EAPB Position on the
future of economic, social and territorial cohesion
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Executive summary:

The European Association of Public Banks (EAPB) considers cohesion policy as essential for regional development and for supporting the green and digital transitions and highlights the role of public and promotional banks in its implementation.

However, the EAPB is concerned about the European Commission's proposal to align future cohesion funding with the Recovery and Resilience Facility (RRF) model. While the RRF aims to streamline processes, its centralized, performance-based approach risks reducing the flexibility needed at regional levels. This could exclude deserving local projects and overburden implementing bodies with additional reporting requirements, leading to delays. The EAPB advocates for maintaining the decentralization and flexibility that allows cohesion policy to respond to specific regional needs.

To ensure cohesion policy remains effective, the EAPB believes that the focus should be put on further simplification in funding requirements, particularly regarding audit trails, reporting, and introducing proportionality into how the "Do No Significant Harm" (DNSH) principles are applied. Moreover, frequent regulatory changes disrupt investment stability in an investment environment where the need to provide clarity and security to business partners is more important than ever.

Consequently, the EAPB supports the European Commission's commitment to reducing administrative burdens by 25% and urges the expansion of digitalization in application and reporting processes. This will increase efficiency and ensure that resources are properly allocated to regional projects.

Introduction:

The European Association of Public Banks (EAPB) is pleased to be able to give our comments for the further improvement of economic cohesion of the current framework and the future of Cohesion Policy for the upcoming programming period of 2028 - 2034.

Contribution of promotional institutions to the success of cohesion policy:

EAPB member organizations have been key actors in the precedent programming period (2014 – 2020), having been involved in the implementation of the ERDF (10 members[1]), the ESF (7 members[2]), cohesion funding (3 members[3]) as well as the EAFRD (6 members[4]). All in all, 13 direct EAPB members from 10 Member States have been involved in the roll-out of ESIF funding during the past programming period, not counting additional institutions represented via the Association of German Public Banks (VÖB) and the Italian Association (A.N.FI.R.).

1 Finlombarda (FL), Institut Valencià de Finances (IVF), NRW.BANK, Hungarian Development Bank (MfB), Bank Gospodarstwa Krajowego (BGK), WI-Bank, Institut Català de Finances (ICF), Croatian Bank for Reconstruction and Development (HBOR), Thüringer Aufbaubank (TAB), Investitionsbank Berlin (IBB), Bpifrance

2 Sächsische Aufbaubank (SAB), Institut Valencià de Finances (IVF), Hungarian Development Bank (MfB), Bank Gospodarstwa Krajowego (BGK), WI-Bank, Thüringer Aufbaubank (TAB), Malta Development Bank (MDB)

3 Sächsische Aufbaubank (SAB), Bank Gospodarstwa Krajowego (BGK), SID Bank

4 Finlombarda, WI-Bank, Croatian Bank for Reconstruction and Development (HBOR), Bulgarian Development Bank (BDB), Bpifrance, Bank Gospodarstwa Krajowego (BGK), Trentino Sviluppo (ANFIR Association).

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Moreover, many of our members have already seen their experiences reported as best practices by the EIB's Fi-Compass platform, dedicated to the financial instruments of the Cohesion Policy Structural Funds. In this regard, we enclose a hyperlink to the Fi-Compass website, which gathers our members' experiences in specific publications and/or video interviews (page 15,16,17).

Currently, a group of 19 EAPB experts, representing 10 EU Member States, is discussing the new financial instruments of the 2021-2027 programming period from different perspectives (target beneficiaries, types of instruments, thematic issues, stage of progress, etc.). About forty financial instruments for the management of almost EUR 2 billion (figure to be developed) are then compared according to a shared grid that will be available soon (EAPB survey).

Strong with this experience, promotional financial institutions can be trusted when it comes to tackling the economic recovery from recent crises, the fall-out from the Ukraine war as well as the twin transitions of digitalisation and sustainability and, hence, realising the objectives the Commission has put front and centre in the new programming period 2021-2027:

- Promotional financial institutions are already subjects with a mission oriented towards the public interest and intervene with a subsidiary logic with respect to the private sector, not replacing commercial financial intermediaries, but operating alongside them and crowding them in, thus producing an added multiplier effect.

- But the contribution of the regional financing institutions is not only quantitative: their concrete experience is even more relevant to improving the qualitative profile and breadth of the financial instrumentation in cohesion policies. Significant experiences have been gained, in particular, in SMEs competitiveness, venture capital, microfinance, private debt, green and digital finance and social impact finance, as well as in relations with the EIB and the EIF.

- Thanks to their knowledge of the economic conditions on the ground and the trust that their partners put into promotional banks on the local and regional level, EAPB members will be key actors in addressing the structural challenges that a transition towards a green and digital economy entails. Considering the local specificities is key in achieving the EU's green and digital objectives with the right degree of proportionality, and EAPB members can help with their embeddedness and linkages in the local economies.

