

Financial instruments in Cohesion policy

A revolving use of funds materialised partially



EUROPEAN
COURT
OF AUDITORS

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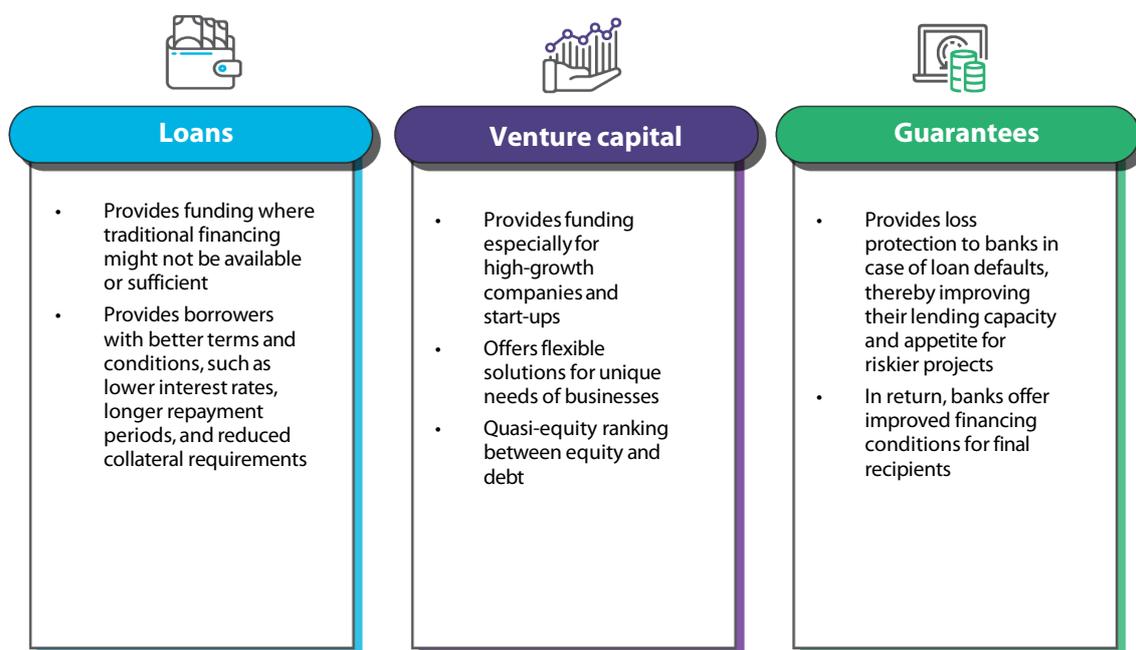
01

Main messages

Why this area is important

- 01** In EU cohesion policy, funding is traditionally provided through one-off, non-repayable grants. Financial instruments are an alternative form of support where EU funds are delivered through financial products to final recipients addressing market failures in financing. They allow national managing authorities to provide repayable support rather than grants. As reflows can be used to support additional final recipients, the same public funds can be used several times for the benefit of achieving cohesion policy objectives through sound projects. They are most suitable where investments are likely to generate sufficient financial returns or savings which can be used to repay the support received. The use of financial instruments in cohesion policy became more widespread from the 2007-2013 period, expanded further in 2014-2020, then dropped slightly for 2021-2027. Support through financial instruments mainly comes from the European Regional Development Fund and the Cohesion Fund.
- 02** Financial instruments are considered to enhance the efficiency of public funding due to their **potentially revolving** nature. This means that reflows collected from final recipients (e.g. loans they repay) can be reused to provide similar support to other final recipients. The requirement for final recipients to repay the support received is viewed as an incentive for them to **manage their finances soundly**, e.g. better-quality planning and investment, and greater financial discipline. Financial instruments also have the potential to **generate a leverage effect**, by attracting further private or public funding. **Figure 1** illustrates the different types of financial instruments.

Figure 1 | Types of financial instruments



Source: ECA based on FI-Compass.

03 The total amounts committed to financial instruments were €16.9 billion for the 2007-2013 period, rising to €31.0 billion for 2014-2020, then falling again to €19.4 billion for 2021-2027. Excluding the reallocation of funds due to the COVID-19 pandemic, around 5 % of the cohesion budget was delivered through financial instruments over the three periods. All EU member states, except Ireland and Luxembourg, have made use of financial instruments.

04 The legal framework for financial instruments allows member states to retain resources that have been used at least once during the eligibility period. However, national authorities must **reuse** the reflows from final recipients to financial instruments both **during and after eligibility periods**, although different rules apply.

05 The objective of our audit was to assess whether one of the main benefits of cohesion policy financial instruments – their potential for the revolving and consequently more sustained use of these public funds – materialised in practice, and to what extent. We based our conclusions on our review of how the **legal framework** for financial instruments in cohesion policy incentivises the reuse of **reflows** and how these were **used in practice** for a sample of 90 financial instruments in five member states (Germany, Greece, Hungary, Italy and Slovakia). The audit aims to inform the preparation of the post-2027 period, for optimised reuse of existing financial instruments as well as new instruments set-up in the second half of the current period by identifying the reasons why reuse is not yet sufficient and ways to further encourage it. For more background information, and details on the audit scope and approach, see [Annex I](#).

What we found and recommend

- 06** We conclude that a revolving effect was partially achieved in practice, although its full potential was not reached. During the eligibility period, the reuse of reflows in financial instruments is limited due to factors such as absorption pressure on managing authorities, the long-term nature of investments, priorities for attracting private investors or external factors. After the eligibility period, legacy funds are generally reused for cohesion policy purposes, but the legal framework allows these funds to be reallocated as grants, which hampers the revolving effect. Although the legal framework includes reuse obligation, we found it insufficiently clear and unambiguous to maximise the reuse of reflows. Together with the lack of effective oversight by the Commission this leads to varying commitment levels among managing authorities.

The potential of cohesion policy financial instruments for more sustained use of funding is not fully exploited

- 07** We found that **there is limited reuse of funds during the eligibility period**. Only twelve of the 61 financial instruments audited made at least some use of the reflows during the eligibility period to support further investments. One of the main reasons is pressure on managing authorities to first absorb the full programme allocations to financial instruments to avoid loss of the funds available from the EU budget. This issue is more prevalent when financial instruments are set-up late, or when additional funding is allocated to the instruments through top-ups (paragraphs [17-22](#)).
- 08** Low reuse during the eligibility period is also a natural consequence of the medium or long-term nature of the investments (potentially extended by grace periods), which limits reflows available for reuse. Another key reason is that managing authorities, instead of requesting fund managers for automatic reuse of reflows, sometimes wait to accumulate reflows before deciding on how they should be used. Although this can help align reuse with emerging needs, market developments and changes in the political environment, it reduces the possibility for reflows to support more final recipients. Placing priority on achieving leverage by attracting additional private investors, rather than reusing reflows is another reason (paragraphs [23-27](#)).
- 09** We also found that depositing funds returned during the period in treasury accounts to support national liquidity or generate interest naturally prevents their reuse (paragraph [25](#)).

10 For the reuse of amounts after the eligibility period (legacy funds), we found that **member states and regions use the funds for cohesion policy purposes, as required by the legislation, albeit with some limitations**. For the 2007-2013 programme period, legacy funds were reused for all financial instruments in our sample except one. Funds were reused in the same financial instruments, to set up new instruments for 2014-2020, as national co-financing for new cohesion policy financial instruments, or to cover management costs and fees. As the legal framework does not require that funds are spent again in a repayable form, some managing authorities use them as grants. While this is legally possible, it excludes any further revolving effect (paragraphs [28-37](#)).

The framework established for cohesion policy financial instruments does not incentivise reuse

11 We assessed the legal frameworks covering the three reporting periods as insufficiently clear and unambiguous to maximise the reuse of reflows. Although a reuse obligation is stipulated for all three periods, the provisions were rather general for the 2007-2013 period. More precision was added for the 2014-2020 period, and the corresponding regulation clarified certain important aspects (see [Annex I](#)). In addition, the legal provisions were supplemented with considerable guidance for managing authorities. For the current period (2021-2027), the Commission considers the provisions to be sufficiently clear and decided not to issue any further guidance (paragraphs [38-51](#)).

12 We found that the 2014-2020 and 2021-2027 common provisions allow member states to reuse returned resources after the eligibility period (legacy funds) for providing grants to beneficiaries, instead of reusing them through extended current or new financial instruments. While this can be justified in specific cases, it is inconsistent with the revolving effect principle as it eliminates any potential for further reuse of the funds (paragraph [43](#)).

13 We also conclude that the Commission did not sufficiently monitor the reuse of financial instruments reflows. Although managing authorities were required to report to the Commission on the reuse of reflows in both the 2007-2013 and 2014-2020 periods (albeit to different extents), the Commission has not sufficiently verified and made use of this data for monitoring purposes. In consequence, the extent of actual reuse of reflows remains unknown. Also, while the Commission carried out 11 thematic audits on financial instruments, they checked only 3 % of the total number of financial instruments in this period and we found that audit documentation on the reuse obligation was limited (paragraphs [52-60](#)).

14 Finally, we assessed how setup arrangements in member states establishing individual financial instruments address reuse. We found that all the funding agreements we audited address reuse **during the eligibility period** to some extent, but there are considerable

differences in their commitment to reinvesting reflows and in the corresponding level of detail. For the reuse of **legacy funds**, half of the financial instruments in our sample required the transfer of reflows to government (managing authority) accounts until a dedicated reuse decision is taken. The other half stipulated that reflows should stay with the fund manager, to be used for the same purpose in the same or successor financial instrument, ensuring an immediate reuse (paragraphs [61-64](#)).

What we recommend



Recommendation 1

Exploit the full potential of reflows during programme periods

The Commission should, in coordination with member states, aim to maximise the use of reflows from financial instruments during the relevant programme periods by:

- (a) incentivising the reuse of reflows before calling for further funds;
- (b) promoting automatic reuse of reflows as a standard procedure to allow supporting more final recipients and sound and policy relevant projects;
- (c) taking potential reflows into account for assessing ex ante the appropriate size of a financial instrument and by avoiding a late set up of funds, which adds to the pressure to spend allocations and thus hampers the reuse of reflows;
- (d) only allowing top ups of initial allocations to financial instruments where reflows have been used effectively

Target implementation date: 2027



Recommendation 2

Improve oversight of the use of reflows during the programme period, and audit the subsequent use of legacy funds

The Commission should, in coordination with member states:

- (a) monitor the actual reuse of funds during the programme period, and strengthen the associated audit measures;
- (b) audit the use of legacy funds after the end of the programme period.

Target implementation date: 2027

02

A closer look at our observations

The potential of cohesion policy financial instruments for more sustained use of the funding is not fully exploited

- 15** The vast majority of EU cohesion support is provided to beneficiaries in the form of grants. In principle these are not repayable unless they are found to have been claimed for irregularly. Financial instruments are an alternative way to provide EU financing, in the form of loans, guarantees and venture capital. These are repayable to the public authorities that granted them once certain conditions have been met. The resulting reflows can be used to support additional beneficiaries and projects. This ‘revolving effect’ therefore offers an opportunity for public funds to be used repeatedly, thereby making the best – sustained – use of their potential (*Annex I*, paragraph *01*).
- 16** In the case of financial instruments, resources (allocations) used (paid to final recipients) at least once during the eligibility period can be retained by member states. Furthermore, the legal framework includes an obligation to reuse reflows from financial instruments (*Annex I*, paragraphs *13-15*). While the rules differ depending on whether the reflows are received during or after the applicable eligibility periods, the concept is the same: to use the funds to support further investments in projects fostering economic, social and territorial cohesion. In our audit, we assessed whether, and to what extent, the Commission and member states achieved this revolving effect in practice.

