across EU funding programmes.

Since 1998, AECM members have played a key role in implementing EU financial instruments. Since the 2007-2014 programming period, they have also channelled Cohesion Policy funds to final beneficiaries, primarily small and medium-sized enterprises (SMEs). Through their involvement in channelling the Recovery and Resilience Facility (RRF), InvestEU, and Cohesion Policy funds, AECM members have gained extensive hands-on experience in applying the DNSH principle.

Building on this experience, AECM seeks to highlight several practical challenges encountered in implementing the DNSH principle under the current MFF and to provide input to support a more coherent, proportionate, and effective framework going forward. In particular, AECM would like to **highlight the following issues in applying the current DNSH principle** in projects supported by EU Funds in indirect and shared management mode, namely:

### ***Lack of coherence across programmes***

The application of the DNSH principle differs across EU programmes and funds and lacks alignment with the approaches applied under the Recovery and Resilience Facility, the InvestEU Programme and Cohesion Policy Funds. These diverging approaches create confusion for implementing partners and bodies responsible for shared management funds regarding the applicable requirements. They also complicate the effective combination of different EU funding instruments. In addition, the various methods for demonstrating compliance with DNSH requirements introduce unnecessary administrative burden.

### ***Lack of coherence across types of funding***

The implementation of the DNSH principle differ significantly depending on the nature of the financial support. In the case of grants, DNSH is typically applied at the level of individual projects through detailed, ex-ante assessments, often requiring extensive technical

documentation and verification. By contrast, for financial instruments such as guarantees and loans, DNSH is generally implemented through a more proportionate, portfolio-based approach, relying on exclusion lists, standardised procedures, and the involvement of financial intermediaries. For equity investments, the application of DNSH is embedded in due diligence processes and followed by ongoing monitoring throughout the investment lifecycle. Existing DNSH guidance, particularly that developed in the context of the RRF, appears to be primarily designed for grant-based support. As a result, it does not sufficiently reflect the specific characteristics and operational modalities of financial instruments.

### ***Specific challenges related to financial instruments supporting SMEs***

Particular challenges arise in the context of financial instruments designed to support SME financing. Financial instruments providing working capital support to SMEs are generally considered DNSH-compliant. However, for financial instruments supporting SME investment, assessing DNSH compliance is significantly more complex due to the wide range of potential underlying activities and investments.

### ***Uncertainty regarding the level of DNSH assessment under Cohesion Policy***

Within Cohesion Policy, there remains significant uncertainty regarding the level at which DNSH compliance should be assessed. While the 'Explanatory note on the Application of the DNSH principle under Cohesion Policy' indicates that DNSH compliance should be assessed at programme level, in practice – particularly in the case of financial instruments – assessments are frequently carried out at the level of individual operations or financial instruments. This lack of consistency creates legal and operational uncertainty for implementing bodies.

Against this background, **we recommend the following for the development of the DNSH guidelines:**

#### **➤ Ensure a harmonised framework across EU instruments**

In the spirit of the Performance Regulation proposal, the DNSH principle should be applied consistently across all EU programmes and funds through a streamlined and proportional approach, based on a common set of rules, definitions, and methodological principles. This would enhance legal certainty, reduce fragmentation, and facilitate implementation by market operators. That being said, in accordance with Article 33 of the Financial Regulation, the application of the principles of DNSH should apply “where feasible and appropriate and in line with the principles of economy, efficiency and effectiveness.” As such, the future DNSH guidelines should detail precisely in which cases applying the principles of DNSH is neither feasible nor appropriate.

#### **➤ Prioritise programme-level DNSH assessments**

DNSH compliance should, as a rule, be assessed at programme level. Where a programme or measure is deemed DNSH-compliant, no additional DNSH-related selection criteria

should be required at project or financial instrument level. In such cases, it should be sufficient to demonstrate that individual operations fall within the predefined types of actions covered by the programme, without requiring further DNSH assessments. Only in duly justified and exceptional cases should DNSH be assessed at project level. In line with the principle of proportionality, thresholds should be introduced to exempt small-scale operations from detailed DNSH assessments.

➤ **Recognise inherently DNSH-compliant activities**

The guidelines should explicitly acknowledge that certain categories of activities are, by their nature, DNSH-compliant, such as working capital loans for SMEs. Moreover, standardised products such as green loans/guarantees supporting SMEs could be considered compliant upfront, provided they meet predefined criteria. This would significantly reduce administrative burden and ensure faster deployment. On this note, we therefore call on the European Commission to actively pursue the work on the definition of green loans notably for SMEs, based on the advice published by the European Banking Authority in December 2023.

➤ **Promote the use of exclusion lists for financial instruments**

In the context of financial instruments, the operationalisation of the DNSH principle should be supported through clear and proportionate exclusion lists. Such lists allow implementing partners and financial intermediaries to apply DNSH requirements in a consistent, scalable, and administratively efficient manner, while ensuring that harmful activities are effectively screened out. At the same time, the exclusion list should not jeopardise the financing of those SMEs that need investments to perform their green transition.

➤ **Exclude ex-post controls of DNSH compliance**

To minimise administrative burdens for implementing partners, financial intermediaries, SMEs, while preserving the attractiveness of EU funding in the next MFF, DNSH compliance must only be conducted ex-ante. Final beneficiaries should simply submit a declarative commitment to DNSH compliance, avoiding cumbersome ex-post controls by financial intermediaries or implementing partners. Moreover, formal audits of financial intermediaries' internal procedures shall be excluded, with a focus instead on best-effort analyses to assess their capacity. This is particularly crucial for intermediated operations such as (counter-)guarantee products, to ensure that financial instruments can effectively fulfill their crucial role of crowding in private investment.

➤ **Ensure involvement of NPBI in guidance development**

In developing, revising, or supplementing the upcoming DNSH guidelines, the European Commission should ensure the active and structured involvement of implementing partners, including the European Investment Bank Group and national promotional banks and institutions as well as the bodies implementing financial instruments under shared management. AECM and its members remain committed to supporting the effective



implementation of EU funding programmes and stand ready to further engage with the Commission in the development of a coherent and proportionate framework for the application of the DNSH principle under the next MFF.



## About us

The **European Association of Guarantee Institutions (AECM)** represents 50 members operating in 32 countries in Europe, and 6 international partners. They are national promotional banks and institutions or private/mutual sector guarantee schemes. 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:

- 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 2024, AECM's members had about EUR 218 billion of guarantee volume in portfolio, thereby granting guarantees to around 6 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:

[Statistical Yearbook 2024](#)

[Annual Activity Report 2024](#)

[Position papers](#)

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