- EAPB members are actively using the new forms of financing under Cohesion Policy legislation, including the blending of grants and loans, and could contribute their experience to the fine-tuning of these rules. While the options for combining grants and loans have been strengthened in the new programming period, some hurdles remain, such as the difficulty in covering costs when credit institutions offer expensive loan programs or take on higher-risk investments like startups using EU structural funds. However, blending different types of investments has proven particularly effective during the crisis and will continue to be valuable in tackling the twin transitions of sustainability and digitalization.

EAPB views on reflections by the European Commission on the future framework for Cohesion policy 2028 - 2034:

As key actors in the implementation of cohesion funding, EAPB members are strongly committed to a more efficient delivery of support mechanisms and would like to contribute to the incipient policy debate. We understand that the first concrete internal proposal could be finalized by Commission services in time to be presented to the newly appointed College of Commissioners soon after taking up function in December of 2024.

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In its recent 9th Report on Economic, Social and Territorial Cohesion (9th Cohesion Report) [5], the European Commission has already shared its thinking about a change in the approach to cohesion funding for the upcoming programming period 2028 – 2034.

It states that *"Some regions, despite receiving Cohesion Policy support for many years, still experience weak economic performance. Reforms are needed to remove obstacles to regional development"*, which calls for further simplification. We notably agree with the view that *"Promoting cohesion is not the responsibility of Cohesion Policy alone. Leveraging the economic potential of all EU regions, while reducing socio-economic inequalities, requires common effort – and should be a shared objective of investment policies, at EU and national levels"*.

As a means to reach higher degrees of efficiency in cohesion policy, the 9th Cohesion Report suggests aligning future ESIF funds with RRF type procedures, based on a centrally managed approach together with performance measurement subject to milestones and targets for the justification of advance payments. These could take the form of e.g. number of loans and volumes (lending and equity) or evidence of leverage of final funding over budget (guarantees). The new general ESIF framework should cover all initiatives (e.g. such as a JTF initiative) and avoid creating or maintaining parallel fund structures.

- **Potential shortcomings of a cohesion policy based on an RRF approach:**

While the intention of introducing RRF-style structures for cohesion policy aims to provide simplification and efficiency gains, EAPB warns against the risk of added complexity and inherent implementation delays at local level as well as effects counterproductive to reaching more cohesion:

- There is uncertainty about how the central nature of the RRF framework can be reconciled with the decentralized nature of ESIF funding. It is absolutely crucial to maintain flexibility and decision making at local level to ensure that specific local needs are met and interventions can be adapted to changing circumstances in the course of implementation period. Breaking down central objectives to the local level is potentially time-consuming. The reform link of an RRF type framework would follow recommendations of the European Semester and country reports. A central planning approach may, however, not fit into the decentralized political reality of a number of Members States. We caution that a rigid Reform-Funding link could lead to a very narrow scope, penalizing a number cohesion projects that at local or regional level could be potentially deserving but would not fit into the objectives set at central level.
- Our understanding is that the milestones would come on top of the existing reporting requirements already in place for ESIF. We should be very careful to avoid reporting overburdening (in essence, either milestone reporting should be kept very simple or other reporting requirements should be significantly simplified). In cases of milestones clarity is crucial thus it is proposed to examine how could methodological principles be set preliminarily. A good example can be how it works in cases of indicators used in cohesion policy where methodology follows the guidance issued by the Commission (meaning among other things that indicators should be in strong connection with the interventions, should be measurable and should reflect steps towards EU goals and allow for a certain level of flexibility).
- Also, one must be careful to avoid perverse incentives of a performance-based reporting limited to volumes, that could lead to a hasty roll-out and misallocation from a public mission

[5] https://ec.europa.eu/regional_policy/information-sources/cohesion-report_en

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perspective that would run counter to the cohesion objective (individual loan assessments help avoiding this pitfall).

- While having one single fund structure with flexibility to respond to changes in market failure and funding needs is -as long as it brings simplification in the implementation- in principle welcome, it has to be ensured that the cohesion objectives are properly maintained (potentially via ring-fencing)
- The 9th Cohesion Report suggests systematic consultation and involvement of local stakeholders. While certainly useful in terms of meeting effective demand, formalized processes risk being time consuming and delay effective and time-effective implementation.

We noticed that the European Commission is aware of some of these difficulties in applying the RRF framework to cohesion policy, as it notes in its policy takeaways that the midterm evaluation of the RRF "*shows that local and regional authorities, stakeholders, and social partners, have been pointing to their insufficient involvement, and recalls the importance of their effective involvement – not only in the design, but also in the implementation and monitoring of the measures that affect them*". In our view, this should be clear cause for concern when applying RRF architecture to cohesion funding.

While we express our reservations about the possible unintended collateral effects of a RRF alignment of future Cohesion Policy, we are of course ready and available to discuss more detailed proposals with the Commission services.

However, we would also like to underline in the following section a number of ways to significantly improve the efficiency of the current framework via simplifications, without having to opt for a radical departure from existing ESIF structures and procedures.

