Comments on SME-related aspects of the proposed InvestEU Programme

In this paper, AECM, EAPB, ELTI, NEFI and SMEunited (in the following "the Stakeholders") would like to contribute to the ongoing legislative procedure regarding the proposal for a regulation establishing the InvestEU Programme and more precisely to the SME-related aspects of the InvestEU Fund. Our joint comments take into account:

- The legislative proposal of the European Commission including the latest working documents and the draft of the Investment Guidelines dated 14th December 2018,
- the positions of the European Parliament adopted on 16th January 2019,
- the status quo of the negotiations in the Council.

Sufficient funding for the SME window

The InvestEU Programme will be the successor of a large range of financial instruments under the current multiannual financial framework (MFF). With a view to SME support, it will notably replace the current COSME financial instruments (both, LGF and EFG), InnovFin equity and debt instruments, the EaSI Guarantee instrument, and the Cultural and Creative Sector Guarantee Facility. These programmes are very successful in triggering additional investments into the real economy, contributing to innovation and job creation and thus also enhancing the competitiveness of companies in Europe and development of new technologies. With the markets expecting these instruments to continue, the co-legislators should ensure that the SME window under InvestEU is sufficiently funded, especially in light of the often higher risk profile of underlying operations. The position of the European Parliament with regards to increasing funding of the SME window to EUR 12.5 billion is a step in the right direction.

SME financing under all policy windows

The Stakeholders welcome that the current fragmentation of SME support instruments be streamlined into one programme with one set of rules for the next programming period. Despite the existence of the dedicated SME window, SMEs as a type of beneficiary should not be excluded from the other three windows if a financing solution from a different window corresponds better to their needs. This would resolve the problem related to the mutual exclusion of COSME and InnovFin in the current programming period.

The SME window of the InvestEU Fund should be accessible for all types of SMEs without any ring-fencing for specific sectors, specific stages of development of a company or specific sub-definitions of SMEs, e.g. there shall not be a considerable share reserved for innovative SMEs, since traditional SMEs face similar problems in accessing finance as well as equally affecting employment and regional economic growth. Thus, the attribution of funds under the SME window shall follow a demand-driven approach.

The Stakeholders welcome that, in the course of the current ongoing legislative procedure, both the European Parliament and the Council of the European Union are also allowing SMEs to access the research, innovation and digitisation (RID) window.

Debt and Equity products

The EU guarantee should cover both debt and equity products. The stakeholders are of the opinion that no descriptive allocation shall be predefined. On the contrary, funds shall be allocated to debt and equity products according to market demand on a 'first come, first served' basis. This is important in order to ensure an effective use of the fund and the achievement of the highest possible leverage effect.

Capped and uncapped products needed

In general, financial intermediaries and implementing partners pursue different strategies when offering matching products for different kinds of SMEs (e.g. start-ups, innovative SMEs, traditional SMEs…). Therefore, both capped and uncapped guarantees, which are complementary, should be offered under the InvestEU Fund to ensure that all SMEs are covered.

The draft investment guidelines foresee that “capped portfolio guarantees should be provided free of charge” under the SME window and that the cap rate “shall be set at the level of expected losses of the new portfolio” while the maximum cap rate shall be 25%. While we fully support this approach, which will allow for the creation of COSME-type successor programmes, a comparable provision is missing under the social and innovation window, where it would also make sense and where SMEs might also be among the beneficiaries.

Strong role for the EIF

The Stakeholders take note that the EIB Group, offering financing in all EU Member States, will receive the largest share of the InvestEU guarantee. This should ensure that all products currently managed by the EIF, such as the COSME Loan Guarantee Facility or the InnovFin SME Guarantee Facility, are continued post-2020 by the EIF under the 75% share allocated to the EIB Group with very similar conditions to the current ones, using the experience and the well-established network of financial intermediaries.

We believe that EIF should receive a sufficient allocation within the EIB Group’s window (75% of the InvestEU Fund) as well as a clearly defined role and set of responsibilities for the MFF 2021-27.

Avoiding any conflict of interest

For the stakeholders it is of utmost importance that any conflict of interest whatsoever will be avoided also to ensure a successful uptake of the so-called direct access / the 25% of the guarantee.

The so-called Partnership Agreement between the EU Commission and the EIB Group, negotiated at the demand of the Council, foresees a strong role of the EIB in the management of the InvestEU Fund (article 9a) in addition to the EIB Group being the main implementing partner for InvestEU. This double role of the EIB Group creates potential conflicts of interest, which have so far not been sufficiently addressed.

While we welcome that important tasks such as defining the common risk mapping system are to be done jointly by the EU Commission, the EIB Group and potential implementing partners, other tasks attributed to the EIB raise serious concerns among potential other implementing partners. This is particularly true for the new Art. 9a, I (b) (iii) and (vii). Confidentiality of data is a key concern not only for NPBIs, but also for the EU legislator. The potential implementing partners shall be involved in the drawing up of the nature and scope of the above-mentioned information.

In addition, in our view, the proposed Art. 9b on conflict of interest is not sufficient to address these concerns. In the event of a conflict of interest as described in Art. 9b it is not sufficient that the EIB just informs the Steering Board (whose composition and mode of decision is still under discussion) but that the European Commission in agreement with the EIB Group decides about the measures to be taken.

In order to avoid any conflict of interest as well as duplications, we would strongly recommend legislators to reject the proposed art. 9a, I (b) (iii) of the Partnership Agreement: A pillar assessment done by the European Commission in accordance with the requirements laid down by the Financial Regulation should be sufficient. The legislator should leave it to the pillar assessed institution to remedy any identified shortcomings, not least in line with the national or regional regulations governing its operations. Only once the shortcomings have been addressed, the independent entity carrying out the pillar assessment should be informed accordingly so that the assessment may be completed.

