AECM’s additional comments on the
public consultation on EU funds in the area of
investment, research & innovation, SMEs and single market

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INTRODUCTION

The European Association of Guarantee Institutions (AECM) warmly thanks the European Commission for the possibility to provide feedback on EU funds in the area of investment, research & innovation, SMEs and single market.

AECM's members have long-lasting experiences in implementing EU guarantee instruments. To illustrate: The first guarantee contract ever signed by the European Investment Fund (EIF), to whom the EU Financial Instruments are entrusted, was with one of our Austrian members in December 1998. Today, 17 members of AECM's 42 members are using the Loan Guarantee Facility for Growth (LGF) of the COSME programme, thereby facilitating two thirds of the investments made possible thanks to the LGF[1]. The same applied also to the guarantee instruments of the predecessor programmes CIP and MAP having made AECM's members the natural partners and allies of the EU institutions and the EIF for implementing EU guarantee instruments.

Therefore, the design of EU guarantee instruments under the next multi-annual financial framework (MFF) from 2021 onwards is of utmost importance for AECM and its members. The more, since it is common ground that financial instruments will be an essential component of the next MFF to achieve the fundamental maxim "doing more with less". Consequently, we would like to submit the following additional comments and requests as annexe to this public consultation.

- Need for EU guarantee instruments remains

  Independently from the economic cycle, the need for EU guarantee instruments remains. To illustrate: According to the latest edition of the survey on the access to finance of enterprises in the European Union, which is undertaken by the European Central Bank (ECB) and the European Commission (EC) on a half-yearly basis[2], the share of SMEs applying for a bank loan declined (27%, from 32%), as a greater share of SMEs indicated sufficient funds (43%, from 39%). Despite those outcomes, the number of AECM's members becoming financial intermediary for EU guarantee instruments keeps on constantly increasing showing the continuous need to address the market failure which SMEs are facing in getting access to finance.

  Furthermore, there is the political requirement: Likewise at European level SMEs, which account for 99.8% of the number of firms in the euro area, 60% of turnover and 70% of employment[3], must be supported. The COSME Loan Guarantee Facility (LGF) proves this demand: Already twice additional funding has been allocated to the LGF and it is far from evident that the current budget will be sufficient till the end of this programme period (= 31 December 2020).

- SME window

  AECM fully supports the idea to replace the at present existing 34 EU financial instruments by one single fund called for the time being EU Invest which, in fact shall be a budget guarantee. Under EU Invest policy windows shall be installed. According to current discussions those four windows are dedicated to infrastructure, innovation, social cohesion and SMEs.

[1] Per mid-June 2017 the EIF committed EUR 475m out of EUR 771m, i.e. to 62% of the budget to guarantee institutions. The EIF cautiously estimates that the financing volume facilitated by guarantee institutions amounts to EUR 18.7 bn out of EUR 24.7 bn, i.e. to 76%. Please note that the included figures cover guarantee institutions and NPBIs; the remainder to the 100% is what was channelled through commercial banks.

[2] Further information on the latest version, i.e. from April to September 2017 can be found at https://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr171129.en.html

[3] Cf. https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html

AECM agrees entirely with this strategic approach to create such an SME window which could also be entitled entrepreneurship. Of course, the success of such a window, i.e. the market acceptance, strongly depends on the design of all relevant conditions. To give some indications:

The distinction between the windows should be easy, clear and non-bureaucratic. Thus, there should be no thresholds like the one of 150.000,00 EUR determining whether an SME does or does not meet the criteria to be eligible under the SME window in the Debt Facility of the Horizon 2020 programme. Such thresholds are unnecessarily onerous, whereas the aim of the next generation of EU financial instruments should be that those instruments become simpler and more practical, terminating an excessive administrative burden for present financial intermediaries and, at the same time, attracting more financial intermediaries to support proportionately even more SMEs.

There should be no sub-windows to ensure that the various needs of all SMEs are met in the best possible way. SMEs are very heterogeneous and require support over their entire life cycle for all types of financing. Moreover, the creation of sub-windows would run counter to the legitimate approach of streamlining and combining the numerous existing financial instruments. In addition, the next MFF might last till end of 2026 and from today's point of view the developments till then are not foreseeable so that it is of utmost importance to ensure a flexible and comprehensive coverage to be in a position to also address new, currently unforeseen market failures.

In addition, the conditions for the implementation should be as simple as possible. Thus, the formalities and controls should be reduced to what is strictly necessary. This also includes the reduction of the number of audits and their streamlining resulting in a more coherent and consistent reporting. Like this, incentives would be set to attract further, especially smaller, guarantee institutions to become financial intermediary.

It is clear that if the SME window will be designed in such a comprehensive way, the allocated funding needs to be consistently enhanced.

- Set the guarantee rate according to the macro-economic impact achieved
  It is common ground that the EU faces budget restrictions concerning the next MFF. There will be a shortage of funding due to the Brexit and, in addition, new priorities like security, defence, migration need to be financed. Consequently, the EU has to do more with less.

  This principle must also be applied to the treatment of EU guarantees provided to AECM's members and those provided directly to commercial banks without involving a guarantee institution. More precisely, the percentage of the EU guarantee should be set in different ways: higher for counter-guarantees, lower for direct guarantees to commercial banks to achieve the same leverage and additionality no matter how many parties are involved in the lending chain. Such an equal treatment in perspective of the macroeconomic (economic additionality) project impact between counter-guarantees and direct guarantees to commercial banks would mean a higher efficiency using less EU budget for achieving the same volumes.

