Special report 2/2012 (2011 discharge): Financial instruments for SMEs co-financed by the European Regional Development Fund

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PURPOSE: to present the Special report of the European Court of Auditors (No 2/2012) on the efficiency of financial instrument for SMEs co-financed by the European Regional Development Fund.

CONTENT: the European Court of Auditors (ECA) concludes in its special report (No. 2/2012) that the **effectiveness and efficiency** of the European Regional Development Fund (ERDF) spending on financial instruments for small and medium enterprises (SMEs) were hampered by the **regulatory framework being inappropriate** for the different types of financial instruments used.

There were widespread delays in the funds reaching the recipient SMEs and the supported actions were ineffective in leveraging in private investment. SME financing gap assessments, when prepared, suffered from significant shortcomings.

In addition, some recipient SMEs were charged unjustified management fees by the financial intermediaries used.

The ECA's performance audit shows that the Structural Funds regulatory framework used for this SME support through financial instruments was originally designed for grant spending, and thus unfit to take into account the specific characteristics of the debt and equity instruments used.

There were weaknesses in:

- the provisions for leveraging and 'recycling' the funds,
- the justification for amounts allocated to financial engineering measures,
- the conditions to justify the recourse to preferential private sector treatment,
- and the eligibility conditions for working capital.

Court recommendations: the ECA makes a number of recommendations to the Commission to improve the regulatory framework for these instruments, as well as for managing efficiency and effectiveness. These include:

- ensuring that Member State proposals are justified by gap assessments of sufficient quality to be used when approving the measures;
- providing a reliable and technically robust monitoring and evaluation system;
- exploring the possibility of supplying Member States with simplified and tested structures and instruments to speed up implementation and reduce management costs;
- defining and setting minimum requirements for leverage and 'recycling' of funds.

If these recommendations cannot be implemented under the Cohesion policy framework then the special report concludes that consideration should be given to **finding more effective ways of providing this type of support to small and medium sized enterprises**.