Finally, we would like to support the suggestion made in the 9th Cohesion Report, that the Technical Support Instrument (TSI) could be used to enhance the operational efficiency of promotional institutions acting as partners in cohesion policy and beyond.

- **Raising efficiency in delivery of the current system: 3 cases for financial instruments**

Financial instruments help trigger investments on the ground for revenue-generating and cost-saving activities while maximising private investment with minimum public support to deliver the Cohesion Policy objectives of economic, social and territorial cohesion. While there is a need and justification of grants under certain circumstances proper to cohesion policy, financial instruments in general represent a more efficient and sustainable alternative to complement traditional grant-based support. This will help raise the leverage of funding over budget means for ESIF funds and thus provide for better returns for public funds.

The purpose of National Promotional Banks and Institutions (NPBIs) which constitute the members of the European Association of Public Banks (EAPB) is the deployment of financial instruments and thereby the facilitation of access to finance for those that face obstacles to raising financing from the market. The economic rationale for EAPB members is that they improve the supply of investment finance in areas with sub-optimal investment situations or create incentives to increase investment for common policy goals (e.g. decarbonisation, transformation). NPBIs, including in-house financial institutions at regional level, are the only market actors able to integrate the principle of cohesion in financial instruments ensuring a governance system that does not risk falling into purely commercial logics.

While the European Commission rightly mentions that Europe continues to face a number of challenges it also acknowledges the tremendous contributions of Financial Instruments to tackle these

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challenges as well as its repayable nature offering better performance, greater financial discipline at the level of supported projects and reflows from these investments being subsequently reinvested by national authorities into further projects. Below are some success stories of EAPB members already taken from the Fi Compass platform but still relevant:

- On the topic of supporting primary producers in agriculture through a supply chain approach: reverse factoring. Reference: https://www.fi-compass.eu/stories/credit-fund-lombardy-supports-agri-food-chain
- On start-ups and scale-ups growing thanks to Venture Capital (VC) investments with ERDF funds and funds from private investors, leveraging 9 times the public contribution. Reference: https://www.fi-compass.eu/library/case-studies/fuelling-berlins-innovative-start-ups-erdf-vc-funds
- On performance-based subsidies, already used in the past with the ESF's Jeremie initiative in favour of social cooperatives (reference https://www.fi-compass.eu/library/case-studies/jeremie-esf-lombardy-region), and currently exploited by HBOR with the risk-sharing instrument combined with the capital discount.
- As far as support for broadband infrastructure is concerned, there is the experience of the Polish promotional bank BGK and its financial intermediaries. (reference https://www.fi-compass.eu/library/case-studies/stocktaking-study-financial-instruments-sector-polish-broadband-loan)

➢ **Doing more with less: simplicity**

The EAPB would like to acknowledge and highlight the importance of simplifications already made in the Cohesion Policy Funds regulation (CPR 2021-2027), notably:

- The option given to managing authorities to directly award a contract to a publicly owned promotional institution (Article 59.3.c): NPBs are acting under a public policy mandate given by a Member State or regional authority that includes carrying out economic development activities contributing to the objectives of Cohesion Policy Funds. They are consequently playing a vital role in deploying the Cohesion Policy Funds at the local level. Direct selection of this kind therefore simplifies and accelerates grass-roots funds allocation, but it is currently limited to financial instruments and could usefully be expanded to financing in the form of subsidies.

- Simplification of the audit trail for financial instruments: The CPR 2021-2027 stipulates that evidence of the use of funds for their intended purpose is provided ex-ante (and no longer ex-post), meaning before granting the financing. This approach aligns the audit rules for the Cohesion Policy Funds, with those used for centrally managed financial instruments (InvestEU, EIB and EIF financial instruments) and makes them more in line with market practices. Prior checks make it possible to confirm the project or business meets the eligibility criteria and are based on regulatory documents (e.g. a company's articles, financial documents), commitments from the business owner and examination of the business plan.

- Continued support for working capital requirements and business capital expenditure with the ESI Funds (Article 58.2)

- Simplification of the calculation method for management costs and fees, although the caps do not always cover the costs related to financial instruments (Article 68.4)

- Streamlined ex-ante assessment (Article 58.5)

- Combination of FI and grants in one single operation (Article 58.4-7)

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- Continuation of FI across consecutive programming periods (Article 68.2)
- Payment applications (Article 92)

While we congratulate the European Commission for the above-described improvements, the EAPB sees further simplification opportunities that could be made.

Indeed, the complexity of funding regulations and reporting requirements is still considerably high and might even increase in line with (sustainable) finance regulations. This complexity means that the administrative bodies (audit authorities, administrative authorities, authorising bodies, etc.) sometimes demand more from the parties involved than the Commission requires (e.g. in relation to the topics of auditing and documenting the exclusion of conflicts of interest and compliance with the internal market, separation of functions, procurement rules, ensuring climate compatibility and climate resilience).