- State aid
  There is a need to modify and harmonise the State aid regulation to ensure it is practice-oriented and more market conforming to evolving market requirements. In any consideration of state aid rules also applying to the SME window, it is essential there is a level playing field for all financial intermediaries which implement the same EU promotional financial instrument. Currently this is not the case.

The key issues are consistency and flexibility of treatment. One decisive factor to be addressed should be that the entrepreneur with a financing project should be treated consistently the same way regardless of region or Member State in which and by whom the EU guarantee is provided.

Furthermore, to facilitate access to finance for a larger number of SMEs, the Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees (2008/C 155/02) should be revised: Instead of having a fixed safe-harbour premium of currently 3.8%, a more flexible solution should be found to comply well with changing economic environments.

Finally, focussing again on the entrepreneur, there should not be any difference between the provision of the EU guarantee as counter-guarantee or as direct guarantee. At present, if the LGF is provided as direct guarantee to a commercial bank, there is no state aid involved. If the LGF is provided as counter-guarantee, it depends, and at present the treatment is as follows:

- if the financial intermediary is a private entity without public support, no state aid is involved;
- if the financial intermediary is either private sector with public support
  or
- if the financial intermediary is public itself, it depends on the nature of the guarantee product. For instance, in Poland the market-oriented guarantee instrument under COSME does not constitute state aid. Yet, if no market-oriented price is paid for the guarantee, it is state aid, thus limiting the future potential for growth and innovation in companies.

Therefore, AECM would like to suggest two different options to achieve a level playing field: Either there is no state aid involved for any counter-guarantee (when counter-guaranteed by EU under the same conditions for the same project) and / or the risk-share of the EU for direct guarantees for commercial banks is lowered (i.e. elimination of disproportionality). This would mean a higher efficiency using less EU budget.

- Central EU guarantee instruments should be centrally managed

  Regarding the EIF's role, we value very positively the part it has played in the implementation process of guarantee instruments with our member institutions. Our members enjoy a long-lasting, positive, effective and smooth cooperation with the EIF and report that the EIF has always been very supportive in explaining the process and the conditions that must be met in order to sign an agreement.

  Therefore, any reasoning to assign the management also to other parties requires a prudent assessment. It is important to carefully consider the funding opportunities at Member State's level which differ from country to country. In some a wide range of such opportunities exist. Signing a contract with one of them could result in substantial detriments to the remaining ones. The EIF is best placed to ensure an EU-wide distribution providing all promotional institutions no matter of especially their legal nature and size the opportunity to use EU financial instruments and consequently ensuring that all SMEs have the chance to benefit from this support.

- Enhance the quality of ex-ante assessments

  The quality in ex-ante assessments and market studies to be undertaken before the EU programmes become operative should be enhanced to meet existing market needs and to ensure that EU guarantees are adapted to the characteristics of the Member States or regions. Correctly and duly undertaken, such assessments will identify which funding possibilities are already in place and determine correctly whether complementary supports are still needed, thus substantiating the existence of a gap and potential market failure. Such an evaluation approach should result in the avoidance or reduction in negative spill over effects; the preservation of the principle of subsidiarity and the creation of additionality.

- **Possibility to combine different resources in an easy way**
  It is also decisive for serving all kinds of SMEs in the best possible way to allow the combination of different sources of funding in a flexible way. This ranges from combining different resources at EU level to the combination of EU funding with resources at Member States' level covering also the combination of financial instruments and grants which will remain complementary and should be applied in such a way that the pursued policy objective is reached best. In this context it is also necessary to have a single rule book to facilitate the combination in the best possible way bringing smaller guarantee institutions in a position to channel EU financial instruments at all or to a larger extent.

- **Ensure continuous application**
  Time lags between the current COSME LGF and the operative start of its successor instrument under the post-2020 Multiannual Financial Framework (MFF) should be avoided. Stability and continuity of the COSME financial instrument – ideally adapted as laid down in this paper – are of utmost importance for its smooth implementation via guarantee institutions and national promotional institutions.

- **Technical assistance**
  AECM would warmly welcome measures to provide SMEs with technical assistance. 80% of insolvencies of SMEs are caused by mistakes of the management. This high number should be reduced by supporting the entrepreneurs with such measures which could be attached to the SME window. Another form of such technical assistance could consist in consulting missions of experienced experts from a well-established guarantee institution to a newly created one. The strengthening of a guarantee institution would result in providing SMEs with a better access to finance.

We cordially ask the European Commission and all other parties involved in the decision-making process to consider our views, as outlined in this position paper. It goes without saying that AECM and its members are happy to contribute further to this intense work and that we are prepared to provide the European Institutions with any additional information that may be required to determine a well-informed outcome.

About AECM:

The 42 members of the **European Association of Guarantee Institutions (AECM)** are operating in 26 countries in Europe. They are mutual-, private sector guarantee schemes, public institutions - either guarantee funds, national promotional institutions or national promotional banks - or mixed. They all have in common the mission to support SMEs during their whole business cycle in getting access to finance, thus, to foster economic growth, innovation, digitization, job creation, and social integration. More precisely, they promote SMEs by providing guarantees to them as well as to entrepreneurs and freelance professions who have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members in turn receive a counter-guarantee from regional, national and European level. At the end of 2016 AECM's members had over 85 billion of guarantee volume in portfolio, thereby granting guarantees to more than 3.1 million SMEs.