Comments on the draft Investment Guidelines

AECM members will play a crucial role in the implementation as well as in the intermediation of InvestEU. We therefore highly value the transparent and cooperative approach that the European Commission adopted for the establishment of the programme. AECM members are proactively accompanying the legislative process by contributing their ideas and concerns. In the following, we would like to set out our views on the current draft of the Investment Guidelines. Before addressing specific articles in the guidelines, we would like to raise two major general remarks.

Pricing and financial contribution

20 AECM members are currently financial intermediaries of the capped COSME LGF product. This product allows them to accomplish their promotional mission by increasing the volume of their transactions and taking higher risks, thereby offering guarantees at favourable conditions or even free of charge to economically viable SMEs that are suffering from restricted access to finance caused by market failure[1]. It is under discussion that for capped products a (management) fee (for the implementing partner) is to be charged under InvestEU in the future, while it has not been the case in the history of loan guarantee facilities funded by the EU since the first signature for an EU financial instrument on 12th December 1998 (by an AECM member!). Depending on the amount of the fee, the promotional effect of the product will be reduced or it could even lose its promotional character at all. The implementation of fees thus would have a negative impact on those SMEs that have the strongest need for support, impeding the overcoming of market failure. This will ultimately lead to a reduction in competitiveness of small companies and thereby negatively impact innovation, growth, employment and regional development. It will reduce the financial additionality of InvestEU and the macro-economic impact of this important EU programme.

In order to make InvestEU a success and to ensure a high leverage rate as well as a broad geographical and sectorial coverage, the potential pricing needs to be designed in a way that safeguards the effectiveness of the product and the affordability for all potential SME beneficiaries, and notably also the smallest ones with the scarcest resources. One could envisage a higher provisioning rate of at least 90 % for a COSME type of instrument. Furthermore, in cases of specific market failure there should be the possibility to exempt

[1] OECD (2018). Financing SMEs and entrepreneurs 2018. An OECD Scoreboard, OECD Publishing, Paris.

final beneficiaries from being charged. Because of the higher leverage and additional services provided by guarantee institutions and National Promotion Banks and Institutions (NPBIs), there should be a preferential pricing for counter-guarantees vis-à-vis direct guarantees to commercial banks (see our remarks under 3.2/3/4.2.3. below).

Concerning the financial contribution under the direct access, we see a need for clarification what is meant by financial contribution from the implementing partners. AECM advocates flexibility allowing for multiple risk-sharing settings with implementing partners and appropriate alignment of interest with financial intermediaries especially while the risk methodological system is not yet formalised.

Timeline

In order to allow a launching of InvestEU in January 2021, we emphasise that it is crucial to provide the relevant framework including the budget available as soon as possible. That is why we encourage the EU Institutions to prepare the start of a first call for expression of interest in Q1/2020. However, the current timeline is highly ambitious and runs the risk that most implementing partners will be unable to respond in a timely and complete manner. They currently lack clarity concerning decisive criteria for their application, especially details as regards the budget available, pricing, risk methodology, sustainability proofing and climate tracking guidance and state aid rules that might not be finished. Furthermore, in order to take the decision whether an NPBI aims to become an implementing partner or would like to make use of InvestEU as a financial intermediary, it is very important to have full knowledge of the products that the EIB group will offer under InvestEU in advance.

We understand that in order to allocate accurately the budget, the first call cannot be spread over a long period of time. At the same time, we understand the importance for the Commission to receive an early indication of the interest of implementing partners in using the EU guarantee. Therefore, we advocate the launching of several calls of interest in the first programming period of InvestEU (e.g. a second one in 2021) in order to allow those implementing partners that were not ready in the beginning of 2020 to engage at an early stage as well – and possibly even a third one at a later stage, which could take into account latest developments in market demand.

In any event there should be a common understanding that the expression of interest by an implementing partner can only be conditional and that the final decision to become an IP, once all elements are clarified and agreed, would need to be adopted by the respective decision making bodies of the implementing partners.

Specific comments

In the following, we would like to comment on specific paragraphs within the draft investment guidelines:

2.3.1. *In accordance with Article 209(2)(a) and 219(3) of the Financial Regulation, financing and investment operations shall provide <u>support only to final recipients that are deemed economically viable according to internationally accepted standards</u> at the time of the Union financial support.*
It is important to have a reliable definition to refer to. In our view, such a definition should be broadly used for instance not only for financial instruments but also in competition law in order to avoid a parallel existence of several definitions resulting in high administrative costs. It should define a company as economically viable if it is neither subject to collective insolvency proceedings nor fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors (as currently in De-minimis-Regulation Art. 4 (6) a))

