EAPB Position Paper on Public Banks and the Future of the European Budget- May 2025

Executive Summary

EAPB members are concerned that the current European budget reform proposed by the Commission would potentially undermine the involvement of regional and local authorities in the decision-making process. While the Commission claims that regions will remain at the centre of the new model, the governance framework remains unclear, particularly in terms of ensuring inclusive participation of regional and local authorities. Furthermore, the Commission's push for greater flexibility on the next MFF may come at the expense of the long-term investment objectives for which these funds were originally intended. EAPB members strongly advocate for the simplification, rather than dismantling, of the existing architecture and call on the Commission to include national and regional public banks in the ongoing discussions on future governance.

Additionally, we propose several concrete recommendations for the next MFF. Fundamental will be to prioritize financial instruments over grants and to incorporate them at the programming stage, rather than introducing them after the approval of operational programmes, with NPBs actively involved in their design from the outset. Second, Pillar Assessment should not be made a requirement, but it should rather be an optional pathway for institutions seeking simplified audits and reporting procedures. Finally, we suggest reducing the complexity of the InvestEU framework, particularly by shortening and simplifying the PA negotiation process, while acknowledging that the current resource allocation of the program is insufficient to meet market demand.

Introduction: The Case for EAPB's Involvement in the future MFF

European funding programs have always been at the center of the EU's policy objectives and have proven their effectiveness in reducing regional inequalities. EAPB members have used these funds to fulfil their public mandates. As a result, a mutually reinforcing partnership has been created: on one hand, public and promotional banks rely on EU funding mechanisms to finance their projects; **on the other hand, EU funding implementation has highly benefited from the expertise and local networks that we bring to the table**.

As the EU debates the future of the Multiannual Financial Framework (MFF), the EAPB calls for the **indispensable inclusion of public and promotional banks in shaping these discussions.**

EAPB members, with their public mission, serve as key financial intermediaries, **aligning EU funding with national and regional realities,** therefore translating EU priorities into concrete, high-impact investments. NPBs not only implement EU priorities but can also contribute to defining meaningful regional/national investment priorities that align with EU goals. This alignment not only maximizes coherence and relevance of EU initiatives but also transforms high-level objectives into tangible, impactful outcomes on the ground.

In addition, these institutions have a **proven record at mobilizing private sector resources, effectively leveraging public funds to create a multiplier effect**. By combining public investments with private capital, they expand the reach and scale of EU investments, driving significant change in less-developed regions.

Moreover, EAPB members bring **a strong commitment to transparency and efficiency in fund management.** Their robust governance frameworks and close ties to local communities ensure that resources are allocated in a responsible way and outcomes are measurable. This contributes to building trust among stakeholders, increasing the credibility and public trust in EU investments.

- **Examples of success of EAPB members on the managing of EU funding**

Bank Gospodarstwa Krajowego (BGK) implemented **Biznesmax guarantee**, a key financial instrument co-financed with 2014-2020 European Regional Development Fund (ERDF) resources in Poland, provided support to the country's innovative entrepreneurs and green projects in small and medium-sized enterprises (SMEs). The guarantee financial instrument was implemented in combination with a grant element to provide interest rate subsidies for the benefit of final recipients. The interest rate subsidy reduces the cost of financing for SMEs significantly. Hence, this type of support **has encouraged a wider group of SMEs,** traditionally reluctant to use debt (or other types of external financing) **to explore the possibility of financing investment with bank loans**.

