



Brussels, 30<sup>th</sup> March 2023

## **AECM, EAPB, ELTI and NEFI Joint Position on the Draft Parliament Report regarding the EU Financial Regulation Recast**

At a time when there is a huge EU need to leverage investment capacity in Europe and to crowd in private investment (consequences of the war, IRA, twin transition, social support, etc.), national promotional banks and institutions (NPBIs) in Europe, represented by AECM, EAPB, ELTI and NEFI are mobilising and committing themselves in this sense, while paying much attention to the issue of quality of their support to the economy, including through the application of ESG criteria, reporting and other requirements that their positioning in the service of the general interest requires. These entities constitute an important group of EU Commission implementing and intermediating entities for EU funds. As such, they are highly concerned about the proposed changes to the Financial Regulation which are likely to slow down the ability to invest.

These proposed changes would not only strongly increase administrative burden - both for project promoters, (M)SMEs as well as for financial intermediaries and implementing partners (IPs) - but further shift substantial risks onto implementing partners, thus creating unnecessary operational risks. The current challenges call for a return to the proportionality principle, additional flexibility, a significant reduction in implementation time for EU financial instruments, and less red tape. This, however, is not reflected in the current works on the Financial Regulation Recast. In the following, we would like to comment on tabled amendments and their expected impact on promotional finance. The draft report includes amendments that would place in jeopardy the implementation and intermediation of EU funds by promotional institutions. We therefore recommend changing i.e., rejecting the following amendments:

- Amendment 42 requires programmes to be implemented respecting social standards that are partially listed in this amendment. However, the formulation “not limited to” as it allows for the requirement to test for compliance with an infinite number of standards. IPs are only partner in the implementation of EU funds. They have no other sovereign powers, especially none comparable to the police. The transfer of such obligations to IPs would thus represent a large operational risk.
- While we would be able to support amendments 103 and 104 for the benefit of having full and comprehensive information available at EU level, we would like to highlight the difficulty of aligning regional, national and international databases and available information in one set of data not only for NPBIs but for the market as a whole as it would delete the possibility of grandfathering and hinder a timely application of the new single integrated and interoperable information and monitoring system which would not allow for sufficient time to adapt. In addition, the

legislator cannot expect to receive the full set of data irrespective of the nature of the EU support, the channel of EU support and last, but not least, of project size. Introducing a single database would, however, create the pressure of squeezing out data irrespective of the above-mentioned criteria. This risks to overburden and thus to prevent certain types of support. Data reporting requirements should always be adapted to the support, the instruments chosen and to ticket sizes.

- Amendments 170 to 190 are calling for a maximum of information transparency and IT integration against fraud, misuse and other purposes to the detriment of the proportionality principle.

While the amendments listed above would have a negative effect on promotional EU finance, we, AECM, EAPB, ELTI and NEFI, acknowledge the improvements from the original EC proposal resulting from the following amendments:

- We appreciate the introduction of amendments 30 and 79 on very low value grants as they facilitate support measures for small enterprises. However, grants are not sufficient to leverage private funding. As such, alleviations are also needed for low-value financial instruments. We suggest to bring the wording of the definition for a low value financial support proposed by amendment 135 in line with the wording used in amendment 164 (low value operation).
- Several amendments have been tabled that respond to our concerns regarding article 33.2 d. Amendments 41 and 165 represent in our view an improvement with regard to the Commission proposal as it provides more clarity and acknowledges that this provision needs to be feasible. Amendments 162 and 163 suggest to delete the article in question which would allow for an individual regulation at the level of each sectoral programme. While the latter would represent the promotional industry's favored option, amendment 164 might be a good compromise as it keeps the provision but refers to the next MFF and to sectoral programmes for the precise percentage of the budget that is concerned. Furthermore, it allows for proportionality as low value operations are exempted from the full application of the DNSH principle.
- Amendment 71 limits gold-plating to duly justified cases and aims to reduce bureaucratic burden. This is necessary in order to keep obligations at a manageable level and to comply as much as possible with the one-in-one-out principle. Amendment 208 proposes to enshrine the principle of proportionality. This is of utmost importance in order to allow small actors to participate in the market, ensuring a level-playing field. The introduction of risk-based proportionality in article 130 via amendment 228 is fully justified as risks to the financial interests of the Union are proportional to the amount of Union funding involved. Lighter requirements should also be granted to financial instruments as these require much smaller budgetary resources than grants.
- We welcome amendments 122 and 216 as they recognise the role of NPBI as implementing partners. They also highlight the accreditation process conducted by NPBI to demonstrate the equivalence and compatibility of their internal procedures with those of the European Commission.
- We welcome amendment 139 for it is not possible to distinguish between "professional" and "other" conflicts of interest, nor is it possible to measure them or document them in any meaningful way.