Regulations that require interpretation lead to inconsistent implementation which leads to less legal certainty and hinders efforts to automate and digitalize.

While a platform for submitting questions to the Commission already exists and involves managing authorities, access for National Promotional Banks and Institutions (NPBIs) remains a challenge. To address this, we propose that NPBIs are granted access to this service, enabling them to submit questions directly and receive informal guidance from the Commission. These questions would be answered by a Commission employee with a disclaimer, such as:

"*This reply does not represent a formal and definite position of the European Commission but is only an informal guidance provided by the services of the DG in charge to facilitate the application. It is therefore not binding and cannot create legal certainty or legitimate expectations.*"

This could streamline processes and provide clarity on regulatory matters. Additionally, the responses could be made available to all Member States, with the responsibility for granting access to these disclaimers resting with authorizing bodies. Further simplification opportunities that could be made to the CPR are the following:

- Harmonize the rules and thresholds applicable to environmental requirements across EU programs: it seems helpful to introduce the following proportionality measures:
  - The DNSH (Do no significant harm) and climate proofing principles should apply at program level whenever it is possible.
  - When desired by financial intermediaries, limit the DNSH (Do no significant harm) and climate proofing (for infrastructure projects) checks to direct financing operations – so as not to disincentivize private-sector co-funders to finance projects; For intermediated operations (such as guarantee schemes to private banks) a proportionate approach based on the one foreseen under the InvestEU program could be envisaged.
  - Introducing at the same time a threshold, so the DNSH and climate proofing principle applies only to projects exceeding €10m. This threshold already applies to projects under the InvestEU program.
  - In fact, introducing proportionality into how DNSH and climate proofing are applied would allow to harmonize the rules under which these new principles are applied across schemes co-financed by Cohesion Policy Funds and those co-financed by InvestEU funds as well as simplify, improve clarity and ensure equality of treatment between recipient businesses of Cohesion Policy Funds and InvestEU recipients.

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- Except for programs targeting natively green projects and companies, we would advise not condition European funding on compliance with the DNSH principle, which works as an exclusion criterion. DNSH involves a comprehensive evaluation of the company's environmental impacts (six dimensions), requiring significant human and financial resources. Its implementation is disproportionate for SMEs and small projects below 10 million euros. DNSH does not serve the objective of rapid green transition of companies as it can block an investment that promotes green transition / decarbonisation if there is a residual impact. It is preferable to finance the transition step by step, addressing issues one by one, rather than trying to tackle everything at once, with the risk of excluding companies that need to transition. DNSH should not be a prerequisite for benefiting EU funding, but it remains a useful tool to guide businesses and financing.

- Enable effective and straightforward *ex-ante* assessments (Article 58.3): Indeed, the process of the ex-ante assessment remains cumbersome and the time its finalisation requires means delay in the launch and uptake of FIs in comparison to grants.
- Clarify the verifications and audits on guarantee instruments (Article 81): It is desirable to maintain the 2014-2020 programme's rules, which stipulated that audits were conducted at the level of the body implementing the financial instrument (without going down to the level of the banks benefiting from that body's guarantee). Indeed, the new CPR provisions (Article 81) intended to ensure management audits are always conducted at the banks delivering the loans as regards guarantee funds could in fact prove counterproductive. The risk is that banks will withdraw from these guarantee schemes, restricting the development of such instruments as a result. To keep guarantee funds' full potential, as the financial instruments with the greatest leverage effect, it is advisable to maintain the current equilibrium seen on ERDF 2014-20 guarantee funds, whereby bank audits should be considered only if the audit on the financial intermediary proves inadequate.
- Relax the rules around the responsibility of beneficiaries (Article 50.3): Under the CPR, recipients must acknowledge the support provided by Cohesion Policy Funds to an operation, and the applicable responsibility rules are toughened. It is proposed that, given they are repayable in nature, financial instruments do not fall under this rule. FIs are there to increase access to finance and stimulate private investment for a competitive and sustainable economy. The enterprises do not receive grants and even pay interest profits to private intermediaries. The responsibility to make transparent the EU-support should clearly be the responsibility of the direct beneficiary of the EU-grants, the FI itself.
- Regarding above-mentioned improvements to audit trails for FIs, we further would like to encourage national audit authorities to ratify beforehand the audit trails of banks and public-sector promotional institutions for financial instruments making use of Cohesion Policy Funds. This would not rule out audits but would help make management conditions more secure and accelerate funds deployment.
- Explain & stipulate how certain justifications for audit trails are collected and make sure everything is clear from the beginning to avoid unnecessary conflicts in the process and misunderstandings between the European auditors and the European Commission.
- Consult more public promotional banks and institutions when preparing the European Commission's audit methodologies for Cohesion Policy Funds.
- Particular importance should also be given to the peculiarities of financial instruments, starting from the duration of their life cycle (often exceeding 7 years of programming) to identifying

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"facilitative" programming modalities (e.g. overbooking). Allow loan agreements signed before the end of the programming period (31.12.XX) to be retrieved by the final recipients for another 6 months. This will be even more important with the introduction of capital rebates.

