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

2012/2060(DEC) - 08/10/2012 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the report by Crescenzio RIVELLINI (EPP, IT) concerning Special Report No 2/2012 of the Court of Auditors entitled

'Financial instruments for SMEs co-financed by the European Regional Development Fund'.

Welcoming the Court of Auditors' report and its overall conclusion (*please refer to the summary of the report dated 27/03/2012*), Members are of the opinion that such an audit report would be of great value also at the end of the 2007 - 2013 programming period, enabling further conclusions regarding **performance of financial instruments (FIs) for small and medium-sized enterprises (SMEs) cofinanced by the ERDF**.

SMEs and European Funding: recalling that SMEs are the backbone of the Union economy, Members recognise that at the time of fiscal constraint and reduced lending capacity of the private sector, SMEs and in particular micro-enterprises have been the most affected and should accordingly be targeted with strengthened Union support to continue generating employment, innovation and growth.

Members stress that the **use of FIs in cohesion policy in relation to the SMEs** should be reinforced in the future as it can guarantee revolving funds, foster public-private partnerships and achieve a multiplier effect with the Union budget (e.g. repayable and revolving FIs and ensuring that successive waves of SMEs can benefit).

Special Report No 2/2012: Members state that the Court of Auditors focused its audit in three main types of FIs: equity, loan and guarantee instruments and that they are all eligible instruments for ERDF co-financing, but must comply with Union and national eligibility rules. The main objective of the audit was to assess whether ERDF spending on financial engineering measures for SMEs had been effective and efficient. Welcoming the Court's findings and recommendations regarding financing gap assessment, Members notice that in the legislative proposal for the next programming period such assessment is made obligatory in the form of an *ex ante* assessment. They invite the Commission to find appropriate justification for this privileged position, inasmuch as this treatment could limit the ability to repossess the excess funds and the possibility to allocate them to other SMEs.

Members are also concerned at the shortcomings identified by the Court of Auditors concerning funding granted to SMEs (particularly the slow rate at which the Funds reach the SMEs, lack of specificity of financial instruments based on their needs, gaps in their leverage). They support the Court in its call to establish a clearer definition of the concept of leverage in financial instruments and a greater level of flexibility of the legislative framework on access to funds.

Members recognise the potential of innovative financial engineering instruments to build up capital and **enhance investments**, as opposed to grants consistently perceived to be excessively cumbersome and bureaucratic by their beneficiaries.

The Commission is called upon, *inter alia*, to: (i) **increase ERDF's ability to leverage in private investments** that match public contributions; (ii) avoid delays in delivering SME access to finance mainly

with origin in administrative, legal, organisational or strategic reasons; (iii) **clarify the current range of definitions of SMEs**, which vary in the Union according to the different purposes or objectives; (iv) simplify administrative procedures as regards to financing and of reducing co-financing requirements.

Recommendations: the main recommendations proposed by the Members are as follows:

- evaluation by the Commission of SMEs' financial deficit before proposing any new financial engineering measures;

- increase information in the Member States on access for SMEs to sources of finance;

- provide for a more **adequate regulatory framework** oriented towards **performance and results** rather than mere compliance;

- agree on a **small number of measurable, relevant, specific and uniform result indicators** for FIs;

- explore the possibility of supplying to the Member States **off-the-shelf financial engineering structures and instruments for SMEs** (e.g. grants with royalties, dedicated investment vehicles) only where these would result in speeding up implementation and in reducing management costs;

- include all ERDF co-financed FIs for SMEs into a **single operational programme per Member State**, or into a single priority axis in the national operational programme within a Member State, with the aim to - rationalise the planning process and remove one of the key delaying factors found;

- articulate the concept of **European added value** in the legal framework for the 2014-2020 period;

- consider alternative ways of pursuing SME support through financial engineering instruments if the cohesion policy framework were to be considered unsuitable.