- As NPBIs are not part of public administration, they do not currently use IPSAS standards, but would rather report according to IFRS or GAAP. A requirement to report under IPSAS would therefore create significant additional burden on NPBIs. Amendment 219 acknowledges this and should therefore be supported.
- Amendment 227 limits multiple audits to duly justified cases and would allow for cross-reliance on audits. This is important, as multiple audits are extremely resource-intensive.
- We appreciate amendments 234 and 236 as they allow to avoid unnecessary bureaucratic burden and recognise internal processes and control systems of institutions that were pillar assessed by the Commission.
- Amendment 241, precision of direct management is given.
- Amendments 260 and 261 are welcomed as they would bring the deadline for submission of the management report in line with the submission of the financial statements. This makes sense as the management report depends on the final financial statements.
- Amendments 263 and 265 are essential in order to avoid double reporting both by pillar assessed institutions and by intermediaries.
- We appreciate amendment 274 that suggests keeping the current deadline for submission of audited financial statements. An earlier deadline risks to exclude especially implementing partners in indirect management that might not be able to meet such an earlier deadline.
- Amendments 295 and 296 allows for grandfathering. This is necessary to grant sufficient time for adaptation.

While we fully understand the wish for transparency and protection of the EU budget against fraud, misuse and other risks, the legislator has a strong responsibility to not make it to the detriment of the proportionality principle especially regarding the promotional sector as well as making sure to improve the deployment of financial instruments for the sake of the EU economy and society. We urge the Members of the European Parliament to carefully evaluate the real added value of the proposed changes to the EU Financial Regulation not only from the viewpoint of the EU, but also from the viewpoint of the final beneficiary, especially for financial instruments. The sum of the proposed amendments both by the Commission and by the Parliament so far does, if not carefully calibrated, jeopardise the future of EU support at least of SMEs and other rather smaller ticket-sizes.

A more detailed reasoning for the position points listed above can be found in our autumn 2022 position papers: [EAPB-AECM-NEFI](#) and [ELTI](#)

## 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 guarantee institutions 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 2021, AECM's members had about EUR 312 billion of guarantee volume in portfolio, thereby granting guarantees to around 5.9 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, having been handling EU guarantees from the very beginning in 1998.

European Association of Guarantee Institutions - AECM

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Interest Representative Register ID number: 67611102869-33

**The European Association of Public Banks (EAPB)** gathers member organisations (financial institutions, funding agencies, public banks, associations of public banks and banks with similar interests) from 15 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders. With a combined balance sheet total of about EUR 3,500 billion and a market share of around 15%, EAPB members constitute an essential part of the European financial sector, providing financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies/SMEs and the promotion of a greener economy to the financing of social housing, health care, education and public infrastructure at national, regional and local level.

European Association of Public Banks - EAPB

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Members of the **European Association of Long-Term Investors (ELTI)** a.i.s.b.l. represent an European-wide network of National Promotional Banks and Institutions who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-border solutions or investments with an European impact. Following the specific public mission of each member the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. The 31 ELTI members are major long-term investors and represent a combined balance sheet of EUR 2.4 trillion and annual financial commitments of more than EUR 180 bn .

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**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 20 European Union member states and UK. NEFI provides an informal platform that brings together National Promotional Banks and Institutions to mutually share their experience and good practices on the facilitation of SMEs access to finance. It serves as a contact for the European Union Institutions providing know-how and information that are relevant on European Union policy issues in this field.

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