Finlombarda launched in 2016 the **"AL VIA"** initiative, aimed at supporting Lombard SMEs in financing productive investments. It consisted of medium-term co-financing (50% Finlombarda's, 50% intermediaries) for up to 6 years along with a capital contribution from the ERDF OP 2014-2020 resources (5%-15%) and a free guarantee on first demand, covering 70% (with a portfolio cap for the lender at 22.5%) of the co-financing granted, always using the ERDF OP 2014-2020 resources. In 2020, a new financing line, the FAST Business Investments, was introduced in addition to the existing lines 'Business Development' and 'Revitalization of Productive Areas'. This new line also supported investments for adapting to new health and safety protocols post-COVID, and it provided a capital contribution from the POR FESR 2014-2020 resources equal to 15%. The financial instrument proved effective in the Lombardy region, for both its **leverage effect** and **revolving effect**. Moreover, it has strengthened a **financial culture in the companies**, improved their relationships with the credit sector, and increased responsibility regarding their investments. Following further refinancing, the total amount of the financial instrument was 79.2 million euros as a guarantee fund and 57.2 million euros as a non-repayable contribution from the POR FESR 2014-2020 resources, to which 346.5 million euros in loans were associated, supporting a total of **613 companies**. **EAFRD Credit Fund Lombardy 2014-2020** is another blended financial instrument (subsidized financing plus contribution plus private financing) that has been applied in the Lombardy Region with EAFRD funds for agri-food businesses and their chain.

Finally, **Investitionsbank Berlin (IBB)** has venture capital funds co-financed with ERDF running already in the fourth consecutive MFF **achieving a leverage effect of 1:7**. These funds are good examples of the potential of bringing together EU and local resources to generate high-impact investments in start-ups from both high-tech and creative sectors. IBB Ventures is not only one of the top early-stage VC-investors by numbers in Germany, they also played a big part in Berlin becoming the European start-up hotspot it is today.

Taking the opportunity of the ongoing consultation on the future of the MFF and with the aim of providing a more detailed explanation of our views more in detail, the European Association of Public Banks (EAPB) **has prepared this paper in order to contribute to the debate on the future of the EU budget**. In this context, we put forward the following recommendations regarding the proposed reforms to the European budget, focusing on financial instruments, Pillar Assessment, and InvestEU, with the aim of ensuring a more robust and structured involvement of National Promotional Banks (NPBs) across all relevant programmes.

Our Position on the Discussed Reforms to the European Budget

In its communication "The Road to the Next Multiannual Financial Framework", the European Commission made official its plan to merge over 50 existing spending programmes into three main funds. This approach raises **concerns about how regional and local authorities would be involved** in decision-making, as the current approach from the Commission appears to be **top-down**: it would give **national governments greater autonomy in selecting projects**, including some that have traditionally been agreed at the local level in coordination with Brussels.

Our position on this matter was already explained in both our Policy Paper on the Future of Cohesion from October 2024 and in the Joint Statement developed by EAPB, ELTI, NEFI, and AECM: we are, in principle, against this change, as Cohesion Policy relies on regional flexibility and local specificities, and **a centralized framework would risk excluding valuable local projects and undermine support for less-developed regions**. Moreover, a one-size-fits-all approach contradicts the Think Local, Small First principle, could increase reporting burdens, and delay funding allocations.

Although the Commission claims in its communication that Cohesion Policy would continue to place "regions at its centre" and that "all plans must be designed and implemented in partnership with national, regional and local authorities", **no details have been provided regarding the governance model that would ensure such inclusive participation**. We call on the Commission to **involve national and regional public banks and their associations in the ongoing discussions on future governance**, to ensure that these commitments are translated into concrete mechanisms for regional involvement.

EAPB members firmly believe **that the existing architecture of the system should not be entirely dismantled but rather simplified**, to ensure effectiveness while keeping financial instruments at the centre of cohesion policy.

Finally, we acknowledge the Commission's intention to introduce greater flexibility in the reallocation of funds in response to crises. However, while responsiveness is important, we warn about the risk that more flexibility may lead to **Structural Funds being redirected**—particularly towards defence and housing—**at the expense of long-term investment objectives for which these funds were designed**.

- **The Role of Financial Instruments**

EAPB members strongly recommend, whenever possible, to **prioritize financial instruments over grants in future cohesion policy**. Financial instruments are fundamental for mobilizing private capital and fostering long-term investment cycles. This approach is consistent with the findings of the Draghi Report, which supports an expanded use of financial instruments and recognizes the key role of NPBs in investment mobilization.