Relations with implementing partners going for the direct access should be an exclusive competence of the Commission, being an independent and neutral body. In order to enable a smooth functioning of the direct access, the role of the EIB Group should solely consist of monitoring the overall portfolio risk based on aggregated non-sensitive data put at its disposure.

Finally, when it comes to confidential information, the latest Council version gives the EIB Group wide discretion to identify which data it needs to fulfil the tasks outlined in the Partnership Agreement. We urge the legislator to reject this proposal, since it clearly contradicts the co-operative nature of the InvestEU Regulation. All potential implementing partners should be involved in jointly defining with the EU-Commission the required sets of data, based not least on legal restraints they face in sharing sensitive information. A technical group of experts composed of the EIB and other potential IPs under the lead of the European Commission which will define the process and the data necessary for the EIB to perform their tasks under the partnership agreement would be a good basis to convince potential other IPs to make use of the InvestEU programme with regard to sensitive data.

Geographical coverage of the EU Guarantee

The Stakeholders clearly acknowledge the aim of a broad geographical coverage of the InvestEU Fund. However, the legislators should refrain from predefining a specific geographical distribution of the fund. These should be allocated primarily according to the market demand in order to ensure an effective and efficient use of funds. Shifting market needs as well as the fact that some implementing partners might need additional time to prepare applications for the guarantee can easily be dealt with by a gradual allocation of the guarantee in a number of calls.

Furthermore, we appreciate the deletion of the three Member States requirement for potential implementing partners under the direct access window, which is supported by both the European Parliament and the Council. This will also facilitate the implementation of the InvestEU guarantee by smaller implementing partners, especially for the promotional banks whose mandate is restricted only to a specific region of a Member State.

The Steering Board and the Commission should be responsible for monitoring the geographical coverage based on all policy windows as well as all implementing partners, including the EIB Group, and give guidance to Member States and other relevant actors when coverage is not reached at the time of the review.

In this respect, the legislators should carefully draft art. 8 (1) of the draft Regulation where EU-wide market failures (typically addressed by the EIB Group) should form one category whilst national / regional market failures (typically addressed by NPBIs and other IPs) could form another. Any qualification in the requirements for regional / national market failures (e. g. by insisting that these should be new or complex) for other implementing partners than the EIB Group or deviations from the principle of subsidiarity (as suggested in Recital 29 of the Council Presidency draft compromise: NPBIs may offer a “complementary financial product range” to the EIB Group) are not justified and would impede on the desire to reach a broad geographical coverage.

Review clause and flexibility

The Stakeholders advocate for an independent review of the InvestEU programme after the third year of its implementation. This review shall contain a detailed assessment of the four policy windows and on all implementing partners equally. In case the uptake under the 25 % is lower compared to expectations, the report should also address the reasons behind a slow uptake. The foreseen flexibility of shifting 15 % of the amounts of each policy window shall be used in order to strengthen the policy window(s) that exhibit(s) market demand, the particular sub-optimal investment situation(s) and strong implementation performance. This is important in order to achieve the highest possible impact of the programme on growth and employment.

Sustainability Proofing

The Stakeholders strongly support the climate and sustainability goals of the European Union. This is why we acknowledge the need to prove that an investment or a project supported under the sustainable infrastructure or the social investment and skills policy window of InvestEU is environmentally and socially sustainable. In order to keep the administrative burden on an acceptable level and in order to avoid that, small institutions are discouraged from taking the role of a financial intermediary whilst small projects benefitting from the EU guarantee should be exempted from the requirement of sustainability proofing. As a result, compliance with the principle of proportionality should be ensured.

State aid

The stakeholders very much welcome the Commission's engagement to facilitate the implementation of InvestEU by also implementing parties whose activities are potentially subject to state aid regulation. We encourage the Commission to redouble the efforts made so far, so as to provide clarity well ahead of the entry into force of the next MFF. This would be crucial for implementing partners to design their promotional programmes according to the new rules in a timely manner.

Annexe: About the Stakeholder:

The 48 members of the **European Association of Guarantee Institutions (AECM)** are operating in 29 countries in Europe. They are either private sector guarantee schemes 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 2017 AECM's members had over EUR 126 billion of guarantee volume in portfolio, thereby granting guarantees to more than EUR 3 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, 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)** is the voice of the European public banking sector. EAPB represents, directly and indirectly, over 90 financial institutions with overall total assets of over € 3.500 bn and 15% market share of the European financial sector. EAPB members are national and regional promotional banks, municipality-funding agencies and public commercial banks across Europe. EAPB members provide financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies 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 28 ELTI members are major long-term investors and represent a combined balance sheet of Euros 1.7 trillion.

European Association of Long-Term Investors - ELTI

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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 19 financial institutions from 19 European Union member states. In 2016 NEFI members actively supported and financed approximately 350 000 SMEs all over Europe with more than EUR 51 billion of financing mainly in the form of loans and guarantees. NEFI pursues the objective of following the financial, political and legal developments in the fields of European economic and financial policies and all measures adopted by the EU institutions which are relevant for promotional financial institutions focusing on the facilitation of SMEs' access to finance. NEFI serves as a contact for the European Institutions providing know-how and information on all matters concerning promotional banking.

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SMEunited (formerly UEAPME) is the association of Crafts and SMEs in Europe with around 70 member organisations from over 30 European countries. SMEunited reassembles national cross-sectoral Craft and SME federations, European SME branch organisations and other associate members, which support the SME family. Combined, SMEunited represents more than 12 million enterprises with around 55 million employees across Europe. SMEunited is also a recognised employers' organisation and European Social Partner. We are a not-for-profit and non-partisan organisation.

SMEunited (formerly UEAPME)

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