2.3.4 *Member State resources involved in financing and investment operations supported under the InvestEU Fund under EU and Member State compartments may in certain instances qualify as State aid in the meaning of Article 107(1) TFEU. They are exempted from the notification requirement for State aid measures laid down in Article 108(3) TFEU if they meet the requirements, which are laid down in the InvestEU specific section of the General Block Exemption Regulations (Commission Regulation) or in another block exemption regulation.*
AECM cordially welcomes the Commission's proposal for the targeted General Block Exemption Regulation (GBER) revision aimed at improving the interplay of EU funding programmes with State aid rules, especially in the context of national funding involved in financial products supported by the InvestEU Fund. This offers the potential to simplify the development and delivery of such products, while encouraging the deployment of national resources alongside the EU guarantee making the products under InvestEU even more successful. It will be very important to have equal treatment between NPBIs and guarantee institutions on the one hand and commercial banks on the other hand. The current state aid rules focus on distribution channel instead of on the project impact. For the final beneficiary it should not make a difference which parties are involved. To the contrary, from a tax payers viewpoint, it is more favourable to share the risk between as many parties as possible. As a result, the GBER proposal could overcome the present discriminatory situation where if a financial intermediary provides guarantees which are state aid, the counter-guarantee of InvestEU will not change the fact that the entire guarantee amount needs to be taken into account when calculating the gross grant equivalent. Overwise, financial intermediaries using member state funds are oriented to use InvestEU fund for the situations describe in Article 56e 11 (a) of the GBER proposal while the rest of intermediaries are free to use InvestEU for all type of SME

transactions, as should be the purpose of any programme oriented towards supporting access to finance to SME.

Article 1, point 4 (c)

This Regulation shall not apply to aid to undertakings in difficulty, with the exception of aid schemes to make good the damage caused by certain natural disasters, start-up aid schemes, regional operating aid schemes, aid to SMEs under Article 56e and aid to financial intermediaries under Section 16 of Chapter III, provided those schemes do not treat undertakings in difficulty more favourably than other undertakings.

AECM welcomes the proposal to extend, as an exception, the application of the GBER provisions to aid schemes listed under Article 1, point 4 (c). Yet, in order to align and harmonise the rules, the aforementioned proposed exception should also include all financial products offered to SMEs not just the ones supported by InvestEU.

Besides, we suggest including under the aforementioned exception all SMEs that operate on the market for less than 7 years, these SMEs still being young and fragile which can make it difficult for them to compete and thrive in an ever-changing and developing market place. Alternatively, SMEs under 7 should benefit from a lightening of the criteria determining the relevant conditions for being an undertaking in difficulty.

Article 8 (b) second paragraph

Financing provided to the final beneficiaries under the support of the InvestEU Fund under Section 16 of Chapter III and the cost covered by it shall not be considered for determining compliance with the cumulation provisions of paragraph 3. This is achieved by first deducting the nominal amount of the financing supported by the InvestEU Fund from the total eligible project costs and subsequently calculating the highest aid intensity or aid amount applicable to the aid under this Regulation only on the basis of the total remaining eligible costs. The nominal amount of financing provided to the final beneficiaries under the support of the InvestEU Fund shall also not be considered for determining whether the notification threshold under this Regulation is respected.

AECM highly welcomes the provisions under Article 8, point (b). Yet, due to the complexity of possible InvestEU financial products, the cumulation provisions stipulated in the GBER proposal could have in practice a week weak impact. Nevertheless, it is of utmost importance that at least in the case of senior loans and guarantees on senior loans, the calculation of the aid intensity or aid amount and the cumulation for determining whether the notification threshold is respected, remains unchanged.

Article 56e point 11

SMEs, small or innovative mid-caps may receive financing supported by the InvestEU Fund provided that:

(a) the nominal amount of total financing provided per final beneficiary under the support of the InvestEU Fund does not exceed EUR [30] million and is provided to:

(i) microenterprises; (ii) SMEs operating for less than 7 years following their first commercial sale; (iii) SMEs entering a new product or geographical market, where the initial investment for entering into a new product or geographical market must be higher than 50% of the average annual turnover in the preceding 5 years; (iv) innovative SMEs or innovative mid-caps; (v) SMEs or small mid-caps in assisted areas provided that the financing is not used for relocation of activities; (vi) SMEs for cultural purposes and activities set out in Article 53 (2);

(b) the nominal amount of total financing provided per final beneficiary under the support of the InvestEU Fund does not exceed: (i) EUR 1 million for 5-year loans; (ii) EUR 500 000 for 10-year loans; (iii) EUR 1.5 million for loan guarantees up to 5-years; (iv) EUR 750 000 for loan guarantees up to 10-years; (v) EUR 200 000 for equity.".

The aforementioned article sets out a limited set of eligibility and exclusion criteria for the final recipients as well as maximum financing amounts.

It's worth mentioning that the maximum financing amounts listed under Article 65e point 11 (b) are the same covered by the de minimis Regulation (Article 4, Calculation of the GGE) .Yet, these thresholds and the duration of the guarantees appear to be very small for the General Block Exemption Regulation aimed at facilitating sustainable, smart and inclusive growth, focusing on cases with the biggest impact on the internal market. AECM considers that it is appropriate to increase the maximum financing amounts and impose no maximum duration for loan guarantees in view of:

- the limited group of recipients in the GBER compared to the de minimis Regulation;
- contrary to the de minimis Regulation where the aforementioned thresholds are applied over any period of three fiscal years, the maximum thresholds laid down in Article 56e of the GBER proposal apply to the total outstanding financing provided to the final beneficiary.

Moreover, the exclusion of loan guarantees with duration over 10 years from the support of the InvestEU appears to be a major limitation since SMEs face difficulties in obtaining financing from commercial banks also for long-term projects.