There is very limited reuse of reflows during the eligibility period

- 17** The 2014-2020 common provisions require¹ reflows from cohesion policy financial instruments *during the eligibility* period to be used to:
- finance further investments through the same or another financial instrument, in accordance with the specific objectives set out in the corresponding programme priority;
 - cover losses from negative interest rates that might apply to deposited balances, if they occur despite active treasury management by the bodies implementing financial instruments;
 - finance management costs and fees incurred in running the financial instrument.
- 18** We examined the use made of reflow funds for a random selection of 61 financial instruments from 2014-2020 ([Annex IV](#)) and assessed whether they reused the reflows in compliance with the common provisions (see [Annex I](#) for more details of our audit approach).
- 19** We found that only 12 of these 61 financial instruments we audited from the 2014-2020 period made at least some use of the reflows during the eligibility period to support further investments. A further 19 used some of the reflows to finance management costs and fees. We also found that funding agreements between managing authorities and fund managers do not usually provide for the immediate 'automatic' reuse of reflows as they arise but require a specific decision by the managing authority to use the funds to finance new investments (see [Box 1](#)).

¹ Article 44 of [Regulation \(EU\) No 1303/2013](#).

Box 1

Automatic reuse vs individual decisions

Automatic reuse means that reflows are reinvested as they occur, without an obligation for specific reinvestment decisions by the managing authority. Only five of the 61 financial instruments we audited in 2014-2020 included this provision in their respective funding agreements: one in Thüringen Dynamik loan fund (Germany), and four specific funds (loan and guarantee funds) within Holding Fund Fare Lazio (Italy).

When automatic reuse is not in place, the managing authority or fund manager can still decide later during the eligibility period to reinvest the reflows received. For example, in Hungary, a working capital loan fund proved so successful that the managing authority decided to relaunch it during the eligibility period by financing it from the reflows received. However, when reuse depends on a specific decision by the managing authority rather than occurring automatically, it slows down the reinvestment process and thereby reduces the potential for reuse.

Source: ECA based on information provided by managing authorities.

20 In general, during our audit we did not identify any systematic commitment by managing authorities or fund managers to maximising the reuse of funds during the eligibility period. This was due to:

- pressure to first absorb the full programme allocations to financial instruments in order to avoid commitments being cancelled and loss of the funds available from the EU budget;
- late set-up or subsequent top-ups of financial instruments, limiting the potential period for reflows and thereby their reuse;
- the medium or long-term nature of investments with potential grace periods, thereby limiting reflows during the period;
- managing authorities' preference for accumulating reflows before deciding on how they should be used, in order to align their subsequent reuse with new needs, market developments, changes in the political environment etc.;
- placing priority on achieving leverage by attracting additional private investors, rather than reusing reflows; and
- depositing funds in treasury accounts to support national liquidity or generate interest income.

21 As only the first round of investments financed by financial instruments is reimbursed from the EU budget and can be kept by the member state, several managing authorities mentioned absorption pressure as a key reason for limited reuse. Using returned funds instead of spending initial programme allocations of financial instrument funds would lead to commitments being cancelled, and therefore a loss of EU funds for the member state or region (see [Box 2](#)). This risk is particularly high if financial instruments are overly large or established late in the eligibility period, leaving only limited time to spend the allocations. As an example, the TEPIX II loan and guarantee fund in Greece was set up in November 2016 and was a successful product overall, however, only 89.7 % rather than the entire initial programme allocation had been used by the end of the eligibility period. This meant there was neither incentive nor time for reuse during that period, as absorption would have been lower still.

Box 2

Top-ups to a Slovak financial instrument helped absorb unused 2007-2013 programme funds during the eligibility period, but did not incentivise reuse of reflows

In Slovakia, a financial instrument for investment loans in energy efficiency measures for apartment buildings was set up under the [JESSICA initiative](#) in the 2007-2013 programme period by the state housing development fund (Štátny fond rozvoja bývania, SFRB).

The funding agreement between the SFRB and the managing authority responsible was signed in 2013. The initial amount allocated in 2013 was €8 million (including €6.8 million from the European Regional Development Fund – ERDF).

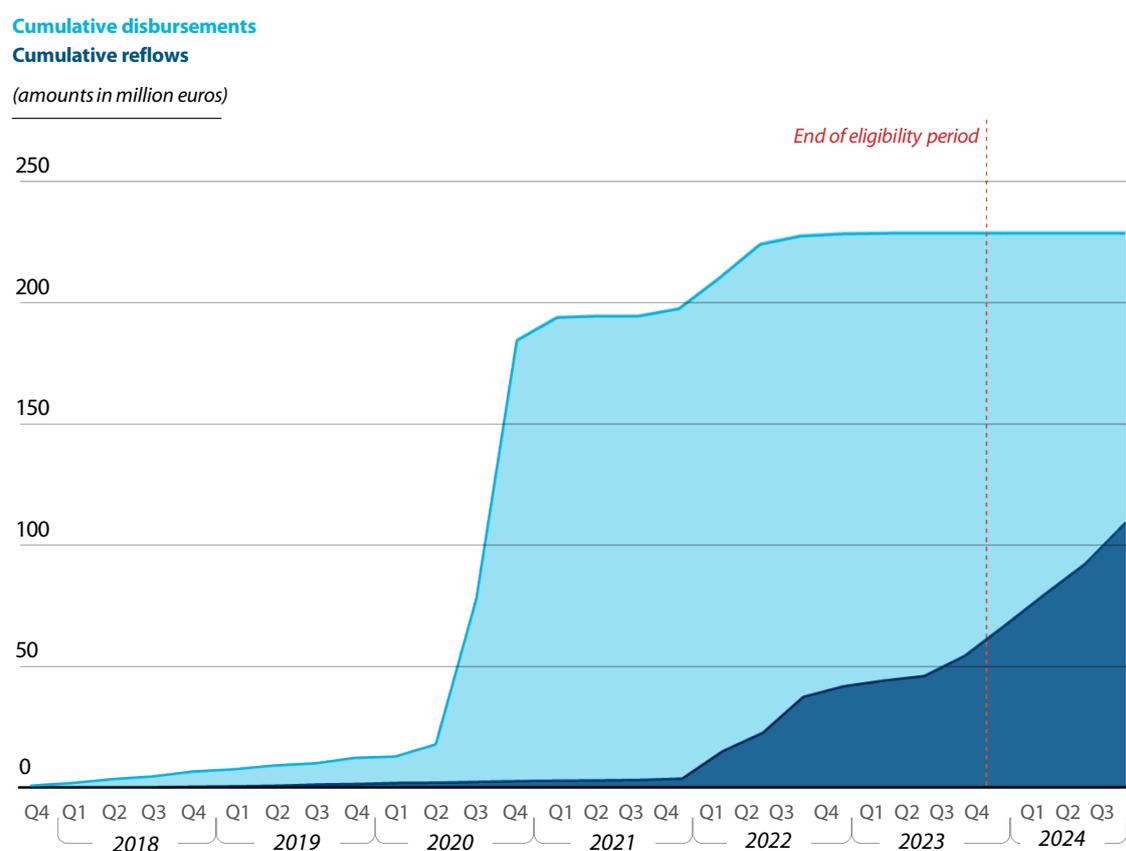
In 2015, when approaching the closure of the 2007-2013 period, the managing authority of the regional operational programme in question needed to absorb the remaining programme resources, or face losing them. Following the successful implementation of the financial instrument, the SFRB agreed to top it up with an additional €90.6 million and then a further €66.3 million.

These two top-ups increased the initial allocation almost twenty-fold. This allowed the managing authority to achieve full absorption of the programme resources at closure, thereby avoiding a potential cancellation of commitments. Although all loans had been disbursed during the eligibility period, the top-ups undermined any incentive to reuse the reflows received during the period.

Source: ECA based on information from the State Housing Development Fund (SFRB).

- 22** Some managing authorities chose to increase the initial allocation to financial instruments during the eligibility period through ‘top-ups’. While this approach increased absorption at programme level, it also increased the pressure to use these additional funds, in effect incentivising this option rather than prioritising the reuse of reflows. Furthermore, such top-ups increased the legacy funds available after the end of the eligibility period (see paragraph 28), which member states can use more flexibly than funding under the initial programmes. As an example, the EU allocation to the loan fund “KMU Darlehenfonds Berlin” in Germany was increased several times by the managing authority, with the last increase only 13 days before the end of the eligibility period, thus excluding any possibility of reusing reflows.
- 23** Another factor restricting the potential for reuse is that a large majority of financial instruments involve financial products of medium- to long-term duration (maturity). Some instruments, like long-term housing development loans, may only be fully repaid after 25 years, or even later with grace periods. Equity funds are typically closed-ended but last for 10 years at least. Consequently, reflows may be received towards the end of, or even after, the eligibility period. This inherently limits any potential revolving effect during the eligibility period.
- 24** In our sample, the shortest duration was 3 years, while the longest was 25 years. *Figure 2* illustrates the reflows over time for the Italian “POR Puglia Microcredito” fund for loans to small and medium-sized enterprises (SMEs), which was established in July 2017 and grants loans of up to 5 years with a grace period of up to a further 12 months. The first loan disbursements commenced at the end of 2017, with the last reimbursements scheduled for 2028. By the end of the eligibility period (2023), only 23 % of the funds disbursed had been returned and were available for reinvestment.

Figure 2 | Cumulative quarterly disbursements and reflows, POR Puglia Microcredito, 2017-2024



Source: ECA based on information provided by the Puglia region.

- 25** Our audit confirmed that another important reason for the limited revolving effect during the eligibility period is that funding agreements with fund managers do not request automatic reuse (**Box 1**), because managing authorities prefer to take individual decisions on reuse. These are typically taken only after the accumulation of reflows, which can even be after the end of the eligibility period. Such an approach can reflect the wish of national or regional governments to accumulate reflows and only later reuse the funds to respond to the latest market needs or economic or political priorities. While this would also allow to temporarily support managing authorities' liquidity, and even to generate income interest, it delays reuses considerably and reduces its potential to support as many final recipients as possible and their sound projects.

- 26** One explanation we were given to justify the limited reuse of reflows during the eligibility period was linked to the objective of achieving leverage by raising additional capital for financial instruments from private investors, leading to a trade-off between achieving leverage and reusing reflows. This is mainly because in doing so, the EU contribution is used to cover private investment risks and provide preferential conditions. While both attracting private investors achieving leverage, and maximising the reuse of reflows to support more recipients are equally legitimate objectives, reflows used to compensate losses of private investors reduce the reflow amounts available for reuse. In our sample of 61 financial instruments, 34 envisaged and achieved any leverage effect.
- 27** Finally, equity/venture capital funds are different because there is generally no requirement in funding agreements to achieve any automatic reinvestment of reflows or other income (yield, dividends) during their lifetime. In the Lazio region of Italy, there is even a so-called “recycling ban”, i.e. any return (in both capital and profits) cannot be reused and must be returned immediately to the private investors. In our sample, only a handful of (mainly equity) programmes involved private investors, and indeed in these cases we could not identify any reuse.