- We would encourage introducing financial incentives at the regulatory level and/or other regulatory benefit for Fis in order to motivate their use and to compensate the complexity of their deployment in comparison with grant.
- Since the goal of financial instruments is to deploy supports that are close to market rationality, it is a constant goal to follow market practices, including new forms of financing. In order to transpose market trends to ESIF-funded financial instruments it would be extremely helpful to create a fast track for ESIF funded financial instruments' related question at DG Competition and DG Regio. This could significantly contribute to effectively respond to market needs.
- Finally, when we think of further simplifications, the 'cost-factor' also jumps to mind: especially when it comes to management costs and fees, EAPB members would like to point out that in 70% of cases they are not fully covered. This is particularly the case when NPBs have to make their own credit evaluations and decisions under banking regulation (sometimes parallel to the private intermediaries). This is also important to avoid the same effect as in the private market (2 small loans cost twice as much as one big loan, loans without collateral the same). A good and efficient solution was the regulation from the last period, allowing for returns from investments to cover real management costs in excess of the caps.

We would also like to stress that simplification is not exclusive to financial instruments but should also be an objective for subsidies which play a substantial role in the allocation Cohesion Policy Funds.

- **<u>Stay on Target: continuity</u>**

Generally speaking, EAPB members would like to note that with continuity comes even greater simplification, since the longer a regulation is applicable the simpler it becomes. Re-thinking everything from scratch every 7 years is generally not advisable in an investment environment where stability is key and the need to provide clarity and security for business partners is more important than ever.

More precisely, when reviewing the current framework, a shift to applying alternative frameworks to overhaul the existing Structural Funds policies is seen in a very critical light by EAPB members since there is risk of added complexity and inherent implementation delays when applying for instance the RRF (Recovery & Resilience Framework) structure to Structural Funds. Indeed, the EAPB is very skeptical how the central nature of the RRF framework can be reconciled with the decentralized nature of ESIF funding where it is essential to maintain flexibility and decision making at local level to ensure that specific local needs are met.

Fis in particular profit from a place-based vs a centralized approach as they are more effective in providing access to finance. Knowledge of the local companies, innovation cluster dynamics and infrastructure providers and offering know-how on the spot is crucial for a successful FI. So is a close, extensive and dependable local / regional network of intermediaries and private co-investors. VC-Fund Berlin for example would not have managed to leverage a six-fold private co-investment for more than 20 years without being anchored in a close local network.

Introducing a more performance-based implementation framework based on RRF experience might be a way forward for traditional grant funding but again might be counter-productive for FI. FI already are perfectly performance-based through their market-based approach: a good or bad performance

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leads to more or less returns of capital for new projects for the public partner and profits or losses for the private partner. Even the universally applauded leverage effect cannot always be a performance indicator, think of total market failure with small and micro-credits or unattractive regions without private VC-investors.

Recognizing the long-term nature of Financial Instruments is crucial as they are playing an expanding role in EU regional policy. They serve to ensure the long-term future of resources and help attract private sources to jointly finance riskier projects as well as simplify the disbursement of funds, given how they are managed.

Hence when designing the next funding period, attention should therefore be paid to the consistency of the programs and the terms used rather than applying a rigid reform-funding link which would lead to a very narrow scope that could eventually be penalizing other cohesion projects.

This would help ensure that the objectives and measures of the various funds and programs are understood in a uniform manner. Clear and consistent terminology as well as seamless integration of programs will increase their efficiency in the new programming period.

For the next parts on ‘Continuity’, ‘Flexibility’, ‘Coordination & Alignment’ as well as ‘Reducing Administrative Burden’, the EAPB would like to refer to a central document from the European Council where Presidency conclusions on the future of cohesion policy were examined at the meetings of the Working Party on Structural Measures and Outermost Regions of 12, 23 October and 8 and 16 November 2023.

More specifically, the EAPB would like to refer to (9) recognizing that (..)

> **(9)** *cohesion policy is a long-term policy, not a crisis instrument* and emphasizing
>
> *the crucial and decisive action by cohesion policy in addressing recent crises in countering their negative socio-economic impacts and avoiding the aggravation of existing asymmetries*.
>
> The Council concludes that
>
> *the cohesion policy regulatory framework should be able to adapt to new developments and unexpected events,* ***while recalling the long-term transformational nature and structural objectives of cohesion policy.***

In the area of ESF+, it is noted that Regulation (EU) 2021/1060 introduced a definition for the term ‘participant’ which, in the case of funding for natural persons, stands in contrast with the definition of ‘beneficiary’. As a result, less participant data can be generated and reported for the ESF+. A regulation analogous to the Omnibus Regulation for FP 14-20, according to which the direct funding of natural persons and their status as participants was possible at the same time, would also do better justice to ESF+ funding 21-27, as this would better reflect the identification of citizens with the EU and the Structural Funds.