As an alternative and in order to limit the nominal amount of total financing provided per final beneficiary, the GBER proposal should define a maximum grant equivalent.

The GBER proposal should offer sufficient room for maneuver for the Member States to calculate the gross grant equivalent of guarantees according to their own methodology which has been notified and accepted by the Commission. This would allow greater flexibility in terms of aid amounts and, in particular, longer maturities without exceeding the listed thresholds given the unchanged calculation of the GGE.

Regarding the threshold amounts for all other investment objectives listed under Article 56e it would be helpful as well to define a maximum grant equivalent as an

alternative to the maximum nominal amounts, at least for senior loans and loan guarantees, where the calculation of the grant equivalent is intended anyway for the case of cumulation with other aid elements (Article 8 of the GBER proposal).

2.4 *<u>The EU guarantee shall be provided to implementing partners in EUR. However, financing to recipients under investment and financing operations may be provided in any currency that has the status of legal tender in a Member State. [In countries outside the Union, in addition to EUR and legal tender of Member States, financing may be provided in the legal tender of the country or any other tradable currency.]</u>* *<u>Implementing partners and financial intermediaries shall strive to avoid exposing final recipients to foreign exchange risk</u>. As a rule, financing may be provided to final recipients in other currencies than the legal tender of the state where the final recipient is established only when there is strong economic rationale for such a choice of currency [or in EUR].*
Financial intermediaries and implementing partners should not bear the foreign exchange risk, for this would limit them in exercising their promotional task. Especially smaller institutions might not be in the position to take up the role of a financial intermediary or an implementing partner. That is why AECM argues for a provision of the EU guarantee to implementing partners in all official EU tenders.

2.5 *3) Financial products for support of research, innovation or digitisation activities fall under the Research, Innovation and Digitisation window, except for those referred to in points 1 and 2.*
According to the abovementioned article, financial products covering research, innovation or digitisation activities fall under this window, except if the portfolio consists exclusively of SMEs, in that case it falls under the SME window. This provision will lead to a fast exhaustion of SME funds. The InnovFin experience shows that most - if not all - guarantee schemes were targeting SMEs. In order to ensure a balanced use of policy windows it is indispensable to allow for a co-financing of all-SME innovation portfolios by both relevant windows.

2.8 *In accordance with Article 7(3) of the InvestEU Regulation, financing and investment operations shall be screened by the implementing partner to <u>determine if such financing and investment operations support projects above a certain size</u> defined in the Commission "guidance on the EU climate, environmental and social sustainability*

proofing" and, in such case, <u>whether they have an environmental, climate or social impact and if so, should be subject to sustainability proofing</u>.
In the vast majority of cases, small and medium-sized enterprises are sustainable or at least sustainability-neutral. They create jobs, contribute to growth and innovation. AECM members acknowledge the need to demonstrate the sustainability of projects that will be funded under the SME window of InvestEU. However, when designing a specific reporting scheme, policy makers should take a proportional approach, taking into account the sensitivity of small enterprises and small financial intermediaries with regard to red tape. Under the SME window the sustainability proofing shall be limited to the one-off reporting at the moment of the business deal. In order to avoid red tape and to discourage small enterprises from seeking European support in their attempts to get access to finance, constant monitoring shall not be required under the SME window. Furthermore, and in accordance with the principle of proportionality, the SME window shall be exempted from any calculation of the degree of sustainability. It shall be sufficient to assert that a project contributes to the sustainability objectives of the Union or not.

3.1/2/3/4.2.1 *Any type of financial intermediary, <u>including National Promotional Banks or Institutions and other publicly owned intermediaries</u>, which in full compliance with applicable national and EU-legislation is able to provide financing in the sectors covered by the […] window, and is able to comply with the relevant requirements of the Financial Regulation, may apply.*
Private and mutual guarantee societies play a crucial role in the intermediation of debt guarantee products and should therefore be mentioned as well.

3.1.2.4/3.2.2.3/3.3.2.3 *In the case of capped guarantees, the cap rate shall be established at the level of the expected losses of the new portfolio. The cap rate shall be determined individually for each guarantee agreement signed with the financial intermediary. The expected losses shall be determined and documented on the basis of historical data and forward-looking estimations. In addition, in the absence of relevant data, the cap rate shall be set at a pre-agreed level as defined in the guarantee agreement with the implementing partner. <u>The maximum permissible cap rate shall be 25%</u>.*
We highly value the possibility to offer two guarantee type options (capped and uncapped). Some AECM members favour uncapped guarantees. In order to render capped guarantees more attractive with respect to uncapped guarantees for financial intermediaries, we advocate for an increase of the maximum permissible cap to 30 %.