Member states and regions use legacy funds for cohesion policy purposes, albeit with some limitations

- 28** According to the common provisions², member states should establish arrangements to reuse, after the end of the eligibility period, any reflows attributable to the European Structural and Investment Funds (ESIF) from final recipients to financial instruments, whether received during the period or after its end (so-called **legacy funds**). As no time limit was set for the 2007-2013 period, legacy funds must be used until they are exhausted. For the 2014-2020 and 2021-2027 periods, the related rules stipulate the mandatory reuse of reflows received until the end of the 8th year following the end of the eligibility period.
- 29** According to the rules, legacy funds should be reinvested as follows: for the same type of measures (2007-2013); in accordance with the aims of the programmes (2014-2020); or in accordance with the policy objectives of the programmes (2021-2027).

² Article 78(7) of [Regulation \(EC\) No 1083/2006](#), Article 45 of [Regulation \(EU\) No 1303/2013](#) and Article 62 of [Regulation \(EU\) 2021/1060](#).

30 We examined the actual and planned use made of legacy funds for a selection of 22 financial instruments from 2007-2013 and 61 financial instruments from 2014-2020 (*Annex IV*). We assessed whether managing authorities reused the legacy funds in accordance with the requirements of the common provisions (see *Annex I* for more details of our audit approach).

Reuse of legacy funds from the 2007-2013 financial instruments

31 *Table 1* shows the 2007-2013 financial instruments in our sample, together with their legacy funds and how they were intended to be reused. An actual reuse materialised in all cases, except those from the Greek HELTEP guarantee fund. Although the eligibility period ended in 2015, in this case, a reuse decision was still pending at the time of our audit. In the meantime, the legacy funds were being held at the Bank of Greece in an interest-bearing account (*Box 3*).

Table 1 | Reuse of legacy funds – 2007-2013 financial instruments

<i>Country</i>	<i>Name of the financial instrument</i>	<i>Reuse of legacy funds for:</i>
Germany	KMU-Darlehensfonds Berlin	continuation as national financial instrument for similar purposes
	Mikromezzaninefonds Deutschland Bund	national co-financing of the successor cohesion policy financial instrument
	Stadtentwicklungsfonds Brandenburg	cohesion policy grants to new projects for similar purposes (for urban development in 2021-2027)
	KMU Darlehensfonds Sachsen-Anhalt	continuation as national financial instrument for similar purposes, national co-financing for cohesion policy successor financial instrument
	Thüringen Dynamik	national co-financing of the successor financial instrument and new cohesion policy financial instruments for similar purposes (supporting SMEs in 2014-2020 and 2021-2027 periods)
Greece	TEPIX I	continuation as national financial instrument (intermediate TEPIX) and new national financial instrument (DELFI), both for similar purposes
	HELTEP Guarantee	no reuse, kept in banks generating interest
Hungary	OP GOP Loan	new national financial instruments for similar purposes (Fund for the development of city Kecskemét, Irinyi II venture capital fund, Széchenyi Venture Fund, National Stock Exchange Fund, Carpatian Basin Enterprise Development Fund) and covering management fees and costs after eligibility period
	OP KMR Venture	
Italy	Fondo di Sostegno JESSICA SICILIA	cohesion policy grants (for municipalities with less than 60 000 inhabitants) and new financial instrument (in the 2021-2027 period)
	Fondo Ingegneria Finanziaria Lazio – IF Holding fund	new cohesion policy financial instrument for similar purposes (Lazio Venture 2014-2020) and covering refinancing costs
Slovakia	ROP Jessica - SFRB	continuation of the same financial instrument for five years after the end of the eligibility period and then national financial instruments for the same purpose
	OP CEG Jeremie - SIH	new financial instruments for similar purposes, provision of loan to cohesion policy financial instrument, and covering management cost and fees

Note: The information contained in this table refers to holding funds level. The 13 funds shown in the table include 22 specific funds altogether.

Source: ECA based on information provided by managing authorities.

- 32** Many funding agreements provide for legacy funds to be initially included in regional or national budgets. Therefore, individual government decisions are necessary to use them (see paragraph 64). We found that for all financial instruments in our sample – except the Greek HELTEP fund – legacy funds were used for the required purpose, namely:
- continuing the same financial instruments (Germany, Italy, Slovakia);
 - establishing new financial instruments (cohesion policy or otherwise) with similar objectives (Germany, Greece, Hungary, Italy, Slovakia);
 - financing the national cofinancing of new cohesion policy financial instruments in the subsequent period (Germany, Italy);
 - financing financial instrument management fees and costs (Hungary, Slovakia);
 - providing grants for similar purposes to that of the initial financial instrument (Germany, Italy, see also [Box 4](#)).

Box 3

HELTEP guarantee fund (Greece)

At the time of the audit, almost 10 years after the end of the eligibility period in 2015, the legacy fund from the Greek HELTEP guarantee fund, amounting to some €300 million, had not been reused and was still being kept in a treasury account.

This guarantee fund had an important role in supporting Greek commercial banks during the financial crisis at the time. It was set up in 2012 to allow the European Investment Bank to lend funds to Greek commercial banks, which in turn provided loans to SMEs that could not borrow funds from elsewhere.

After 2017 there was no further need for the EIB to lend funds to Greek banks for this purpose, as they could obtain funding from the financial markets. Therefore the guarantee financial instrument was wound up.

A decision by the Greek government on the reuse of the legacy fund is still pending, meaning that for 10 years no revolving effect for the benefit of EU cohesion policy objectives was achieved. Instead, interest earned on the funds contributes to the national budget.

Source: ECA based on information provided by the Greek EPANEK managing authority.

Reuse of legacy funds from the 2014-2020 financial instruments

- 33** [Table 2](#) shows the reuse of 2014-2020 legacy funds in our sample as decided by managing authorities by the end of 2024, based on actual reflows received at the time.

Table 2 | Reuse of legacy funds – 2014-2020 programme period

Country	Name of the financial instrument	Reuse of legacy funds for:
Germany	KMU-Darlehensfonds Berlin	bridging the gap between funding 2014-2020 and 2021-2027, later as national co-financing of the successor financial instrument
	Mikromezzaninefonds Deutschland Bund	strengthening the micromezzanine funding to SMEs
	Thüringen Dynamik	continuation as national fund under the same conditions
Greece	TEPIX I	no decision yet: the amount of the reflows/repayments is in an account at the Bank of Greece
	EQUIFUND	the repayments are in an account of the fund manager with a potential continuation in 2021-2027
	COVID-19 guarantee	no repayments yet due to the nature of the financial instrument
Hungary	GINOP Priority 8 Holding Fund (22 specific funds)	funding a national programme (Széchenyi Kártya Program), national co-financing for 2021-2027 cohesion policy financial instrument and covering management fees and costs after eligibility period
	EFOP loan	grants to two cohesion policy projects
Italy	Fondo Azioni Riposizionamento dell'Economia del Lazio Holding fund (4 specific funds)	national co-financing to cohesion policy financial instruments (Lazio Venture II in the 2021-2027 period)
	POR Puglia Microcredito	national contribution to cohesion policy financial instruments (Equity Puglia, Minibond and Technodiae in the 2021-2027 period)
Slovakia	IROP PA 4 - SFRB	continuation of the same financial instrument at national level for similar purposes (supporting energy efficiency measures) and covering management cost and fees
	OP II PA 11 - Holding Fund (24 specific funds)	continuation of the same financial instrument at national level for similar purposes (mainly supporting SMEs) and covering management cost and fees

Note: The information contained in this table refers to holding funds level. The 12 funds shown in the table include 61 specific funds altogether.

Source: ECA based on information provided by managing authorities.

- 34** As in 2007-2013, reuse decisions were generally taken in line with the rules in place, and the reflows used are mainly utilised within the same or new financial instruments for similar purposes. As an example, the two major fund managers SIH and SFRB in Slovakia keep legacy funds in the same financial instruments and reuse them for the same type of actions for at least 8 years after the end of the eligibility period, except for amounts covering management costs and fees. In Germany, the legacy fund of Mikromezzaninefonds Deutschland Bund will be used as national co-financing for a 2021-2027 successor financial instrument under the corresponding cohesion policy programme, and the legacy funds of Thüringen Dynamik will be transferred to a regional successor financial instrument without new cohesion funding. For Italy, new financial instruments for similar purposes will be supported, both in Lazio and Puglia.
- 35** We also found one case in 2014-2020 where the legacy funds had been used to provide grants to projects for similar purposes. In principle, however, one-off funding through grants excludes any further revolving effect. Nevertheless, reusing returned funds as grants might be justified in exceptional cases (*Box 4*).

Box 4

Using legacy funds to provide one-off grants – examples

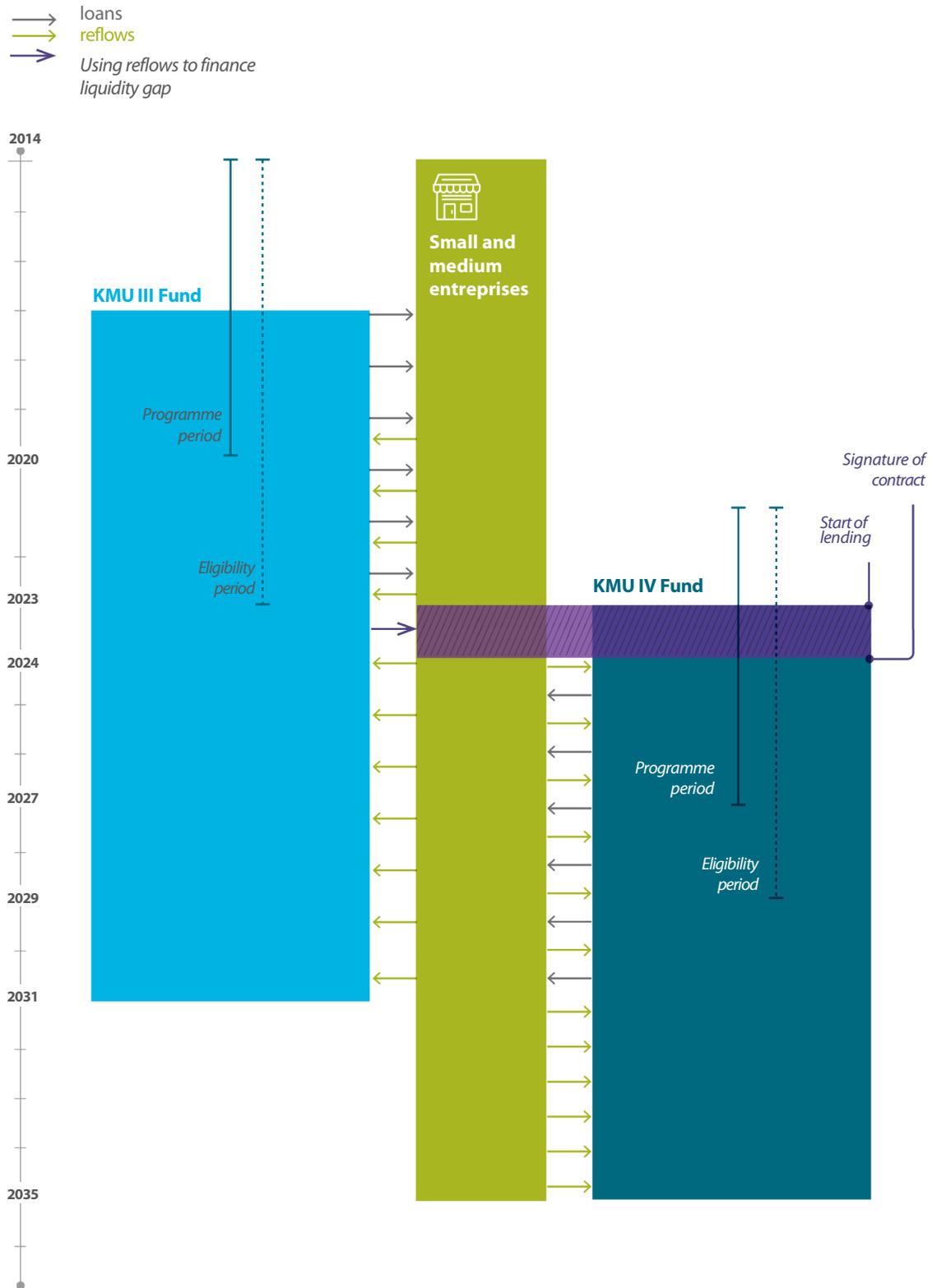
The authorities for the Human Resources Operational Programme in Hungary did not continue the 2014-2020 loan financial instrument in the 2021-2027 period but decided to use the legacy fund to provide grants to finance the completion of two school renovation projects that were stopped prematurely during the COVID-19 pandemic.

