EAPB Proposals for Cohesion Policy Reforms- February 2025

Introduction

Cohesion Policy represents the central instrument of the EU strategy for promoting balanced and sustainable development. However, critical administrative and structural barriers persist, significantly affecting the policy's final impact.

As a conclusion of the work of the Task Force on Cohesion Policy Reforms in the Expert Working Group on Structural Funds of the European Association of Public Banks, we would like to present the following recommendations to enhance the efficiency and accessibility of Cohesion Policy instruments.

This paper should be read as complementary to our October 2024 paper on Cohesion Policy. Following the EC request for further ideas on how to simplify administrative burden and encourage the up-take of financial instruments, the EAPB has formulated following additional recommendations.

1. Simplification of Administrative Processes

As a general principle, we support simplification as an indispensable condition for the improvement of the accessibility and efficiency of Cohesion Policy. However, we also emphasize the need to ensure careful balance between simplification and the maintenance of the flexibility essential for Cohesion Policy to address regional and sectoral specificities. The following measures aim to achieve that balance.

As a first step, one of our main recommendations is to reconsider the obligation on ex-ante assessments for financial instruments. These assessments are very time-consuming (incl. public procurement etc.) and create uncertainty at the end of an already long programming process of the regional instruments. They should therefore be significantly streamlined. In that sense, if ex-ante assessments need to be required, in order to help avoid redundancy they should be less complex, allow updates from previous funding periods, or be relieved for financial instruments with the same scope already assessed at earlier periods. If this recommendation was followed, it would simplify and streamline administrative processes and align the regulatory burden with the degree of market interventions and encourage the broader use of financial instruments.

Furthermore, a significant simplification could also be achieved by reducing the scope of audits. This includes:

- Waiving the audit of capital depletion in its current form and instead checking whether there is no negative balance sheet equity or whether such a situation might arise in the short term.

- Limiting the documentation requirements for such checks to merely showing the control result, as some third-party control instances currently require dedicated documentation of each individual processing step.

A possible compromise would be to exclude certain sectors, such as universities and research institutions, from classification checks as enterprises in difficulty. In addition, the existing possibilities to finance enterprises in difficulty with financial instruments under de minimis aid should be promoted more widely in order to avoid national gold-plating. Moreover, the definition under Article 2 of Regulation (EU) No 651/2014 could also be simplified by deleting accumulated losses as a classifying element for enterprises in difficulty.

To address financing requirements for small mid-caps (businesses with 200–500 employees), current ERDF regulations should be expanded beyond research, development, and innovation to include tangible and intangible assets and working capital requirements. This would also simplify the SME check.

Furthermore, standardized templates for procedures should be developed, especially for smaller projects. At the same time, however, such measures must not exclude innovative or high-risk projects that may require tailored support. Again, this balance between simplicity and adaptability is important to ensure that Cohesion Policy instruments can meet a wide range of needs.

Finally, a single framework of rules on financial instruments is needed in order to avoid duplication and conflict between Cohesion Policy requirements and those imposed under InvestEU or EIF/EIB guarantees. It would avoid multiple standards where one would suffice. The EAPB also suggests allowing for exceptions in certain specific cases where alignment may not be possible, ensuring flexibility for projects that have unique requirements.

Addressing Gold Plating

Gold plating—the addition of unnecessary rules and procedures beyond what is established by the Common Provisions Regulation (CPR) is still considered a very significant obstacle in the effective implementation of Cohesion Policy. This is partly caused by the interpretation of regulations by auditors, who have occasionally gone further than the original intention of the rule.

To address this issue, the European Commission should issue guidance that is easier to understand, with a view to ensuring coherence and correctness in how the regulations are interpreted at the national and regional level, as well as by auditors. Special attention needs to be given to the following:

- Raising the awareness of auditors of the existing rules, especially regarding financial instruments (FIs) and combined instruments, and trying to reduce misinterpretations, thus avoiding unwarranted compliance burdens.

- Emphasize that the EU model gives the grant-eligibility rules when grants are combined with financial instruments. Thus, only FI eligibility rules align, and national gold plating does not create any further obstacles for the grant components of these combined instruments.

In order to reduce the effects of gold plating, we propose the following:

- Encourage the use of structural funds regulations only for the combination of FIs and grants within one FI project. This will simplify procedures and reduce administrative layering.

- The introduction of the eAIR system should not add to the bureaucratic burden on either the aid-granting body or the beneficiaries. If the registry is found to be burdensome, the European Commission should not make its use obligatory.

- Finally, it is important to ensure accountability mechanisms for both Managing Authorities (MAs) and auditors when gold plating occurs.