3.2 *<u>The investment scope of the window is research and technology driven innovation, demonstration and digitisation activities</u>. The scope should also include financing and investment operations in the field of basic research to actual system, proven in operational environment.* *Research and Development is defined as a systematic work undertaken to increase the stock of knowledge and to devise new applications of available knowledge. The activity shall be novel, creative, uncertain, and the method systematic, transferable, and reproducible. <u>A technological innovation is the development, demonstration, implementation, commercialisation, and adoption of a product or process (including business model) or service with improved performance characteristics production or delivery methods, which create consumer and/or societal value. This may include but is not restricted to research, development and innovation support in eligible areas described in Annex II, paragraphs 5 and 13a</u>.* *Digitisation refers to R&I, demonstration, testing, deployment and adoption of digital technologies and services and to investments, which contribute to the digital transformation of the Union's enterprises, industries and areas of public interest. This may include but is not restricted to eligible areas described in Annex II, paragraph 6.*
AECM advocates a broad innovation definition. In our view, innovation is not necessarily technology driven. It can also refer to a method or a process and it can have a scientific rather than a technical nature. Furthermore, innovation should also include organisational innovation meaning the implementation of a new organisational method in an undertaking's business practices, workplace organisation or external relations. The definition should make sure that also these kinds of innovation are supported.

3.2/3/4.2.3. *Under the RID window, the EU guarantee may be provided for the financing and investment operations including in the form of:* • *direct debt-subordinated loans, unsecured lending, uncollateralised loans, mezzanine financing, senior loans and credit lines;* • *<u>(counter)-guarantees and other risk sharing arrangements for guarantee schemes implemented by financial intermediaries</u>;* • *<u>direct guarantees</u> and other risk sharing arrangements for financial intermediaries;* • *[...]*

In the case of guarantee institutions there is a high degree of additionality because of their mission as well as the highest leverage effect due to the risk sharing of at least three partners: EIB Group, NPBI or guarantee institution and commercial/house bank. Furthermore, the regional coverage is vast, there are no crowding out or market distortion effects and these institutions very often provide additional services – such as advisory services – to SMEs. Therefore, we suggest that NPBIs and Guarantee Institutions should be the first choice as financial intermediary for COSME and similar programmes. Direct guarantees shall be only contracted in situations where a counter-guarantee solution is not available or not opted for. See enclosed a relevant letter sent to President Juncker on 28 March 2018.

3.3.2.3 *The minimum duration of financing transactions which can be included in the portfolios shall be set at 12 months.*
Especially, in the event of revolving debt, shorter duration should be possible. Otherwise, it might be possible that some revolving debt products cannot be supported leading to a restriction in the range of financial products at the disposal of final beneficiaries. That is why exceptions to the twelve months minimum duration shall be possible not only under the Social window but also under the SME window.

3.3.2.3 a) *Eligibility of the proposal by a financial intermediary for building a portfolio of financing and investment operations shall be determined for each intermediary in relation to its existing business activities. In principle, the EU guarantee shall lead to the financial intermediary broadening its business activity by financing transactions that it would not have financed in the absence of the EU guarantee due to the higher risk profile of such a portfolio. If a financial intermediary has already a dedicated higher risk SME financing product in place but its ability to serve market demand is restricted, the EU guarantee may be used to support a significant increase in the volumes of such higher risk SME financing product.*
As many financial intermediaries are already now active in EU counter-guarantee programmes like COSME or InnovFin, the requirement to achieve a "significant increase in the volumes…." has to account for the already existing additionality performance.

About AECM:

The 48 members of the European Association of Guarantee Institutions (AECM) are operating in 29 countries in Europe. They are either private sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members operate with counter-guarantees from regional, national and European level. At the end of 2018 AECM's members had over EUR 125 billion of guarantee volume in portfolio, thereby granting guarantees to about 3.1 million SMEs. AECM's members are one of the most important counterparts of the EIF concerning EU counter-guarantees, handling EU guarantees from the very beginning in 1998.

European Association of Guarantee Institutions – AECM
Avenue d'Auderghem 22-28, bte. 10, B-1040 Brussels
Interest Representative Register ID number: 67611102869-33

European Commission
President of the European Commission
Mister Jean-Claude Juncker
BERL 10/299
1049 Bruxelles

Brussels, 28 March 2018

EU Financial Instruments post 2020 – "Doing more with less"

Dear Mister President Juncker,

In the context of the elaboration of the EU financial instruments within the next multi-annual financial framework (MFF) from 2021 onward, we would like to draw your attention on a proposal how to increase the effectiveness of EU financial instruments in form of guarantees within the next MFF ensuring that the effect on an enterprise / on a project benefitting from an EU financial instrument in form of a guarantee is the same no matter who is involved in the lending chain.

At present, EU guarantees like the Loan Guarantee Facility of COSME or the InnovFin SME Guarantee Facility are channelled via financial intermediaries through two channels: Either the EU guarantee is provided directly to commercial banks (= direct guarantee) or it is provided to a guarantee institution (= counter-guarantee). In the case of the direct guarantee, the risk volume is shared between the EU and the commercial bank (= two parties involved), whereas in case of the counter-guarantee the risk volume is shared in addition with the guarantee institution (= three parties involved). Consequently, the direct guarantee results in a lower leverage and implies higher risk volume for the EU than the counter-guarantee.

Accordingly, at the moment the same project impact or output achieved by means of EU funding via those two channels involves a different input of EU funding, namely higher EU risk volume, thus more EU resources in the case of direct guarantees and less EU risk volume and accordingly EU funding in case of counter-guarantees.