For the previous 2007-2013 period, we found that the legacy fund from the German Stadtentwicklungsfonds Brandenburg – which provided loans for public urban development projects – was used to provide grants for similar projects. The authorities did not continue the financial instrument in its earlier form, as demand became insufficient when cheaper loans had become available on the market.

Source: ECA based on the information provided by the managing authorities in Germany and Hungary.

- 36** Another example of using legacy funds after the end of the 2014-2020 eligibility period involves the bridging of liquidity gaps until new 2021-2027 instruments became operational. In Germany, where demand under the 2014-2020 KMU Darlehensfonds Berlin (KMU III fund) continued after the end of the eligibility period, legacy funds allowed loans to be provided until the successor financial instrument had been set up (*Figure 3*), in order to avoid any interruption caused by the EU programming cycles.

Figure 3 | Using legacy funds to bridge liquidity gaps between programme, eligibility and fund periods for the KMU Darlehensfonds Berlin 2014-2020 (KMU III) and 2021-2027 (KMU IV)



Source: ECA based on information from the managing authority.

- 37** At the time of our audit, no decision had yet been made on the use of legacy funds in Greece for TEPIX II and EQUIFUND. In Italy, only part of the legacy funds from financial instruments in Lazio and POR Puglia Microcredito were used, as further decisions were in the pipeline.

The framework for cohesion policy financial instruments does not incentivise reuse

- 38** We assessed the extent to which the legal framework for the different programme periods incentivised exploiting the potential of the revolving effect in financial instruments, and whether the Commission and member states put in place suitable arrangements to maximise this.

The legal framework is not sufficiently clear and unambiguous to maximise the reuse of reflows

- 39** To give managing authorities a strong incentive to reuse reflows to support further investments, a clear and unambiguous reuse obligation is needed in the legal framework. This should include minimum requirements for the reuse of any reflows received, including objectives, form, and timeframe. On the other hand, rules must allow sufficient flexibility for member states to align the reuse obligation with emerging needs, market developments, changes in the political environment and other needs and conditions.
- 40** The use of financial instruments in cohesion policy is governed by the common provisions regulations for the different programme periods (*Annex I*, paragraph *13-15*). Implementing regulations and Commission guidance provide further details for the interpretation and specification of the common provisions.
- 41** The legal framework has evolved over the three consecutive programme periods regarding the extent to which it covers and clarifies the reuse obligation. While the 2007-2013 provisions were rather general in this respect, the 2014-2020 common provisions were more detailed, and clarified certain important aspects (see *Annex I*). The Commission supplemented this with considerable guidance for managing authorities, although not specifically on reuse. For the current 2021-2027 programme period, the Commission considers the common provisions to be sufficiently clear and decided not to issue any further guidance.

- 42** However, while the wording of the 2014-2020 and 2021-2027 common provisions provides for an obligation (“shall”) to reuse reflows during the programme period³, the Commission allowed managing authorities considerable discretion in their reuse of funds during the programme period. In practice, the Commission’s approach led to only very limited monitoring of the revolving effect, potentially reducing the incentive for member states and regions to maximise the use of reflows during the programme period.
- 43** In addition, the 2014-2020 and 2021-2027 common provisions allow member states to reuse returned resources after the eligibility period (legacy funds) for providing grants to beneficiaries, instead of reusing them through extended or new financial instruments. While the use of one-off grants can be justified in specific cases (**Box 4**), it is inconsistent with the revolving effect principle as there is no longer any potential for further reuse of the funds.

2007-2013 programme period

- 44** Article 78(7) of the [2007-2013 common provisions](#) provides only a very general reuse obligation, stating that resources returned must be used for the benefit of urban development projects, by SMEs, or for energy efficiency and use of renewable energy in buildings, including existing housing. There are no constraints regarding the form, amount or time limit of the reuse, and the common provisions do not distinguish between reuse obligations during and after the eligibility period.
- 45** Complementing the common provisions, the Commission issued several guidance documents. One of these, the [2011 Guidance Note on Financial Engineering Instruments](#) under Article 44 of Council Regulation (EC) No 1083/2006, advises member states to reuse the reflows for the same type of action, in the same region and for an indefinite duration, until the funds are exhausted. However, the guidance came late in the programme period, which meant that most financial instruments had already been set up. As guidance is not binding on member states, it was not universally followed.

2014-2020 programme period

- 46** Recital 34 of the [2014-2020 common provisions](#) refers to financial instruments being increasingly important due to their potential for achieving a leverage effect on the cohesion policy funds, their capacity to combine different forms of public and private resources, and because revolving forms of finance may make support more sustained over the longer term.

³ Article 44 of [Regulation \(EU\) No 1303/2013](#) and Article 62 of [Regulation \(EU\) 2021/1060](#).

- 47** Article 44(1) regulates reuse *during the eligibility period*, and provides that resources paid back to financial instruments and attributable to the ESI funds should be used for:
- (a) further investments through the same or other financial instruments, (b) covering losses resulting from negative interest on deposited balances, and (c) covering costs and fees for the management of the financial instruments.
- 48** Article 45 lays down the reuse of resources returned *after the end of the eligibility period* by requiring member states to adopt the necessary measures to ensure that resources attributable to ESIF support, paid back during a period of at least 8 years after the end of the eligibility period, are reused in accordance with the aims of the respective programmes. This can be done either within the same or other financial instruments or through other forms of support, such as grants.
- 49** The Commission has not issued any comprehensive guidance notes on reuse, but over time has clarified certain aspects of reflows in the form of Questions & Answers with the enquiring managing authorities (see [Box 5](#)). While managing authorities found this helpful overall, some of them felt the guidance would have been more accessible if it had been presented together in one place.

Box 5

Commission clarifications on the reuse of reflows during and after the end of the eligibility period

The Commission has advised managing authorities about several aspects regarding the reuse of reflows, for example:

- (1) resources returned during the eligibility period can be reused to cover management fees and costs exceeding the common provisions ceilings;
- (2) reflows from a programme period can be reused as national co-financing for financial instruments in the subsequent programme period, but not in the period underway;
- (3) resources attributable to the support from the ESI Funds paid back to the financial instruments as from 1 January 2032 do not need to comply with the reuse requirement and can be used for other purposes.

Source: Commission replies to questions of managing authorities on reflows in the 2014-2020 period.

50 We also found that the Commission had issued a guidance letter to Germany, allowing the reuse of reflows attributable to ESI funds to cover the cost of national co-financing in the same period (interest rate paid by a national development bank for borrowing money on the financial market). However, this practice was strictly prohibited by the Commission's own guidance in the 2007-2013 programme period and also its new guidance in the 2014-2020 period (see point 2 in [Box 5](#) above).

2021-2027 programme period

51 Article 62(1) of the [2021-2027 common provisions](#) on the reuse requirement during the eligibility period, although very similar in wording to the provisions for the 2014-2020 period, introduces the principle of sound financial management. It clarifies that reflows can be reused for management costs and fees, but only in respect of further investments. Apart from this, the provisions did not change substantially from those issued for 2014-2020. Nevertheless, the Commission considers that the rules are sufficiently clear, and that it did not need to issue any further guidance.

The Commission did not oversee the reuse of reflows of financial instruments effectively

52 Cohesion policy funding, including financial instruments, is delivered through shared management where the Commission and member states share responsibility for managing and implementing the EU funds in compliance with the rules and respecting the principles of sound financial management. However, the Commission retains ultimate responsibility for the implementation of the EU budget and must ensure oversight of the work of the different authorities, agencies, and bodies in the member states⁴. This oversight includes the monitoring, verification and audit of the use of EU funds. We assessed how the Commission exercises these responsibilities in relation to financial instruments.

53 We found that managing authorities were required to report to the Commission on the reuse of reflows in the 2007-2013 and 2014-2020 periods albeit to different extents. However, the Commission has not verified and made sufficient use of this data on reuse by member states. Although it carried out 11 thematic audits on financial instruments, we found that these audits covered only 3 % of the total number of financial instruments and that audit documentation on the reuse obligation was limited.

⁴ Article 317 of the [Treaty on the Functioning of the European Union](#).

- 54** While in the 2007-2013 period there was no reporting required from member state authorities about the reuse of reflows *during the eligibility period*, there were extensive reporting requirements for managing authorities in the 2014-2020 programme period. For the 2021-2027 period, the Commission reduced the reporting requirements and eliminated its requirement for member state authorities to provide data on their reuse of reflows during the period.
- 55** Regarding the reuse of resources returned *after the eligibility period*, at programme closure the Commission checks the member states' arrangements for the subsequent use of legacy funds. However, the Commission does not monitor, verify or audit the actual use of legacy funds and does not know whether, in practice, member states or regions actually use the legacy funds for the further support of cohesion policy objectives as required by the common provisions.
- 56** We also found that there is an inconsistency in the legal requirements for both the 2014-2020 and 2021-2027 programme periods, as member states are required to reuse reflows generated during a period of 8 years after the programme period. At the same time, the documents related to the financial instruments in question need only be retained for 3 years after closure (for the 2014-2020 period) and 5 years after the last payment to the financial instrument (for the 2021-2027 period). This restricts the Commission's means of monitoring and auditing reuse of legacy funds.

2007-2013 programme period

- 57** During the 2007-2013 period, the Commission had no information on the extent of reflows and their reuse. Based on mandatory information provided by member states as part of the closure packages, the Commission estimated that €8.5 billion had been returned by final recipients (around half of the funding allocated to financial instruments in that programme period). This includes the legacy funds reported by member states and Commission estimates of future reflows up until the winding up of the instruments. However, this figure is not reliable, as the Commission has never verified nor audited the actual (re)use of these legacy funds.