In that sense, managing authorities **should be required to justify the use of grants over financial instruments**. However, while financial instruments should be the default option, **grants must remain available in cases where they are clearly warranted**. This balanced approach would ensure a more structured, investment-driven deployment of EU funds.

Moreover, financial instruments continue to face excessive scrutiny. EAPB stresses that outdated concerns about market distortion should no longer justify **excessive audits and reporting requirements**. Reducing the reporting burden would greatly enhance the attractiveness of financial instruments.

In light of potential reductions in the EU budget, especially due to new priorities such as defence spending, EAPB members recommend the establishment of **minimum thresholds for financial instruments in key policy areas**.

Moreover, financial instruments should be **incorporated at the programming stage**, rather than being introduced only after the approval of operational programmes. To enable this, a preliminary assessment of investment needs and the suitability of financial instruments should be conducted before national programmes are finalised.

In this regard, we would like to emphasize the role of NPBs in **developing innovative FIs** (e.g., equity instruments, risk-sharing models) that go beyond standard loans. Regarding **Blended Finance** (strategic combination of FIs and grants), NPBs could handle the structuring to enable projects with high societal benefit but gaps in bankability.

Finally, due to their expertise in using the tools and maximizing their impact, it is essential that **NPBs are involved from the beginning** in designing financial instruments.

- **Pillar Assessment**

We are aware that the European Commission is currently considering making Pillar Assessment a requirement. While the intention may be to streamline oversight and ensure accountability, this approach raises several concerns for EAPB members.

- Firstly, a mandatory Pillar Assessment could inadvertently **exclude smaller regions and national institutions** that do not meet the formal criteria, despite having robust financial expertise.
- Secondly, such a requirement could lead to **centralization of fund management** at the EU level, increasing the role of the EIB and EIF while **diminishing the influence of NPBs** and other local actors, which would risk undermining the subsidiarity principle.
- Thirdly, introducing Pillar Assessment as a mandatory condition **would significantly increase administrative burdens**, particularly for smaller institutions, making it harder for them to manage funds effectively and potentially even discouraging their further participation.

In light of these concerns, EAPB suggests that rather than making Pillar Assessment mandatory, **it should be offered as an optional pathway** for institutions seeking **simplified audits and reporting procedures**. A more proportional approach should also be applied, one that takes into consideration the institution's **scale, expertise, and local impact** rather than imposing a one-size-fits-all model. Additionally, a dedicated **capacity-building mechanism** should be introduced to **support smaller institutions in meeting compliance standards** ensuring that they are not excluded from managing financial instruments due to technical or resource constraints. Support could also be useful for NPBs to implement new, complex EU requirements (e.g., in sustainability reporting/Taxonomy) or to develop innovative FIs.

- **The future of InvestEU**

Through the provision of guarantees that mitigate investment risks, InvestEU **has been crucial in facilitating projects that would otherwise have struggled to secure sufficient financing**. Indeed, several EAPB member promotional banks have successfully signed or are still endeavouring to sign a contract with the European Investment Fund (EIF), to get indirect access to the InvestEU programme, and the same or other EAPB members are undergoing or have concluded the Pillar Assessment under InvestEU to have a direct access to the Programme.

With its open-architecture, InvestEU has created a new partnership with NPBs and set a milestone in the implementation of EU financial instruments and products that is complementary to the implementation by EIB and EIF. For the first time, **other IPs have had direct access to EU guarantees inside Europe**.

Complementary to the specific strengths of the EIB Group, other IPs are using their financial expertise as well as their know-how of national/local markets and clients to achieve European public policy goals and generate long-term added value for the EU. IPs like NPBs, have the ability to **combine and bundle various EU funding sources** (e.g., ERDF, ESF+, InvestEU, JTF, RRF) at the national/regional level to offer tailored financing solutions for complex projects. This coordinating role is a significant added value. For these other IPs, becoming an Implementing Partner requires time and effort: passing the Pillar Assessment (PA) process, participating in calls for the Expressions of Interest, negotiating Guarantee- and Advisory Agreements (GA/AA), embedding InvestEU-specific reporting obligations into their own reporting systems and adapting internal processes. These efforts represent a long-term investment aimed at a long-term, deepened partnership with the EU. The combination of direct access for national Implementing Partners with indirect access provided through the EIB Group brings real added value.

