

¹AECM comments on the European Commission's Communication on the Amendment of the Temporary Community Framework for State Aid measures to support access to finance in the current financial and economic crisis

Brussels, 21st October 2010

The European Association of Mutual Guarantee Societies (AECM, see annex), representing 37 member organisations from 19 countries with a total of over €70 billion guarantees in portfolio, is pleased to provide the European Commission with its views on the above-mentioned draft Communication, for which the deadline for submission of comments is the 26th October.

General comments:

Many of AECM's member organizations have made active use of the Temporary State Aid Framework to launch specific anti-crisis guarantee measures, or modify existing guarantee products, to address the needs of SMEs with regard to access to finance in the context of the financial and economic crises.

All of the elements of the Temporary Framework have been utilized, e.g. the raised limit of the state aid equivalent, amounting to € 500.000 (€ 15.000 for undertakings active in the primary production of agricultural products), as well as the higher ceiling for the maximum coverage rate of 90% of the underlying loan and the possibility to lower the guarantee premiums. All these aspects have been key to encourage the banking sector to maintain its lending activity and to make loan guarantees less onerous for SMEs in the present difficult market environment. A summary of the anti-crisis measures undertaken by the AECM member organizations can be found at:

<http://www.aecm.be/en/guarantees-and-the-recovery-the-impact-of-anti-crisis-guarantee-measures.html?IDC=31&IDD=182>

From the feed-back AECM member organizations have received from beneficiary SMEs, it appears clearly that while a recovery is under way, SMEs experience a time lag with regard to the impact of the crises and that, contrary to larger companies, they still experience major difficulties in accessing finance. This impact is very variable from country to country. These difficulties are exacerbated by a number of factors:

- Future Basel III regulation will add upward pressure on the cost of credit and will restrict volumes of available lending. Banks are already preparing their loan portfolios and criteria to the expected changes. This will most likely have a negative effect on lending to smaller firms in the very short term.
- Own funds positions and consequently ratings of smaller companies have deteriorated over the last two years due to the crisis.
- There will be an increased demand for investment loans over the next months, representing to a large extent investment demand deferred during the crisis. This will boost overall credit demand and might turn out to be difficult to manage by credit institutions without appropriate support in form of loan guarantees. As a consequence, the recovery could be dampened.

In this context, AECM is convinced that SMEs would suffer, if crucial support in form of anti-crisis guarantee measures were to be withdrawn prematurely. This will most likely choke off credit supply, particularly for working capital, and have adverse effects both for beneficiary SMEs and for the Internal Market in form of company closures and jobs lost.

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AECM therefore appeals to the European Commission to maintain the essential parts of the Temporary Framework for another year, in order to ensure that SMEs are sufficiently stabilized.

Specific comments

AECM welcomes the fact that the possibility to provide a lower guarantee premium. However, aside from this point, the draft Communication has eliminated most key aspects of the Temporary Framework, that were effective in encouraging banks to maintain lending to SMEs. Without these elements, the impact on bank lending to SMEs will be far lower. Therefore, AECM calls for the following provisions to be maintained:

- **Higher level of compatible limited amount of aid.** The higher ceiling of State Aid equivalent of € 500.000 (€15.000 for agriculture and rural SMEs) seems to have been eliminated. The level of the ceiling is important, as for many SMEs it has been fully used and a lower ceiling would at this point reduce available credit finance, given the ongoing reluctance of the banking sector. It has been a key factor for the success of the anti-crisis guarantee measures.

Also, this measure of compatible limited amount of aid is one solution for the Member States for using the *safe-harbour* premiums set in Annex of the Temporary Community framework for State aid in case of guarantees. The mentioned *safe-harbour* premiums take into account collateralisation levels, which is not possible under current *de minimis* aid regulation nor under the notice on guarantees as an stand-alone solution. Therefore, it would be very important to prolong the € 500.000 threshold on the same basis as other temporary framework measures in order to give time for the Member States to work out similar kind of methodologies for calculating the gross grant equivalent of guarantees.

Finally, many SMEs, as mentioned above, have been affected far later by the impact of the financial and economic crises. Consequently, they have not been able to make full use of the available threshold of €500.000. The possibility of making use of the remaining capacity under this threshold should be available in 2011.