2014-2020 programme period

- 58** In the 2014-2020 period more extensive reporting requirements on the reuse of reflows during the programme period became mandatory for managing authorities⁵. The Commission complemented the regulation with specific guidance⁶. We found that the Commission conducted plausibility checks of the data provided by member states in their annual implementation reports, but neither verified nor audited the reliability of this data. Our audit confirmed that the data was not always reliable; for example, managing authorities sometimes incorrectly reported zero reuse. In addition, the Commission requested data on the first investment cycle only. This provided only an incomplete and limited view of the revolving effect.
- 59** The Commission produced annual summaries on financial instruments based on the data reported to it⁷. However, no annual implementation reports were prepared for 2023⁸ (the last year of the eligibility period), and consequently no reuse data will be available from then until closure in 2026. This is a missed opportunity for verifying, auditing and also evaluating the actual reuse of reflows, as this period will see an accelerated accumulation of reflows and therefore significant potential for reuse.

2021-2027 programme period

- 60** For the 2021-2027 programme period, reporting requirements on the use of financial instruments were reduced and became much less detailed. The Commission justified this by the need to simplify the process and improve the accuracy of the data that is still provided. According to the common provisions⁹, information on the reuse of reflows received back from final recipients is no longer required. The Commission therefore has no basis on which to monitor, verify and audit the reuse of reflows during the programme period. Without any control by the Commission, there is even less incentive for member states to prioritise the reuse of reflows over the absorption of funds available under the operational programmes.

⁵ Article 46 of [Regulation \(EU\) No 1303/2013](#) and Annex I to [Commission Implementing Regulation \(EU\) No 821/2014](#) define the model for reporting information on financial instruments, covering information on repayments from final recipients (line 36) and reuse of funds (line 37).

⁶ [2021 update of the annotated template for reporting on financial instruments](#).

⁷ Article 46(4) of [Regulation \(EU\) No 1303/2013](#).

⁸ Article 50 of [Regulation \(EU\) No 1303/2013](#).

⁹ Article 42 of [Regulation \(EU\) 2021/1060](#).

Member states address the reuse obligation to some extent, but funding agreements generally lack incentives for reinvestment

- 61** We assessed the extent to which member state authorities address the reuse obligation when setting up financial instruments, and whether they take measures to encourage fund managers to reuse reflows. We examined the funding agreements of the selected financial instruments.
- 62** At the set-up stage for financial instruments, the managing authority and fund manager sign a funding agreement outlining the terms and conditions for implementation. According to the legal framework, this should include provisions regarding the reuse of reflows during and after the end of the eligibility period¹⁰.
- 63** We found that, while all funding agreements address to some extent the question of reuse ***during the eligibility period***, there are considerable differences in the extent to which they make a commitment to reinvesting reflows and in the related level of detail. While some only cite the common provisions, others provide more specific requirements (see [Table 3](#)). However, while it is common practice to cover management costs and fees with the reflows, we only identified an obligation for automatic reinvestment of reflows in six cases relating to the FARE LAZIO holding fund (including four specific funds) and the Thüringen Dynamik in 2007-2013 and 2014-2020.

¹⁰ Annex IV to [Regulation \(EU\) No 1303/2013](#) and Annex X to [Regulation \(EU\) 2021/1060](#).

Table 3 | Funding agreement provisions on reuse during the eligibility period, financial instruments in 2014-2020 and 2021-2027

Country	Name of the financial instrument	Period	Use during the period
Germany	KMU-Darlehensfonds Berlin	2014 - 2020	(1) for the preferential remuneration of the fund manager, (2) for the reimbursement of the fund manager's management cost and fees, (3) for covering potential negative interest rates, (4) for the remaining part for further investments
		2021 - 2027	(1) for the preferential remuneration of the fund manager, (2) for the reimbursement of the IBB'S management cost and fees, (3) for covering potential negative interest rates, and (4) for further investments in final beneficiaries
	Mikromezzaninefonds Deutschland Bund	2014 - 2020	to cover the interest claim of the ERP-SV and to repay the funds provided from the ERP-SV as national co-financing share
		2021 - 2027	primarily to pay interest for the national co-funder (ERP-SV), and to cover management cost and fees
	Thüringen Dynamik	2014 - 2020	for new investments in final beneficiaries within the funding period from 2021
	Greece	TEPIX II	2014 - 2020
TEPIX III		2021 - 2027	for further investments in the same or other financial instrument and covering management fees and costs
EQUIFUND		2014 - 2020	mainly for covering management fees and costs and for investments through the same or other financial instrument
COVID-19 guarantee		2014 - 2020	for the payment of outstanding management fees and for the payment of interest in the case of negative interest rates
Hungary	GINOP Priority 8 Holding Fund (22 specific funds)	2014 - 2020	
	EFOP loan	2014 - 2020	for further investment and covering management fees and costs
	GINOP Plusz loan	2021 - 2027	
Italy	FARE Lazio - Holding Fund (4 specific funds)	2014 - 2020	for further investment through automatic recycling of reflows until 31 October 2023
	POR Puglia Microcredito	2014 - 2020	for further investment in the same financial instrument in accordance with article 44 of CPR 1303/2013
	NP Ricerca, Innovazione e Competitività per la Transizione Verde e Digitale (MIMIT)	2021 - 2027	for further investments and covering management fees and costs and potential losses according to article 62 of CPR 1060/2021
Slovakia	IROP PA 4 - SFRB	2014 - 2020	for further investments in the same financial instrument
	OP II PA 11 - Holding Fund (24 specific funds)	2014 - 2020	in accordance with article 44 of CPR 1303/2013

Note: The information contained in this table refers to holding funds level. The 17 funds shown in the table include 68 specific funds altogether.

Source: ECA based on information from managing authorities.

64 There are also considerable differences in the provisions of funding agreements on the use of legacy funds *after the eligibility period* (*Annex II*). Half of the financial instruments in our sample stipulated a transfer of reflows to government (managing authority) accounts until a dedicated reuse decision is taken in line with the common provisions. The other half provided that reflows should stay with the fund manager, to be used for the same purpose in the same or successor financial instrument (*Box 6*).

Box 6

Financial instruments that continue investing after the end of the eligibility period

When funding agreements provide that reflows should stay with the fund manager for reinvestment, this signals a greater commitment by managing authorities to using legacy funds for the same objective.

We found several such examples in our sample:

- the funding agreements for the KMU-Darlehensfonds Berlin loan fund provided for all three periods that legacy funds should stay with the fund manager to continue support to SMEs;
- the funding agreements for the 2007-2013 and 2014-2020 Thüringen Dynamik loan financial instruments provided that legacy funds should be used to finance successor instruments set up by the same fund manager, aimed at supporting SMEs;
- in Slovakia, since the 2014-2020 period, the national legal framework and all funding agreements have provided that legacy funds should be reused in the same financial instrument for the same objective for at least 8 years after the end of the eligibility period and possibly beyond, depending on the market assessment or government decision.

This report was adopted by Chamber II, headed by Mrs Annemie Turtelboom, Member of the Court of Auditors, in Luxembourg at its meeting of 22 October 2025.

For the Court of Auditors



Tony Murphy
President

Annexes

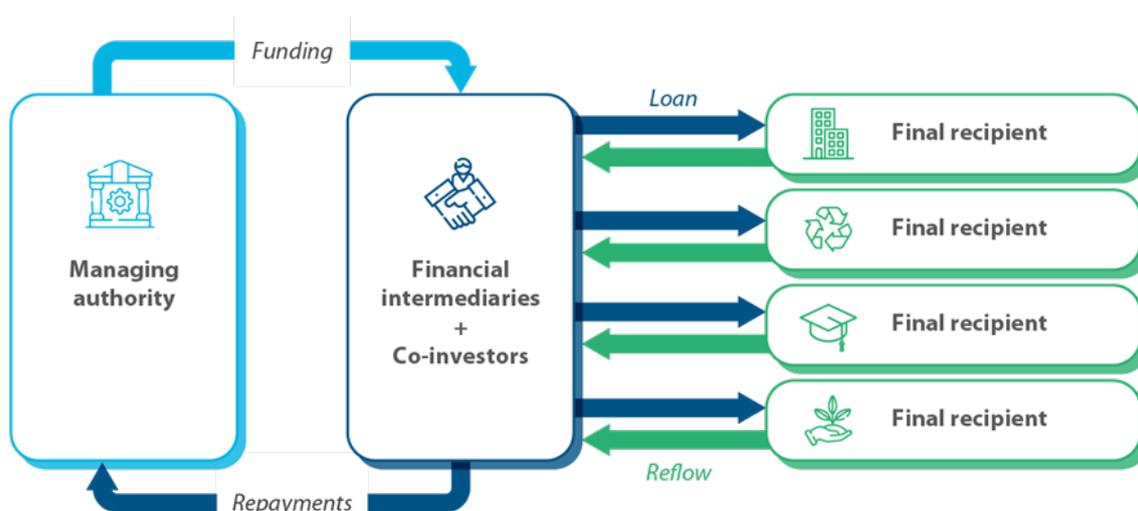
Annex I – About the audit

Financial instruments in cohesion policy

- 01** Traditionally, cohesion policy is delivered through grants, providing one-off financial support to private or public beneficiaries for the implementation of projects supporting regional policy objectives. **Financial instruments** are a form of support where EU funds are delivered through financial products to final recipients. They provide an alternative to the traditional grant programmes and are most suitable where investments are likely to generate financial returns or savings which can be used to repay the support provided.
- 02** Financial instruments were formally introduced into EU cohesion policy during the 2007-2013 programme period, although some early versions and pilot initiatives existed before this. Financial instruments were further emphasised and promoted by the Commission as a way to sustain the effect of the EU funding delivered to member states through multiple use for the successor periods 2014-2020 and 2021-2027. They can take the form of different financial products: loans, guarantees, or equity/ quasi-equity investments.
- 03** **Loans** provided from cohesion policy financial instruments are designed to address market failures by providing funding where traditional financing might not be available or sufficient for the targeted group of final recipients. ERDF loan financial instruments often involve a risk-sharing model where the loan default risk is shared between the ERDF programme resources and a financial intermediary implementing the instrument. This allows loans to be made to final recipients with a high default risk, who would therefore not find financing on the market. Or simply to provide borrowers with better terms and conditions than they could otherwise expect, such as lower interest rates, longer repayment periods, and reduced collateral requirements. Loans can also be combined with grants to provide additional support to final recipients. This can include interest-rate subsidies, technical support grants, capital grants, and capital rebates. It helps make financing more affordable and addresses viability gaps in projects.