In addition, the current state aid regulation has the potential to limit future funding opportunities thereby reducing future innovation steps / new growth steps of the company. It does not make sense that at present the parties of the distribution channel are decisive whether state aid is involved or not instead of focusing on the project benefitting from the EU support. The centre of attention must be the project impact: How to achieve the same project impact no matter who is part of the distribution channel.

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Thus, for the next program generation, we would like to suggest adjusting this situation in such a way that the EU takes always the same amount of risk volume regardless of whether the EU guarantee is provided directly to a commercial bank or whether it is provided to a guarantee institution. Accordingly, in case of a direct guarantee to a commercial bank the risk volume / the funding of the EU would become lower and the leverage would increase to the same degree like in the case of a EU counter-guarantee, whereby the effect on the enterprise / the project remains the same. Given the budget restrictions the EU is facing, i.e. less revenues due to Brexit, new priorities to be financed like security, defense, migration, with such a reduction of risk volume in case of direct guarantees to commercial banks the EU would use scarce EU funds in a more efficient way, thus achieving the same macro-economic impact on innovation, employment and growth with less EU resources.

To ensure that the entrepreneur can realize and use the same innovation and growth opportunities no matter who is involved in the lending chain, an equal level playing field between direct guarantees to commercial banks and guarantees provided to guarantee institutions regarding the state aid regulation to be applied needs to be established. Therefore, we would like to propose to revise the state aid regulation. More precisely we would like to kindly ask you to consider one of the following two options: Either consistency of EU guarantees with state aid law is always ensured irrespectively of the financial intermediary when the EU guarantee is provided under the same conditions for the same project impact. This would ensure that the project impact is decisive. Or the state aid regulation remains unchanged and to eliminate the disproportionality the risk volume of the EU for direct guarantees to commercial banks is further lowered.

We would like to kindly ask you to consider our suggestions, as outlined in this letter and illustrated with concrete examples in the attached presentation.

Finally, let us point out that the Vice-President Jyrki Katainen as well as Commissioner Günther H. Oettinger receive similar letters.

We are looking forward to hearing from you and remain with kind regards

B. Sagmeister

Katrin Sturm

Bernhard Sagmeister

Chairman

Katrin Sturm

Secretary General

Annexe: Presentation with illustrative examples

EU Financial Instruments – “Doing more with less“

Proposal of AECM to increase the effectiveness of EU Financial Instruments in form of guarantees in the next Multiannual Financial Framework (MFF)

1

Political goals of EU Financial Instruments

(acc. to EU 2020 Strategy, EU Small Business Act)

- Ensure **access to finance** for SMEs
- Promotion of **growth, innovation** and **employment**
- Major financial instruments for SMEs during **MFF 2014-2020:** COSME Programme for the Competitiveness of Enterprises and SMEs 2014-2020; InnovFin SME Guarantee

2

General practice of EU Financial Instruments

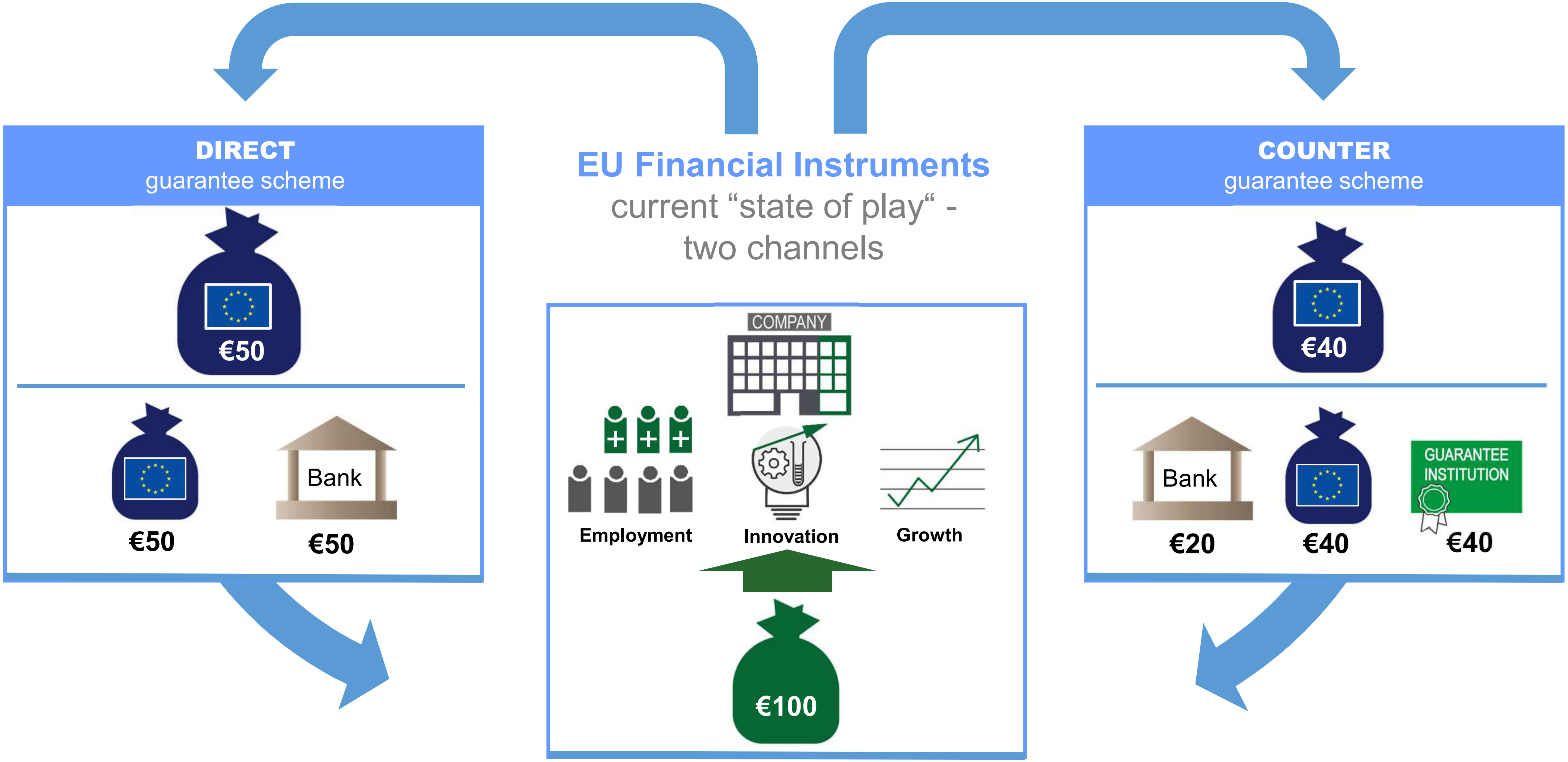
In general, EU Financial Instruments are channelled through **financial intermediaries** at member state level, such as **national/regional guarantee institutions (counter- guarantees)** and **private banks (direct guarantees)**.