Periods of validity of state aid regulations should be harmonised with the periods of the funding period. At the beginning of this funding period, this was not the case with the general de minimis Regulation (Regulation 1407/2013) and the General Block Exemption Regulation (Regulation 651/2014). As a result, funding regulations, such as guidelines and funding principles, must be adapted over the course of a period, which makes effective programme implementation considerably more difficult and ties up or requires additional capacities in public administration and the development banks. Here, the procedure from EAFRD agricultural funding should also be sought for the ERDF and ESF, whereby the approval of the programmes also confirms their compatibility with state aid law over the entire funding period.

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- **Staying ahead: flexibility**

It seems necessary to positively mention the possibility to top up the instruments created under the previous financial period with funds from the new financial period. This is of particular importance when, for example, a guarantee and a capital rebate are combined in one instrument, and the capital rebate is provided much later than the guarantee. Thus, there may be a situation where the guarantee is granted on the last day of expenditure eligibility, and the capital rebate is granted after the eligibility period. In the case of a lack of funds for capital rebate, it is important that the managing authority with funds from the new period can recapitalize the instrument from the previous one, which will ensure the continuity of the instrument's operation and allow the final recipients to receive a subsidy on the capital, which significantly reduces the amount of the loan remaining to be repaid.

Considering the repayable nature of financial instruments, the EAPB argues that they should be managed flexibly and proportionately for leveraging private-sector co-investors, facilitating synergies with other domestic or EU financing programs, and embedding them into national promotional institutions' mechanisms in the long term. This is also necessary to allow Cohesion Policy Funds to play a counter-cyclical role if an economic crisis occurs, as seen recently with Covid-19.

In this regard the EAPB again refers to the 'Conclusions on the future of cohesion policy' from 17.11.2023 by the Council, stressing that (..)

> *(15) the need to assure that the programming and implementation of cohesion policy focuses on the cohesion priorities of the European Union while being flexible to the reality of the regions, taking into account their territorial specificities and vulnerabilities*

Indeed, Flexibility in the design of funding is necessary in order to allow regions making use of the funds according to their specific needs and priorities as well as respond to changes. Overly rigid regulations are a hindrance in this context.

The current guidelines for financial corrections, dated 14 May 2019, provide for financial corrections of up to 100% for violations of the rules for awarding public contracts, depending on which of the 25 irregularities listed in the guidelines have been identified. In practice, the implementation of high sanction rates leads to a significant negative perception among beneficiaries and, as a result, to the withdrawal from the implementation of projects.

The existing flexibility in cohesion policy should enable the managing authorities to reallocate funds in crisis situations (e.g. industrial or natural disasters, health crises, etc.) and in the event of significant changes in political priorities. The guidelines for financial corrections could be revised. In the case of projects in which the country contributes at least 20% of the funding, the country itself should be allowed to determine the sanctions it considers necessary. If this is not possible, lower sanctioning rates should be set. This would allow for a more efficient response to local circumstances and hence better aligned strategic investments.

There seems a common recognition among all actors in all Member States that state aid regulations are the biggest hurdle for a flexible use of FI to tackle short-term (e.g. inflation) and long term (e.g. climate change) crises. We propose the adjustment of state-aid regulations specific to FI with a high percentage of private leverage to allow increased support and leverage to climate goals and strategic technologies. Market distortions are small, for example, if the loan interest rate is market standard, but capital rebates (public grants) are granted for extra effort (e.g. emission reduction, recycling). A De-minimis-aid for FI could be based on a capped percentage of loan amount rather than grant amount.

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- **<u>Coordination and alignment</u>**

Coordination between the different EU Funds and programs would indeed ensure that these funds are used more effectively and are better targeted to the needs and objectives of local market participants in case coordination can bring the intended simplification. Furthermore, particular attention should be paid to changes in state aid rules which, when implemented, could undermine the attractiveness of the instruments themselves.

On this topic the '[Conclusions on the future of cohesion policy' from 17.11.2023 by the Council,] emphasizes that (..)

> *(4) cohesion policy is a policy for all EU regions, **but more targeted, adaptable support should be ensured for the less-developed ones in particular**, which continue to face structural challenges exacerbated by the multiple asymmetric shocks of the recent crises, while still lacking of basic infrastructure and access to services;*

It also recalls that (..)

> *(12) shared management and the partnership principle have been an integrated part of cohesion policy, guaranteeing a system of multilevel governance that **preserves the balance in decision-making between the Commission, Member States, regions, and local authorities, while closely involving partners, thus creating a sense of ownership of programmes** and development trends, as well as fostering belonging to the European project.*

In this regard, reference is also made to the **Strategic Technologies for Europe Platform** STEP, which, although creating a certain interest for the managing authorities from the point of view of expense reporting, has not provided for a specific state aid scheme capable of stimulating the interest of those strategic companies that could have contributed more than others to achieving the platform's objectives.