- **Higher guarantee coverage rate.** The proposal suggests reducing the coverage rate from 90% to the pre-crisis level of 80%. AECM supports maintaining the 90% coverage rate until the end of 2011, as it has a high impact on bank lending. Indeed, with a 90% coverage rate, the remaining bank risk is reduced by half from 20% to 10%, thereby providing a great incentive to financial institutions to engage in SME lending. Of course, AECM agrees that this level of coverage rate is not sustainable in the long run and needs to be brought back to the 80% as soon as the economy has stabilized. But at this point, withdrawing this provision would have adverse effects on SME lending.
- **Maintain SMEs, who entered into difficulties as a result of the crisis in the scope:** AECM suggests maintaining SMEs, who have entered into difficulties as a result of the crisis after June 2008, within the scope of the Temporary Framework, precisely because, as stated in the general comments, many of them have entered into difficulties at a later stage and have not yet stabilized.
- **Maintain rural and agricultural SMEs into scope:** Also, it appears that agricultural and rural SMEs have been omitted from the scope of the Temporary Framework. We find no justification for this discrimination of treatment. These SMEs should also be able to benefit from the Temporary Framework.

In any case, the prolongation of the guarantee provisions is of vital importance for the smaller and medium sized companies, reflecting the fact that most market actors still affected by the consequences of the crisis are effectively SMEs.

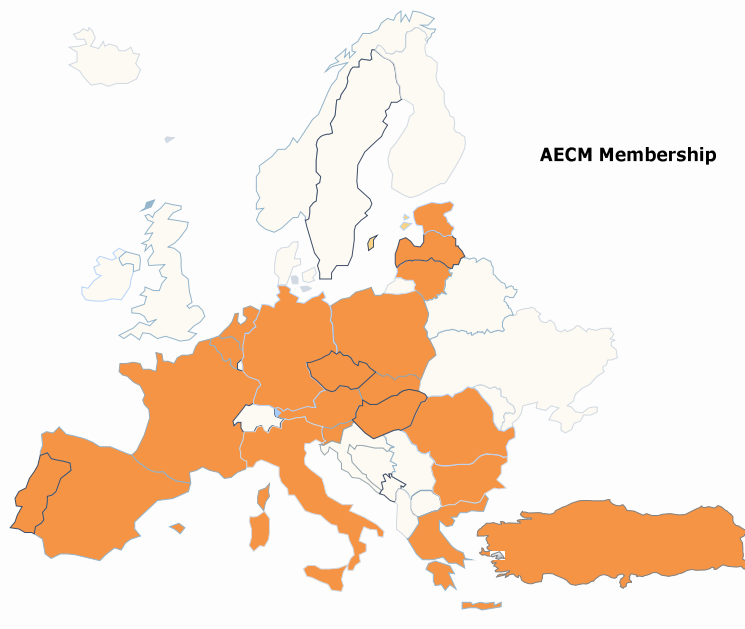
Finally, AECM is concerned about the time table for implementation of the prolongation of the Temporary Framework. Ideally, the implementation into national law would need to be effective in December, in order to allow a seamless continuation of the anti-crisis measures. Otherwise, there is a

risk of a gap situation, i.e. an interruption of the guarantee programmes, which is difficult to manage from a commercial point of view as well as difficult to communicate to the beneficiary SMEs.

We are looking forward to discussing these issues in more detail with the Commission's services.

Annex/ About AECM

AECM has 37 member organizations operating in 19 EU countries and Turkey. Its members are mutual, private sector guarantee schemes as well as public institutions, which are either guarantee funds or Development banks with a guarantee division. They all have in common the mission of providing loan guarantees for SME who have an economically sound project but cannot provide sufficient bankable collateral. In 2009, AECM member organizations had a total guarantee volume in portfolio of € 70 billion and issued a total of € 34 billion in new guarantees, serving over 1,8 million SMEs (8% of all SMEs in the EU).



AECM represents the political interest of its member organisations both towards the European Institutions, such as the European Commission, the European Parliament and Council, as well as towards other, multilateral bodies, among which the European Investment Bank (EIB), the European Investment Fund (EIF), the Bank for International Settlement (BIS), the World Bank, etc. It deals primarily with issues related to state aid regulation relevant for guarantee schemes within the internal market, to European support programmes and to prudential supervision.

More information is available on the AECM web-site at: www.aecm.be