3

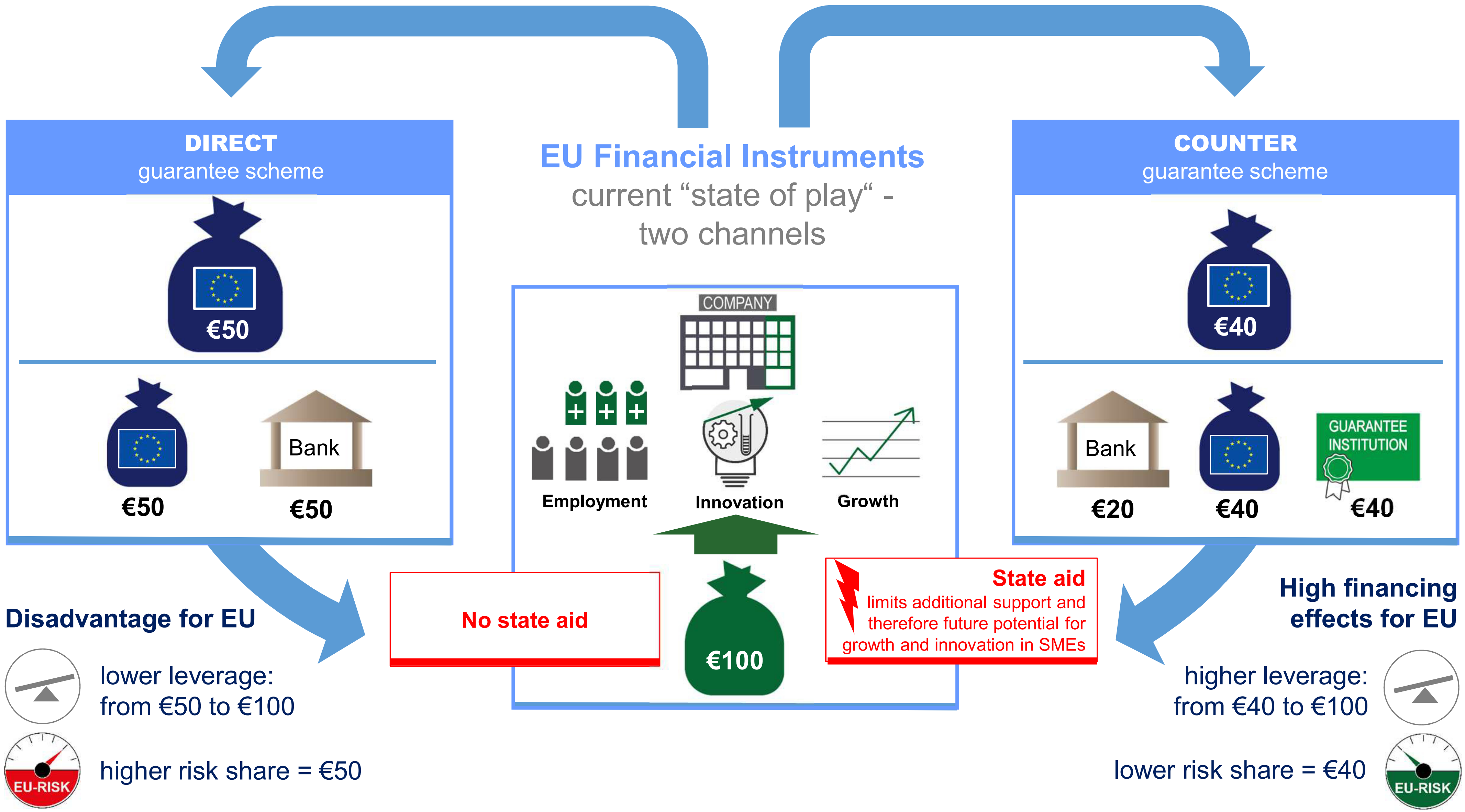
Proposal of AECM to increase the effectiveness of EU Financial Instruments thus providing **higher impact on growth, innovation and employment:**