- 04 Equity** financing can play a crucial role in supporting businesses, especially for high-growth companies and innovative start-ups, and is particularly beneficial for entrepreneurial businesses seeking to develop innovative products, establish new markets, or expand into new territories. It provides the necessary capital for research and development, marketing, and scaling operations. Equity investors become partial owners of the business, sharing its profits and losses. The aim of aligning the interests of investors with those of the business is to foster a collaborative approach to growth and success. Equity financing offers flexible solutions that can be adapted to the unique needs of businesses. This includes different financing rounds, venture capital versus private equity, and various exit strategies. **Quasi-equity** financing ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity.
- 05 Guarantee** financial instruments are designed to provide loss protection to banks in case of loan defaults, thereby improving their lending capacity and appetite for riskier projects. Banks that receive guarantees are often obliged to offer improved financing conditions for final recipients. These can include lower interest rates and reduced collateral requirements, making loans more accessible and affordable. Guarantees have the potential to create a leverage effect, allowing a relatively small amount of guarantee funds to support a much larger portfolio of loans. For example, a portfolio loan guarantee with a guarantee rate of 80 % and a guarantee cap rate of 25 % can support a portfolio of loans that is five times larger than the guaranteed amount of the portfolio.
- 06** In cohesion policy, financial products supported by financial instruments are delivered to final recipients through financial intermediaries (*Figure 1*). These are generally private- or public-sector banks or other financial intermediaries, rather than the public administration bodies used to implement mainstream cohesion funding. For ERDF and European Social Fund (ESF) instruments, if the selection of the fund manager is subject to an open tender, this must comply with EU and national public procurement rules. In situations where public procurement rules do not apply (where the fund management contract is not a public service contract), the managing authority can appoint the fund manager, subject to complying with relevant state aid rules. The EIB group (which comprises the European Investment Fund (EIF) and the European Investment Bank (EIB)) benefits from special status since it can be appointed as fund manager without a public procurement procedure.

Figure 1 | Delivering financial instruments in cohesion policy: Example of loans



Note: The investment cycle restarts as reflows arrive to financial intermediaries.

Source: ECA.

Advantages of financial instruments

- 07** Financial instruments are considered to enhance the efficiency of public funding due to their ***potentially revolving nature***, meaning the possibility to reuse reflows received from final recipients (e.g. loan repayments). Where the revolving nature materialises in practice, this contributes to the ***long-term sustained use*** of EU funds. Also, the requirement for final recipients to repay the support received is viewed as an incentive for them to manage their finances soundly, e.g. better-quality planning and investment, and greater financial discipline (see [Box 1](#)).

Box 1

The European Recovery Programme Special Fund – an example of sustained use of public finance

A prominent, although non-EU funded, example of the long-term use of a public investment fund is the European Recovery Programme (ERP) Special Fund, initially created shortly after the Second World War by US Secretary of State George C. Marshall. In Germany, the programme's implementation began in 1948 when the state-owned Kreditanstalt für Wiederaufbau (KfW) was established. From then until 1952, West Germany received approximately USD 1.39 billion in economic assistance from the programme.

When the Marshall Plan ended in 1953, West Germany agreed under the London Debt Agreement to repay most of the funds it had received. The Federal Government decided to settle the debt from the federal budget, while keeping the KfW-managed ERP fund the same size and establishing legislation that the substance of the fund was to be maintained in its existing form to allow continuing economic support.

Since its founding, KfW has disbursed more than €2.4 trillion in economic support, based on the initial assets attributable to the Marshall Fund. Today, the ERP fund is used to finance structural support programmes, promote SMEs and fund environmental protection programmes through grants, loans and equity support. It also provides scholarships and financial support promoting transatlantic relationships. Since 1990, the ERP fund has played a particularly important role in the reconstruction of the East German federal states.

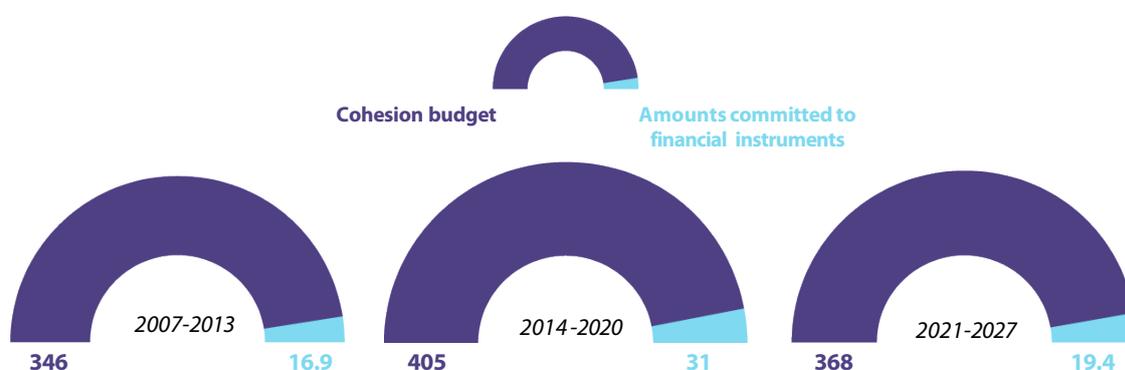
Source: ECA based on the [KfW website](#).

- 08** Additionally, financial instruments have the potential to generate a **leverage effect**, by attracting further private or public funding. Private investment might bring private sector expertise with it. Firms and local authorities benefiting from financial instruments can potentially benefit from active support when developing their projects, as the organisations appointed to manage financial instruments are motivated to see their investments succeed.

The importance of financial instruments in cohesion policy

- 09** Cohesion policy financial instruments are implemented mainly under the European Regional Development Fund (ERDF), the Cohesion Fund (CF), and to a lesser extent the European Social Fund (ESF) and the Youth Employment Initiative (YEI).
- 10** Their use became significantly more widespread from the 2007-2013 period, although certain forms of revolving assistance were already available from the 1994-1999 period, mainly for small and medium-sized enterprises (SMEs). The use of financial instruments expanded further in the 2014-2020 period, but funds devoted so far to financial instruments for the 2021-2027 period indicate a decrease in use (*Figure 2*).

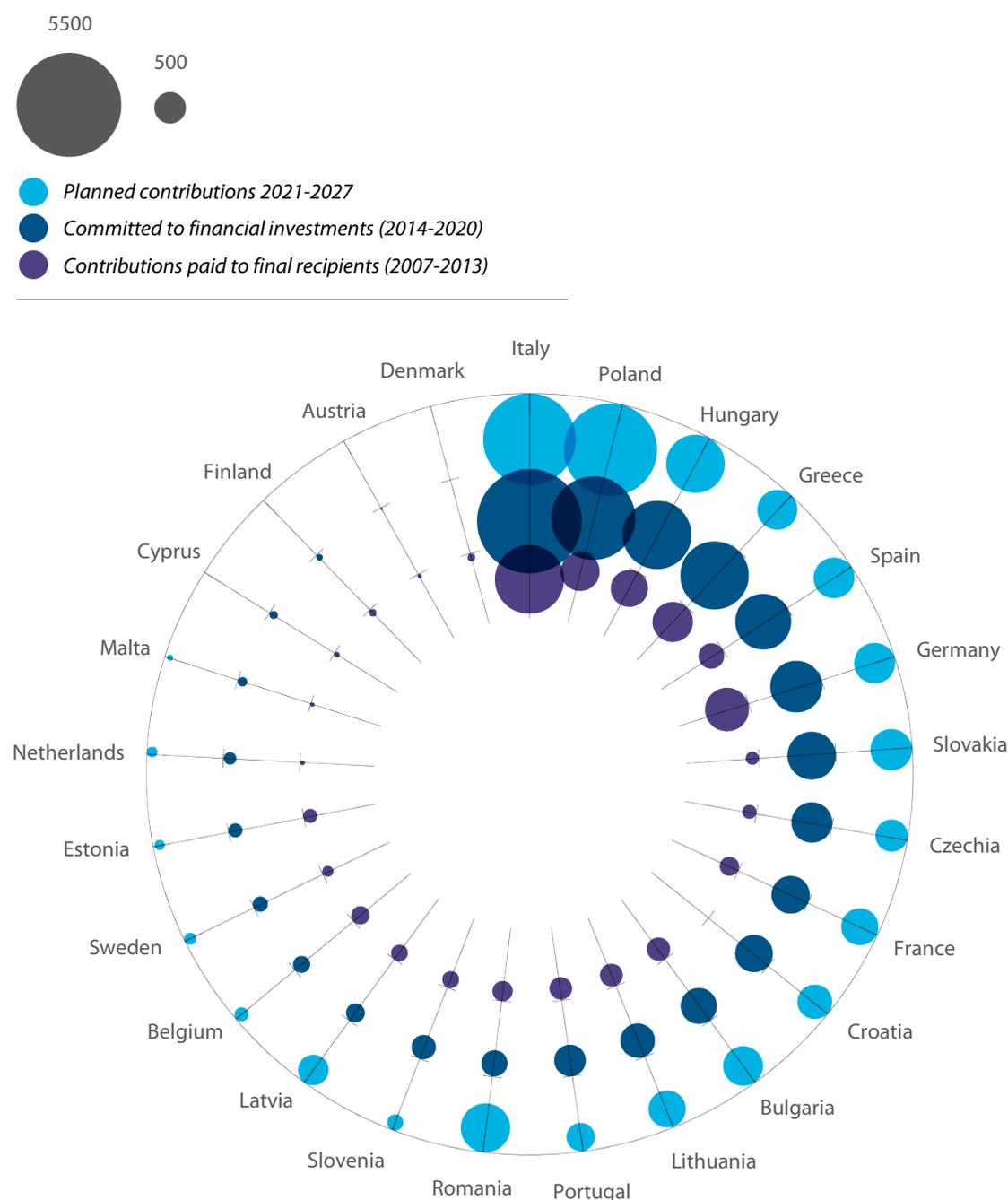
Figure 2 | Share of financial instruments in cohesion policy, 2007-2027



Source: ECA based on [Open cohesion data](#).

- 11** The total cohesion budget grew from €346 billion in the 2007-2013 period to €368 billion in the 2021-2027 period. Due to the COVID-19 crisis the budget was adjusted during the 2014-2020 period to the significantly higher amount of €405 billion. The total amounts committed to financial instruments increased from €16.9 billion in 2007-2013 to €31.0 billion in 2014-2020 and are currently at €19.4 billion for 2021-2027 (*Figure 2*). Eliminating COVID-19-related effects, around 5 % of the cohesion budget has been used through financial instruments over the three periods. All the member states, except Ireland and Luxembourg, have made use of financial instruments (*Figure 3*).

Figure 3 | Structural Funds committed to financial instruments per member state and period (million euros)



Note: Ireland and Luxembourg did not have any cohesion policy financial instruments in the three periods.

Source: ECA based on [Open cohesion data](#).

12 In 2007-2013, financial instruments were mainly used to support SMEs (89 %), urban development (7 %), and energy/renewable energies (4 %). Since 2014, the legal framework has allowed for increased use of thematic objectives, with the highest allocations given to SME competitiveness (around two-thirds), the transition to a low-carbon economy (8 %), and research and innovation (8 %).

Legal framework

- 13** The use of cohesion policy financial instruments is governed by the common provisions for shared management funds, laying down rules governing implementation, management, control, and reporting for the relevant periods. Fund-specific regulations stipulate complementary detailed provisions on priorities, measures, and co-financing.
- 14** The Commission also offers general guidance through delegated and implementing acts and other documents as well as providing advice to member states upon request. Together with the EIB, the Commission established the FI Compass electronic platform, which offers general information, practical tools and learning opportunities for EU shared-management financial instruments. Upon request, specific advice on the implementation of financial instruments is offered by the Commission.
- 15** Regarding the reuse of reflows, the most important references are Article 78(7) of [Regulation \(EC\) No 1083/2006](#) (2007-2013), Articles 44 and 45 of [Regulation \(EU\) No 1303/2013](#) (2014-2020), and Article 62 of [Regulation \(EU\) 2021/1060](#) (2021-2027). [Annex III](#) summarises the main provisions for the different periods. In general, the common provisions provide for an obligation to reuse reflows from final recipients, although the requirements for the form of reuse are different in the three periods and have become more specific since the 2014-2020 period.