However, EAPB members **have had difficulties in dealing with the many reporting requirements which seemed to be too burdensome and, in some cases, risked having an impact on the products' marketability**. Under certain conditions customer data has proven difficult to obtain and thus raising legal concerns. This particularly concerns the many requirements with respect to financial recipients, transactions and financing of projects.

The Interim Evaluation of InvestEU reinforces many of the concerns raised by EAPB members, particularly around administrative burdens and the complexity of reporting requirements. By reinforcing the aspects that have driven effective collaboration and investment impact, such as the open-architecture model, and eliminating obstacles like excessive administrative burdens, InvestEU will be able to better meet Europe's growing financial and social needs.

In that sense, EAPB recommends the following improvements to InvestEU in order to ensure its optimal impact:

- The high level of oversubscription for InvestEU funds highlights that **the current resource allocation, even with the recently increased guarantee of EUR 2.5 billion, is insufficient to meet market demand**. This highlights the need for more ambitious and well-resourced programs in the future, a concern that was also recognized in the Interim Evaluation of the program.
- We generally suggest **reducing complexity of the InvestEU framework as much as possible** in this programming period as well as for the upcoming one for 2028 – 2034 in order to boost European Competitiveness via a more efficient and more timely intermediation of EU funding instruments. Once complexity has been reduced, it is advisable to **maintain a stable platform over future programming periods** to allow maintaining tried and tested processes between Implementing Partners/Financial intermediaries and their respective partner banks. In that sense, we take good note of the Omnibus II Package on InvestEU and the simplification measures proposed there, which are a step in the right direction.
- We propose a significant **shortening and simplification of the Pillar Assessment negotiation process.**
- We suggest reducing the complexity of the guarantee agreement text by **merging thematic and regulatory exclusions** and using synergies with existing legislation and regulation in member states and those already applicable to financial institutions
- We suggest that the European Commission streamlines processes by **relying more on the internal procedures of implementing partners**. Furthermore, these entities should be recognized as credible partners for implementing other EU funds in this and upcoming financial perspectives.
- We would also recommend the publication of an FAQ document or clear guidelines for the entities willing to sign the GA.
- We believe that **responsibilities have to be carefully divided between intermediary (NPB) and sub-intermediary (commercial banks)**. The practical usability of the use-case document for sustainability criteria has to be tested in the markets. Climate requirements should be more proportionate for micro businesses.
- We would welcome simplification of the reporting requirements and the reduction of the frequency of yearly audits and controls by an external auditor for the PA IPs. One idea would be to make sure that there is **consistency of definitions with other funding programs for example, with the DNSH principle**. Furthermore, while we understand the need for accountability and transparency on the use of public money, reporting redundancies should be avoided, as illustrated by the earlier example, since they can become burdensome, particularly if several intermediaries are involved in a funding

chain, becoming relevant when promotional banks provide funding via numerous commercial banks and networks.

- We recommend that the European Commission consider **streamlining and clarifying the sustainability criteria to reduce the administrative burden on implementing partners**. Ensuring that the sustainability requirements are practical and feasible will facilitate a smoother integration of sustainability practices without overly complicating the process.
- We would welcome a **simplification in the application of state aid rules** in the context of InvestEU, particularly to reduce the administrative burden for implementing partners and final recipients and to make combination with other public support more feasible, without undermining the fundamental principles of State aid law. Also, given that different state aid rules apply across the variety of implementing partners, we believe an **alignment of state aid rules for all IPs** would create a level playing field.
- Moreover, we believe the agreement with the European Investment Fund **should be tailored to the particular windows to which an NPB has applied** - currently it is very general in nature, with provisions that do not always apply to a particular window.

We look forward to work hand in hand with the European Commission and other EU institutions to support the design of a future EU budget that is more effective, accessible, and impactful, and that better responds to Europe's evolving economic, social, and environmental challenges.

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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