This observation acquires even more value in the light of the **Draghi report on competitiveness of Europe**, which upholds the need to achieve objectives that are as arduous as they are necessary for Europe's survival in the international context, through a development strategy that involves public funds together with private ones.

To illustrate, the "New European Bauhaus", takes a holistic approach to various aspects in a single project. The EU Commission's "New European Bauhaus" projects are intended to add a cultural and creative dimension to the European Green Deal, show how sustainable innovations can enable tangible and positive experiences in our everyday lives, and must meet the criteria of sustainability, aesthetics and inclusion. For this holistic approach to certain projects, the conventional state aid modular system of several exemptions under the GBER, the de minimis regulations and the SGEI exemption decision is difficult to use, as there is a risk of projects being fragmented. This means that there is a risk that holistic approaches cannot be implemented. A mere better structuring of the GBER, as currently communicated by DG Competition as a planned simplification, would not be enough to allow holistic projects to be approved as a single project under state aid law. New or additional development and cohesion policies should therefore also be accompanied by additional (simplification) possibilities under state aid law.

It goes without saying that competition rules and aid schemes will have to be functional to European objectives and related development and cohesion policies.

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➢ **<u>Achieving the - 25% target: reducing administrative burden</u>**

The complexity, scope and level of detail of the funding regulations and the administrative and audit costs for the implementing bodies are steadily increasing. In the 2014-2020 funding period, 113 data items had to be reported for each individual project, while in the current funding period this figure increased to 142. The collection of data on the beneficiaries' beneficial owners and extensive data on contractors and subcontractors is indeed time-consuming. The effort hereby is not only incurred by the administrative authorities, which must collect and store the data, but also by the recipients of the funds, who in turn have to collect this data from their contractors.

With some of the new data to be collected in the 142-field list, the question arises as to whether and how the data, which is collected in some cases in detail in the regions, can be evaluated at the European level, and whether the effort involved for the VB and the complexity for the beneficiaries is in proportion to the benefit of the knowledge thus obtained.

The EU Commission's 2024 work program, published on 17 October 2023, contains an explicit commitment to reduce reporting requirements by 25% in the medium term. This initiative is and should be supported by the EAPB and its members.

In this regard, the number of data fields could be reduced in the new funding period, or the least not be increased any further. In particular, the content of the fields and the relevant completion instructions should remain unchanged.

Finally, the EAPB and its members see potential for the simplification of application and reporting procedures, especially when it comes to the digitalization of these processes. This would ensure resources flowing in the appropriate channels regarding both management and funding of the projects as well as strengthen competencies by avoiding unnecessary implementation efforts.

Here, the Council also emphasizes that (..)

(16) there are a number of administrative burdens in the management of cohesion policy that are limiting its efficiency as well as encourages *exploring all possible avenues for simplification, including the possibility of developing the so-called single audit principle.*

<u>Further suggestions for improving Structural Fund efficiency and implementation</u>

The following are proposed measures to improve the efficiency and effectiveness of Structural Fund regulations:

- As previously noted, while a platform for submitting questions to the Commission already exists, primarily involving managing authorities, National Promotional Banks and Institutions (NPBIs) should be granted access to this service. The response could be made available to all member states in English on a Structural Fund Wiki-page, to which access could be regulated by the Member States upon their own responsibility.
- High efficiency in the implementation of the funding could be rewarded. In this context, Member States that achieve a favorable value when combining the components of error rate and administrative costs could receive additional allocations for their support measures.

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- Analogous to the procedure known from state aid law, "appropriate measures" could also be included in the binding Structural Fund legal acts, which would enable Member States to continue applying the old legal bases for a transitional period, at least with regard to certain implementation provisions (i.e. related to topics such as "avoidance of conflicts of interest", "climate impact assessment" or "awarding of contracts").
- Structural fund-financed incentives could be provided for in regulations for proposals from administrative / audit authorities or authorizing bodies that reduce costs and are positively assessed by the Commission across all member states. The rejection of such proposals must be justified in writing by the Commission.
- Future Structural Fund regulations could be encouraged to not only formally list proportionality as a legal principle, but to fill it with life. The Commission could introduce proportionality controls in the Member States, where audit authorities would be tasked, for example, with comparing topic-specific guidance and audit findings from different administrative authorities regarding compliance through the principle of proportionality (e.g. Commission determines three reference regions, including at least one from abroad)
- European direct programs are generally limited to funding transnational projects or funding approaches that are intended to serve as a role model - e.g. a mixture of different incentive elements in the funding of a project.
- Apart from transnational projects or funding approaches that have a model function, there should no longer be any EU funding instrument in future for which implementation by the EIB Group alone is envisaged (concerns the public sector loan facility under the third pillar of the JTF).

The European Association of Public Banks (EAPB) gathers over 30 member organisations which include promotional banks such as national or regional public development banks and local funding agencies, public financial institutions, associations of public banks and banks with similar interests from 17 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders.