Audit scope and approach

- 16** The audit assessed the revolving effect of cohesion policy financial instruments and the extent to which it materialised in practice, both during and after eligibility periods, by looking at whether:
 - the potential of cohesion policy financial instruments for more sustained use of funding was exploited effectively; and
 - the framework established for cohesion policy financial instruments incentivised their reuse.

17 In order to reply to our audit questions, we assessed how the reuse requirement was addressed and materialised in practice for a sample of 90 financial instruments (28 individual specific funds and 5 holding funds including 62 specific funds) from five member states (Germany, Greece, Hungary, Italy and Slovakia) having received cohesion policy support from the ERDF, CF, ESF and YEI. The selection included 22 financial instruments from the 2007-2013 period, 61 from the 2014-2020 period, and 7 from the 2021-2027 period (*Annex IV*). Our selection criteria took account of member states' absolute and relative total allocations of cohesion funding to financial instruments. Due to the partially different legal requirements for the three periods, and because implementation for 2021-2027 is still at an early stage, we audited the actual reuse of reflows during the 2014-2020 period and the actual reuse of legacy funds after the 2007-2013 and 2014-2020 periods, as well as the corresponding arrangements in place for 2021-2027. The cut-off date for our audit was 30 September 2024.

18 Our audit work involved:

- reviewing the legal framework and the Commission guidance provided to member states on reuse in the different programme periods, and assessing the extent to which they incentivised reuse;
- analysing the data from the Commission's monitoring system for financial instruments;
- interviewing the Commission and the EIB and EIF staff;
- for the selected financial instruments:
 - reviewing programming documents, implementation reports, *ex ante* assessments, and funding agreements;
 - interviewing managing authorities and fund managers to gather information on the reuse of reflows in the individual financial instruments.

Annex II – Funding agreement provisions on reuse after the eligibility period (legacy funds), financial instruments in all three periods

Country	Name of the financial instrument	Period	Use after the period
Germany	KMU-Darlehensfonds Berlin	2007 - 2013	until the winding-up (2025) in the same instrument and later for similar purposes (SME support)
		2014 - 2020	until the winding-up (2031) in the same instrument and later for similar purposes (SME support), depending on the decision of the regional government
		2021 - 2027	until the winding-up (2037) in the same instrument and later for future regional economic development
	Mikromezzaninefonds Deutschland Bund (MMFI)	2007 - 2013	to support a new national fund or the ERP-SV and support SME's (through micromezzanine financing)
	Mikromezzaninefonds Deutschland Bund (MMFII)	2014 - 2020	to support a new national fund or the ERP-SV and support SME's (through micromezzanine financing)
	Mikromezzaninefonds Deutschland Bund (MMFIII)	2021 - 2027	in accordance with Article 60 (2) and 62(2) of CPR 2021/1060 in other financial instruments or in other forms of support in to promote similar purposes
	Stadtentwicklungsfonds Brandenburg	2007 - 2013	to finance urban development projects in Brandenburg
	KMU-Darlehensfonds Sachsen-Anhalt	2007 - 2013	for similar purposes (SME support) based on individual decisions of the regional government
	Thüringen Dynamik	2007 - 2013	to support similar purposes (SME support), including contribution to the budget of the successor fund (Thüringen Dynamik II)
		2014 - 2020	to support similar purposes in a new financial instrument or other forms of support (SME support)

Country	Name of the financial instrument	Period	Use after the period
Greece	TEPIX I	2007 - 2013	(1) for additional investments through the Entrepreneurship Fund in existing or new financial instruments (in particular in the action "TEPIX – Business Restart") with the approval of the Investment Committee; (2) cover management costs/fees; (3) financing other actions to support entrepreneurship.
	TEPIX II	2014 - 2020	following a decision by the Greek State (depending on continued need for such investments or other forms of support)
	TEPIX III	2021 - 2027	following a decision by the Greek State (depending on continued need for such investments or other forms of support)
	HELTEP Guarantee	2007 - 2013	following a decision by the Greek State (depending on continued need for such investments or other forms of support)
	EQUIFUND	2014 - 2020	following a decision by the Greek State (depending on continued need for such investments or other forms of support)
	COVID-19 guarantee	2014 - 2020	for further investments (through the extension of the fund by the Greek State) and to cover management fees and costs and unforeseen expenses
Hungary	OP GOP Loan	2007 - 2013	N/D: funding agreement not provided
	OP KMR Venture	2007 - 2013	
	GINOP Priority 8 Holding Fund (22 specific funds)	2014 - 2020	the managing authority makes necessary evaluations and decides on the reuse
	EFOP loan	2014 - 2020	the managing authority makes necessary evaluations and decides on the reuse
	GINOP Plusz loan	2021 - 2027	

Country	Name of the financial instrument	Period	Use after the period
Italy	Fondo di Sostegno JESSICA SICILIA	2007 - 2013	further investments of the same fund or transfer of funds to the managing authority
	Fare Lazio Holding Fund (3 specific funds)	2007 - 2013	for further investments through the decision of the fund of funds and the managing authority
	Fondo Azioni Riposizionamento dell'Economia del Lazio Holding fund (4 specific funds)	2014 - 2020	for further investments through the decision of the fund of funds and the managing authority
	POR Puglia Microcredito	2014 - 2020	for further investments in the same financial instrument or, in other instruments (based on market assessment)
	NP Ricerca, Innovazione e Competitività per la Transizione Verde e Digitale (MIMIT)	2021 - 2027	for at least eight years thereafter, the Ministry shall establish – based on an assessment of market conditions – the criteria for their possible reuse for purposes consistent with those identified in the national Research, Innovation and Competitiveness Programme for the Green and Digital Transition 2021–2027, either through the same financial instrument or through other instruments or interventions.
Slovakia	ROP Jessica - State Housing Development Fund (SHDF)	2007 - 2013	for further investments in the same financial instrument
	IROP PA 4 - State Housing Development Fund (SHDF)	2014 - 2020	for further investments in the same financial instrument until 31 December 2031
	OP SK PA 2P1 - State Housing Development Fund (SHDF)	2021 - 2027	for further investments in the same financial instrument until 31 December 2037
	OP CEG Jeremie - Holding Fund (8 specific funds)	2007 - 2013	mainly for the benefit of the SMEs
	OP II PA 11 - Holding Fund (24 specific funds)	2014 - 2020	in accordance with Article 45 of the CPR 1303/2013

Note: The information contained in this table refers to holding funds level. The 31 funds shown in the table include 90 specific funds altogether.

Source: ECA based on information provided by managing authorities.

Annex III – Provisions for reuse in the 2007-2013, 2014-2020 and 2021-2027 Common Provision Regulations

	2007-2013 – Regulation (EC) No 1083/2006	2014-2020 – Regulation (EU) No 1303/2013	2021-2027 – Regulation (EU) 2021/1060
Reuse during the period	<p>Based on Article 78(7):</p> <p>There is a legal obligation for member states (managing authorities) to reuse the reflow of any resources returned to the financial engineering instrument which are attributable to the Structural Funds contribution:</p> <ol style="list-style-type: none"> (1) for further investments; or (2) to cover management costs and fees of the financial engineering instrument; or (3) by allocating them to the competent authorities for further utilisation to the benefit of the same type of action(s) (for which the financial instrument was created) and the same region. 	<p>Based on Article 44(1):</p> <p>Resources paid back to financial instruments from investments or from the release of resources committed or any other income generated by investments, which are attributable to the support from the ESI Funds, shall be reused for the following purposes:</p> <ol style="list-style-type: none"> (1) further investments through the same or other financial instruments, in accordance with the specific objectives set out under a priority; (2) where applicable, preferential remuneration of private investors, or public investors operating under the market economy principle; (3) where applicable, reimbursement of management costs/payment of fees of the financial instrument. 	<p>Based on Article 62(1):</p> <p>Resources paid back, attributable to the support from the Funds, shall be reused:</p> <ol style="list-style-type: none"> (1) in the same or (2) other financial instruments for further investments in final recipients; (3) to cover the losses in the nominal amount of the Funds contribution to the financial instrument resulting from negative interest, if such losses occur despite active treasury management, or (4) for any management costs and fees associated to such further investments. <p>taking into account the principle of sound financial management</p>

	2007-2013 – Regulation (EC) No 1083/2006	2014-2020 – Regulation (EU) No 1303/2013	2021-2027 – Regulation (EU) 2021/1060
Reuse after the period ends (legacy funds)	The Commission's guidance note (COCOF 10-0014-05) points out that the reuse of the resources returned can take place until and beyond the end of the eligibility period (31 December 2015), and is not subject to any deadline, leading to a theoretical indefinite duration .	Article 45: Member States shall adopt the necessary measures to ensure that resources paid back to financial instruments, including capital repayments and gains and other earnings or yields generated during a period of at least 8 years after the end of the eligibility period, which are attributable to the support from the ESI Funds to financial instruments pursuant to Article 37, are used in accordance with the aims of the programme or programmes , either <ul style="list-style-type: none"> (1) within the same financial instrument or, (2) following the exit of those resources from the financial instrument in other financial instruments provided that, in both cases, an assessment of market conditions demonstrates a continuing need for such investment or (3) in other forms of support. 	Article 62(2): Member States shall adopt the necessary measures to ensure that the resources referred to in paragraph 1 and paid back to financial instruments during a period of at least 8 years after the end of the eligibility period, are reused in accordance with the policy objectives of the programme or programmes under which they were set up, either <ul style="list-style-type: none"> (1) within the same financial instrument or (2) in other financial instruments or (3) in other forms of support.