- **Higher leverage effects** of EU Financial Instruments in order to strengthen “access to finance” for SMEs in Europe
- **Increasing resource efficiency** of EU Financial Instruments by lowering risk share of the European Union
- **Improving state aid regulation** to promote future growth, innovation and employment in SMEs in Europe

aecm
EUROPEAN ASSOCIATION OF GUARANTEE INSTITUTIONS



DIRECT
guarantee scheme
€50
€50
Bank
€50
EU Financial Instruments
current “state of play“ -
two channels
COMPANY
Employment
Innovation
Growth
€100
COUNTER
guarantee scheme
€40
Bank
€20
€40
GUARANTEE INSTITUTION
€40



DIRECT
guarantee scheme
€50
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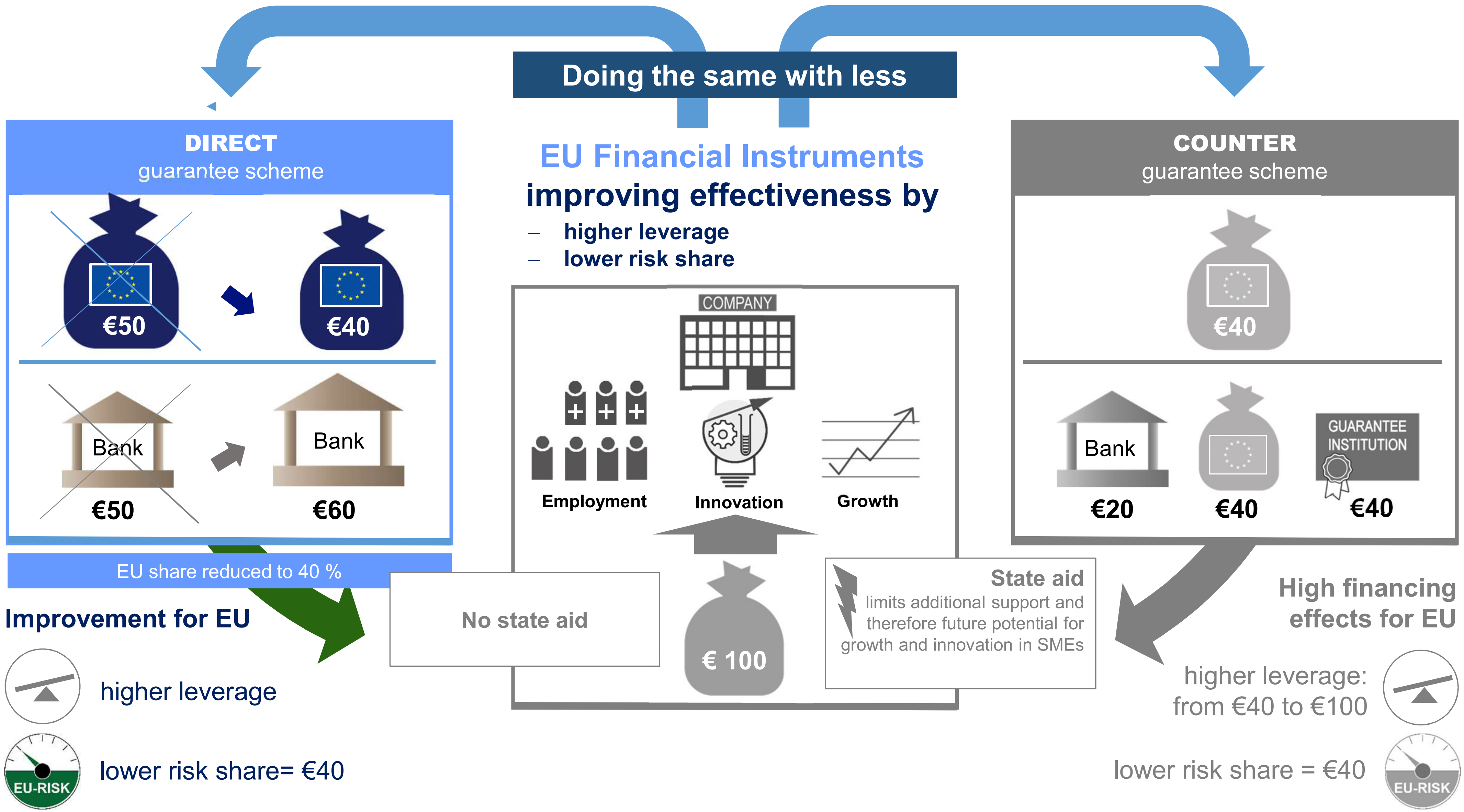
EU Financial Instruments
current "state of play" -
two channels
COMPANY
Employment
Innovation
Growth
€100
COUNTER
guarantee scheme
€40
Bank
€20
€40
GUARANTEE INSTITUTION
€40
Disadvantage for EU
lower leverage:
from €50 to €100
EU-RISK
higher risk share = €50
No state aid
State aid
limits additional support and therefore future potential for growth and innovation in SMEs
High financing effects for EU
higher leverage:
from €40 to €100
lower risk share = €40
EU-RISK