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MS	CORPORATE ENTITY	FINANCIAL INSTRUMENT	FI-Compass NEWS/VIDEO	Fi-Compass CASE STUDIES	Fi_Com_pass STORIES	FUNDS
DE	Sächsische Aufbaubank - Förderbank	Mikrodarlehen		Mikrodarlehen - Microloans for entrepreneurs and start-ups in Saxony, Germany		ESF ESF+
HU	MFB Hungarian Development Bank	Combined Micro Credit and Grant (CMCG)		Combined Micro Credit and Grant scheme		ERDF CF
ES	Institut Català de Finances	Financial instruments for innovative firms		Financial instruments for innovative firms		ERDF CF
FR	Bpifrance	FOSTER TPE-PME-AGRI		FOSTER TPE-PME-AGRI a new generation multi-sector fund of funds, Occitanie, France		ERDF CF
FR						EAFRD
DE	Investitionsbank Berlin	Venture Capital		Fuelling Berlin's innovative start-ups with ERDF VC funds	A leap towards sustainability	ERDF CF
HR	HBOR	ESIF Growth and Development Loans		-	HBOR: ESIF Growth and Development Loans	ERDF CF
HR	HBOR	Rural Development Programme (RDP) 2014-2020	Growing interest in EAFRD financial instruments	Micro and small loans for rural development 2014-2020, Croatia	-	EAFRD
IT	Finlombarda	Al Via	AL VIA – an ESIF guarantee instrument for smart SMEs in Lombardy		AL VIA – an ESIF guarantee instrument for smart SMEs in Lombardy	ERDF CF
IT	Finlombarda	Fondo Credito (Bando Agroindustria)	-	EAFRD Credit Fund Lombardy 2014-2020	Credit Fund Lombardy supports the agri-food chain	EAFRD
IT	Finlombarda	Jeremie FSE	-	JEREMIE ESF Lombardy region	-	ESF ESF+

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IT	Lazio Innova	FARE Venture	Case Study 1 - INNOVA Venture, Italy			ESF ESF+
IT	Trentino Sviluppo	Fondo Prestiti FEASR		EAFRD Loan Fund for agriculture Friuli Venezia Giulia, Italy		EAFRD
IT	Sviluppo Campania	Fondo Microcredito FSE		ESF Microcredit Fund Campania		ESF ESF+
FR	Agence France Locale	Microcrédit ADIE professionnel		Microcredits for Social Inclusion - France		ESF ESF+
PL	Bank Gospodarstwa Krajowego (BGK)	Renewable Energy Sources (RES) Loan Fund		ERDF renewable energy loans in Pomorskie, Poland		ERDF CF
PL	Bank Gospodarstwa Krajowego (BGK)	Biznesmax guarantee		Biznesmax – ERDF guarantee supporting SMEs in Poland		ERDF CF
PL	Bank Gospodarstwa Krajowego (BGK)	'Polska Cyfrowa' The Polish broadband loan instrument		Stocktaking study on financial instruments by sector - The Polish broadband loan instrument		ERDF CF
PL	Bank Gospodarstwa Krajowego (BGK)	BGK-managed Urban Development Fund		Urban Development Fund in Pomorskie		ERDF/CF
PL	Bank Gospodarstwa Krajowego (BGK)	EAFRD guarantee fund		EAFRD guarantee fund for agriculture and agri-food businesses, Poland		EAFRD
PL	Bank Gospodarstwa Krajowego (BGK)	Financial Engineering Support for Social Economy Development	Poland's National Fund for Social Entrepreneurship helps social economy enterprises in difficult times	Financing the social economy		ESF ESF+
NL	BNG Bank					ALL SECTORS
BG		Risk sharing micro-finance facility				ESF ESF+

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BG	Bulgarian Development Bank (BDB)	Capped portfolio guarantee for microloans		ESF Financial instruments in Bulgaria		ESF ESF+
DE	Bundesverband Öffentlicher Banken Deutschlands, Association of German Public Banks	VC Funds		Fuelling Berlin's innovative start-ups with ERDF VC funds	A leap towards sustainability	ERDF CF
DE	Bundesverband Öffentlicher Banken Deutschlands, Association of German Public Banks	Mecklenburg-Vorpommern Rural Development Programme (2014-2020)		Food and agricultural loan fund 2014-2020		EAFRD
DE	Bundesverband Öffentlicher Banken Deutschlands, Association of German Public Banks	Mikromezzaninfonds		Mikromezzaninfonds, Germany	A solution for Benjamin	ESF ESF+
ES	Institut Catalã de Finances (ICF - the Catalan Institute of Finance)	JEREMIE Catalonia		Financial instruments for innovative firms		ERDF CF
ES	Institut Valencià de Finances (IVF)				-	ALL SECTORS
MT	Malta Development Bank	The First Loss Portfolio Guarantee		The First Loss Portfolio Guarantee instrument in Malta		ERDF CF

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