Annex IV – List of the audited financial instruments

Fund name		Periods
Germany		
1-3.	KMU-Darlehensfonds Berlin	2007-2013, 2014-2020, 2021-2027
4-6.	Mikromezzaninefonds Deutschland Bund	2007-2013, 2014-2020, 2021-2027
7.	Stadtentwicklungsfonds Brandenburg	2007-2013
8.	KMU Darlehensfonds Sachsen-Anhalt	2007-2013
9-11.	Thüringen Dynamik	2007-2013, 2014-2020, 2021-2027
Greece		
12.	TEPIX I	2007-2013
13.	TEPIX II	2014-2020
14.	TEPIX III	2021-2027
15.	HELTEP Guarantee	2007-2013
16.	EQUIFUND	2014-2020
17.	COVID-19 guarantee	2014-2020
Hungary		
18.	OP GOP Loan	2007-2013
19.	OP KMR Venture	2007-2013
<u>GINOP Priority 8 Holding Fund</u>		
Specific loan funds		
20.	Vállalatok K+F+I tevékenységének támogatása Hitelprogram (GINOP-8.1.1-16)	2014-2020
21.	Újgenerációs Hozzáférségi Hálózat (NGA) és közzethálózatok fejlesztése hitel (GINOP-8.2.1-3.4.1-15)	2014-2020
22.	Digitális Jólét Pénzügyi Program hitel	2014-2020
23.	Mikro-, kis- és középvállalkozások versenyképességének növelése célú hitelprogram (GINOP-8.3.1-16)	2014-2020
24.	Mikro- és Kisvállalkozások technológiai korszerűsítése célú hitel	2014-2020

	Fund name	Periods
25.	Mikro-, kis- és középvállalkozások technológiai korszerűsítése célú Hitelprogram – forgóeszköz hitel	2014-2020
26.	Lakóépületek energiahatékonyságának és megújuló energia felhasználásának növelését célzó hitel	2014-2020
27.	KKV energia hitel (GINOP-8.4.1/B-16)	2014-2020
28.	Foglalkoztatás ösztönzése célú Hitelprogram (GINOP-8.8.1-17)	2014-2020
Specific funds Loan combined with grants		
29.	Vállalatok K+F+I tevékenységének támogatása kombinált hiteltermék keretében (GINOP-2.1.2-8.1.4-16)	2014-2020
30.	Az infokommunikációs ágazatban működő mikro-, kis- és középvállalkozások által előállított termékek és szolgáltatások piacosításának, nemzetközi piacokra való belépésének támogatása (GINOP-3.1.2-8.2.4-16)	2014-2020
31.	Vállalati komplex infokommunikációs és mobilfejlesztések, felhőalapú online üzleti szolgáltatások terjesztésének támogatása (GINOP-3.2.2-8.2.4-16)	2014-2020
32.	Felhőalapú (IaaS, PaaS, SaaS) vállalati szolgáltatások, IKT megoldások fejlesztésének és piaci bevezetésének támogatása (GINOP-3.2.4-8.2.4-16)	2014-2020
33.	Versenyképes vállalatok tevékenységének emelt szintű digitalizálása (GINOP-3.2.6-8.2.4-17)	2014-2020
34.	Mikro-, kis- és középvállalkozások kapacitásbővítő beruházásainak támogatása kombinált hiteltermék keretében (GINOP-1.2.3-8.3.4-16)	2014-2020
35.	Élelmiszeripari komplex beruházások támogatása kombinált hitelterméssel (GINOP-1.2.6-8.3.4-16)	2014-2020
36.	Megújuló energia használatával megvalósuló épületenergetikai fejlesztések támogatása kombinált hitelterméssel (GINOP-4.1.1-8.4.4-16)	2014-2020
Specific funds: Venture capital		
37.	Nemzeti Technológiai és Szellemi Tulajdon kockázati tőkeprogram	2014-2020
38.	Intelligens szakosodási kockázati tőkeprogram	2014-2020
39.	Specializált seed és pre-seed befektetési tőkealap induló IKT vállalkozások számára új ötletekhez, új piacra lépéshez – kockázati tőke	2014-2020
40.	Üzleti infokommunikációs, digitalizációs tőkealap	2014-2020
41.	Digitális Jólét Pénzügyi Program tőkeprogram	2014-2020
42.	Human Resource Development Operational Program Priority 5 financial instrument: Loans to strengthen social cooperation, social innovation and transnational cooperation	2014-2020
43.	GINOP Plusz Holding Fund	2021-2027

Fund name		Periods
Italy		
44.	Fondo di Sostegno JESSICA SICILIA	2007-2013
Holding Fund (Fondo Ingegneria Finanziaria – IF)		
45.	Lazio: Asse I (Working Capital) – "Fondo di partecipazione IF – Fondo per il finanziamento del capitale circolante e degli investimenti produttivi delle PMI"	2007-2013
46.	Lazio: Asse I (Capitalisation) – "Fondo di Ingegneria Finanziaria a favore delle PMI a valere sul POR FESR Lazio 2007-2013 – Fondo di Patrimonializzazione PMI"	2007-2013
47.	Lazio: Asse I (Start-up) – "Fondo di partecipazione IF – Fondo per prestiti partecipativi alle Start-up"	2007-2013
Holding fund (Fondo Azioni Riposizionamento dell'Economia del Lazio – FARE Lazio) (Asse 3)		
48.	Lazio: Fondo Rotativo per il Piccolo Credito (FRPC azione 3.6.1)	2014-2020
49.	Lazio: Emergenza COVID-19 – Fondo Rotativo per il Piccolo Credito (Azione 3.6.1)	2014-2020
50.	Lazio: Fondo Rotativo per il Piccolo Credito (FRPC azione 3.3.1)	2014-2020
51.	Lazio: Fondo di Riassicurazione (FdR azione 3.6.1)	2014-2020
52.	POR Puglia Microcredito	2014-2020
53.	NP Ricerca, Innovazione e Competitività per la Transizione Verde e Digitale	2021-2027
Slovakia		
54.	ROP Jessica – SFRB	2007-2013
55.	IROP PA 4 – SFRB	2014-2020
56.	IROP PA 4 II – SFRB	2014-2021
57.	OP SK PA 2P1 – SFRB	2021-2027
OP CEG Jeremie – SIH Holding Fund		
58.	FLPG_SLSP, Bratislava	2007-2013
59.	FLPG_SZRB, Bratislava	2007-2013
60.	FLPG_Tatra, Bratislava	2007-2013
61.	FLPG_UniCredit, Bratislava	2007-2013
62.	PRSL_II_SZRB, Bratislava	2007-2013
63.	PRSL_II_TATRA, Bratislava	2007-2013
64.	PRSL_OTP + PRSL_II_OTP, Bratislava	2007-2013
65.	PRSL_SBERBANK + PRSL_II_SBERBANK, Bratislava	2007-2013
OP II PA 11 – Holding Fund		
66.	OP II PA 11 – PRSL_SZRB	2014-2020

Fund name		Periods
OP II PA 11 – Venture Capital Funds		
67.	Priame investicie	2014-2020
68.	Seed/Start-up Capital Fund_CBGO	2014-2020
69.	Seed/Start-up Capital Fund_VVGI	2014-2020
70.	Seed/Start-up Capital Fund_ZGCFI	2014-2020
OP II PA 11 – Guarantee funds		
71.	FLPG_SIHAZ1_BKS	2014-2020
72.	FLPG_SIHAZ1_CSOB	2014-2020
73.	FLPG_SIHAZ1_Oberbank	2014-2020
74.	FLPG_SIHAZ1_OTP	2014-2020
75.	FLPG_SIHAZ1_SLSP	2014-2020
76.	FLPG_SIHAZ1_TB	2014-2020
77.	FLPG_SIHAZ1_UCB	2014-2020
78.	FLPG_SIHAZ1_VUB	2014-2020
79.	FLPG_SIHAZ2A_BKS	2014-2020
80.	FLPG_SIHAZ2A_CSOB	2014-2020
81.	FLPG_SIHAZ2A_J&T	2014-2020
82.	FLPG_SIHAZ2A_Oberbank	2014-2020
83.	FLPG_SIHAZ2A_OTP	2014-2020
84.	FLPG_SIHAZ2A_PB	2014-2020
85.	FLPG_SIHAZ2A_SLSP	2014-2020
86.	FLPG_SIHAZ2A_SZRB	2014-2020
87.	FLPG_SIHAZ2A_TB	2014-2020
88.	FLPG_SIHAZ2A_UCB	2014-2020
89.	FLPG_SIHAZ2A_VUB	2014-2020
90.	FLPG_UNICREDIT	2014-2020

Abbreviations

COCOF: Coordination Committee of the Funds

COVID-19: Coronavirus disease 2019

CPR: Common Provision Regulation for the cohesion policy funds

EIB: European Investment Bank

EIF: European Investment Fund

ERDF: European Regional Development Fund

ERP: European Recovery Programme (Marshall Plan)

ESF: European Social Fund

ESIF: European Structural and Investment Funds

SME: Small and medium-sized enterprises

Glossary

Beneficiary: Natural or legal person receiving a grant or loan from the EU budget for implementing a project or programme. In the case of financial instruments under cohesion policy, the beneficiary is the fund manager.

Common Provision Regulation: Regulation setting out the rules that apply to eight EU funds, including the four cohesion policy funds. The current regulation covers the 2021-2027 period.

Eligibility period: Time during which expenditure incurred can be (co-) financed by the EU. In the case of the 2014-2020 European Structural and Investment Funds, for example, this period started on the date a programme was submitted to the Commission or on 1 January 2014 (whichever was earlier) and ended on 31 December 2023.

Equity/venture investment: Money invested in a company in return for an ownership interest and a share of the profits.

Final recipient: Person or legal entity ultimately benefitting from an EU funded activity initiated or carried out by a beneficiary of EU aid.

Financial instrument: Financial support from the EU budget in the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments.

Guarantee: Commitment by a guarantor to repay any amount outstanding on a loan if the borrower defaults, in accordance with the agreed terms.

Guarantee cap rate: The maximum percentage or amount of the loan, or the total portfolio, that a capped guarantee will cover. It sets an upper limit on the guarantor's liability for losses.

Guarantee rate: The maximum portion of the value of each loan (i.e. on a loan-by-loan basis), covered by the guarantee. It determines the extent to which the guarantor will indemnify the lender in case of default.

Legacy funds: Resources that a financial instrument has left over for reuse after the end of its eligibility period.

Leverage: The leverage effect of ESIF supported financial instruments is the sum of the amount of ESIF funding and of the additional public and private resources raised divided by the nominal amount of the ESI Funds contribution.

Reflows: Amount of reflows from final recipients to the financial instrument.

Revolving use: The reflows collected from final recipients (e.g. loans they repay) are reused to provide similar support to more final recipients.

Replies of the Commission

<https://www.eca.europa.eu/en/publications/sr-2025-24>

Timeline

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Audit team

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This performance audit was carried out by Audit Chamber II – Investment for cohesion, growth and inclusion, headed by ECA Member Annemie Turtelboom. The audit was led by ECA Member Alejandro Blanco Fernández, supported by Calin-Ion Chira, Head of Private Office and Juan Antonio Vazquez Rivera, Private Office Attaché; Friedemann Zippel, Principal Manager; Ágota Krénusz, Head of Task; Petr Jirman, Deputy Head of Task; Chrysanthi Pournara, Federica Di Marcantonio and Manja Ernst, Auditors; Zuzana Jiraskova, Trainee.



From left to right: Federica di Marcantonio, Juan Antonio Vazquez Rivera, Chrysanthi Pournara, Friedemann Zippel, Alejandro Blanco Fernández, Petr Jirman, Ágota Krenusz, Calin-Ion Chira, Manja Ernst.

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One of the advantages of financial instruments in cohesion policy over grants is that reflows can be used to support additional final recipients, leading to more efficient use of public financing. Our work concluded that only a limited reuse of reflows materialises during eligibility periods, partly due to acceptable reasons, such as the long-term nature of investments. After the eligibility period, reflows are generally reused for cohesion policy purposes, but with limitations. We found the legal framework on the reuse obligation insufficiently clear and unambiguous and found a lack of effective oversight by the Commission, leading to varying practices among member states' managing authorities. We recommend that the Commission and member states aim at maximising the use of reflows for a more efficient use of EU finances.

ECA special report pursuant to Article 287(4), second subparagraph, TFEU.



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