In particular, audit procedures require reform. We recommend simplifying the audit framework so that enterprises using financial instruments are audited only in cases of suspected fraud situations or exceptional circumstances. This would avoid duplication and excessive checks. Similarly, audit criteria for combining grants with financial instruments should be coherently defined, ensuring proportional oversight. For example, in the case of a financed project that does not fully comply with the call, repayment should be limited to the grant portion rather than requiring the reimbursement of the entire subsidized loan.

2. Encouraging the Use of Financial Instruments

Financial instruments are an indispensable tool for leveraging public funds in an impactful way. The following measures are intended to promote their use by increasing their accessibility and consequently their attractiveness.

Firstly, we recommend encouraging the use of blended financial instruments, such as the combination of loans and grants, ensuring flexibility in the funding structure of these hybrid tools, leverage on scarce public resources and facilitation of an investment pipeline thanks to the inherent close ties between promotional financial institutions and Managing Authorities as well as local beneficiaries. Their configuration can vary from capital rebates to a model based on the Public Sector Loan Facility (the grant component managed by the Managing Authority, in conjunction with a loan generated by a promotional financial institution, thus requiring minimum or no adjustment).

Second, simplification of co-financing rules is an important reform. Flexibility should be prioritized, especially in those cases of high-risk or early-stage projects in which rigid co-financing requirements can act as an obstacle. Also, the own contribution of final recipients should be made eligible for co-financing, as it already happens with grants. Obligatory national contributions for financial instruments should be reconsidered and potentially removed in specific cases, such as high-risk projects or early-stage ventures.

EAPB also proposes introducing adjustable co-financing rates tailored to the characteristics of target groups or specific financial instruments. For example, startups, SMEs, or green projects might require different co-financing conditions to meet their unique challenges and needs.

To further support their effective deployment, the rules for the eligibility of management costs should be simplified, ensuring a market-oriented approach that allows for the use of returns and interest during and after the programming period. This would prevent negative incentives for small loans, innovative enterprises, or sustainable projects with higher unit costs than standard SME loans.

Capacity building is essential to ensure the effective deployment of financial instruments. Dedicated funding streams should be established to train institutions, particularly in smaller or less experienced regions. At the same time, companies should be helped to better plan investments, especially for those sectors that are not used to turning to the banking system (e.g. agriculture). Platforms like Fi-Compass could play a crucial role by sharing best practices, case studies, and innovative applications of financial instruments, with a particular focus on leveraging reflows, implementing impact-driven projects and combination of FIs under shared management with centrally/indirectly managed FIs. A fast-track consultancy option with Fi-Compass or DG Regio could also be established to assist not only the Managing Authorities but also the financial intermediaries themselves, specifically the National and Regional Promotion Financial Institutions (ref. Reg. UE 1017/2015 art. 2.3; Reg. UE 1060/2021 art. 59), in introducing new types of financial instruments, especially in rapidly changing market conditions.

The reuse of returns after the end of the programming period should be clarified in the CPR to encourage the development of evergreen revolving instruments and the use of these returns for national co-financing in future programming periods.

In addition, EAPB suggests setting up a fast-track procedure to clear any state aid issue with DG Comp or related questions on financial instruments so that regulatory and state aid issues do not delay their implementation.

The use of emerging technologies, such as generative artificial intelligence, in bidding and evaluation processes should also be carefully managed.

3. Overcoming Obstacles for Public Investments

Public investment projects face several barriers, such as financing gaps, complex permitting procedures, and limited institutional capacity at the local level. The EAPB proposes measures to address these challenges and boost the effectiveness of Cohesion Policy instruments.

Strengthening capacity at the local level is crucial. For that reason, we recommend the development of capacity-building programs for Managing Authorities and local institutions to improve their administrative capabilities. The result would be a more efficient management and implementation of projects, particularly in regions where there is a low level of institutional experience. Additionally, a reduction of administrative burdens for small beneficiaries would increase accessibility and ensure that smaller-scale projects are not excluded from support.

Cohesion Policy instruments should also promote the transformation to a sustainable future, both climate-neutral and social. However, sustainable finance regulation is increasingly becoming a barrier for SME financing and transformation projects, particularly for transitions from brown to green activities. Public authorities are often incoherent in their approaches or require additional guidance. To address this, we would suggest developing a catalog of criteria determining what should be considered as a sustainable project or enterprise under Cohesion Policy, potentially based on a "taxonomy light" framework.

Finally, linked to the previous point, the Commission should also consider introducing specialized toolkits with regard to green projects. Such toolkits would give the necessary practical guidance on how to better design and then implement environmentally focused investments, thus aligning local projects with EU sustainability goals.