Doing the same with less
DIRECT
guarantee scheme
€50
€40
Bank
Bank
€50
€60
EU share reduced to 40 %
Improvement for EU
higher leverage
EU-RISK
lower risk share= €40
EU Financial Instruments
improving effectiveness by
– higher leverage
– lower risk share
COMPANY
Employment
Innovation
Growth
No state aid
€ 100
State aid
limits additional support and therefore future potential for growth and innovation in SMEs
COUNTER
guarantee scheme
€40
Bank
€20
€40
GUARANTEE INSTITUTION
€40
High financing effects for EU
higher leverage:
from €40 to €100
lower risk share = €40
EU-RISK

Current state aid regulation concerning counter-guarantees for national/regional guarantee institutions and direct guarantees for National Promotional Banks and Institutions (NPBIs) **has the potential** to limit future funding opportunities for SMEs thereby **reducing future innovation steps / new growth steps.**

state aid

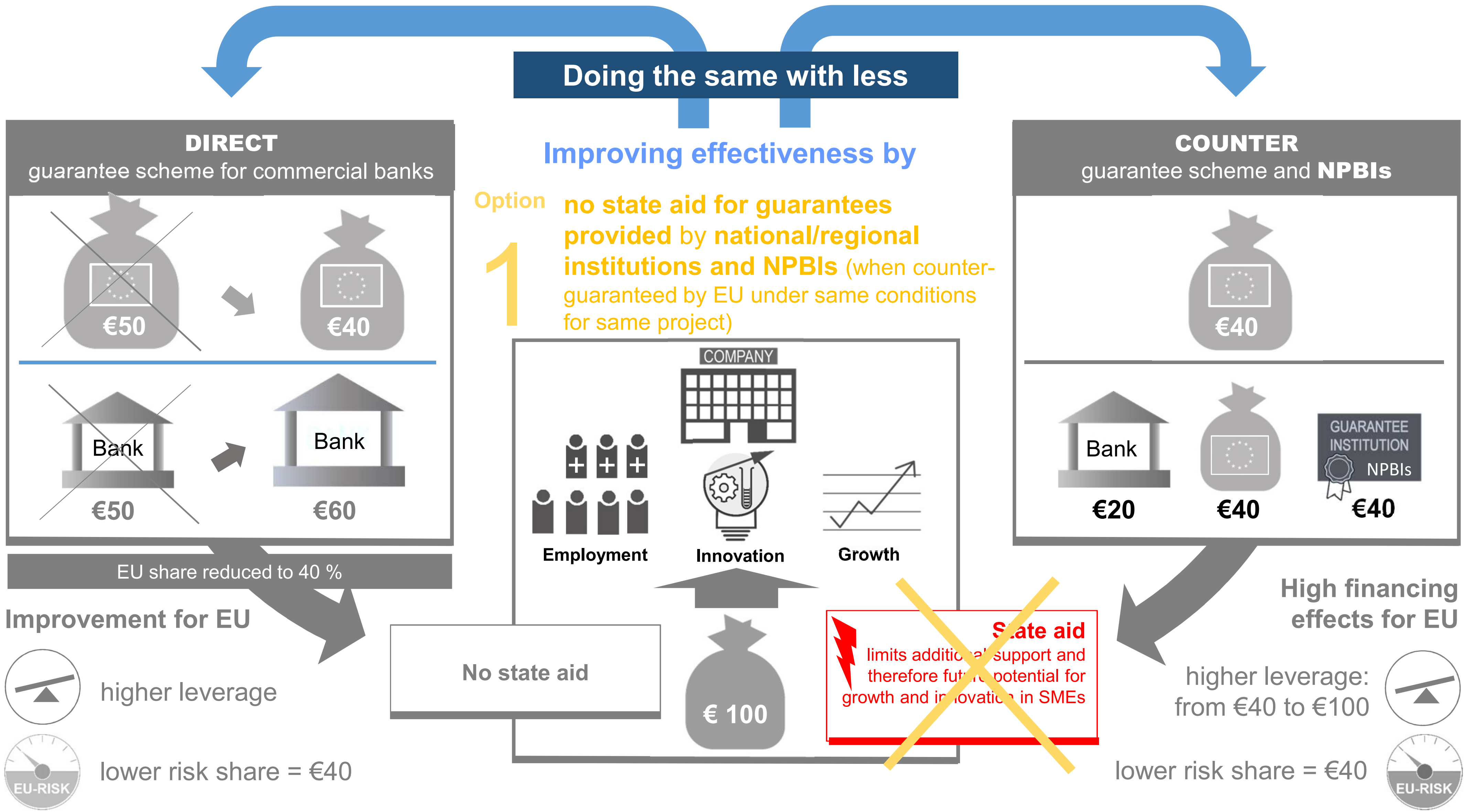
Additional benefits of counter-guarantees and guarantees for NPBIs

COMPANY COMPANY COMPANY

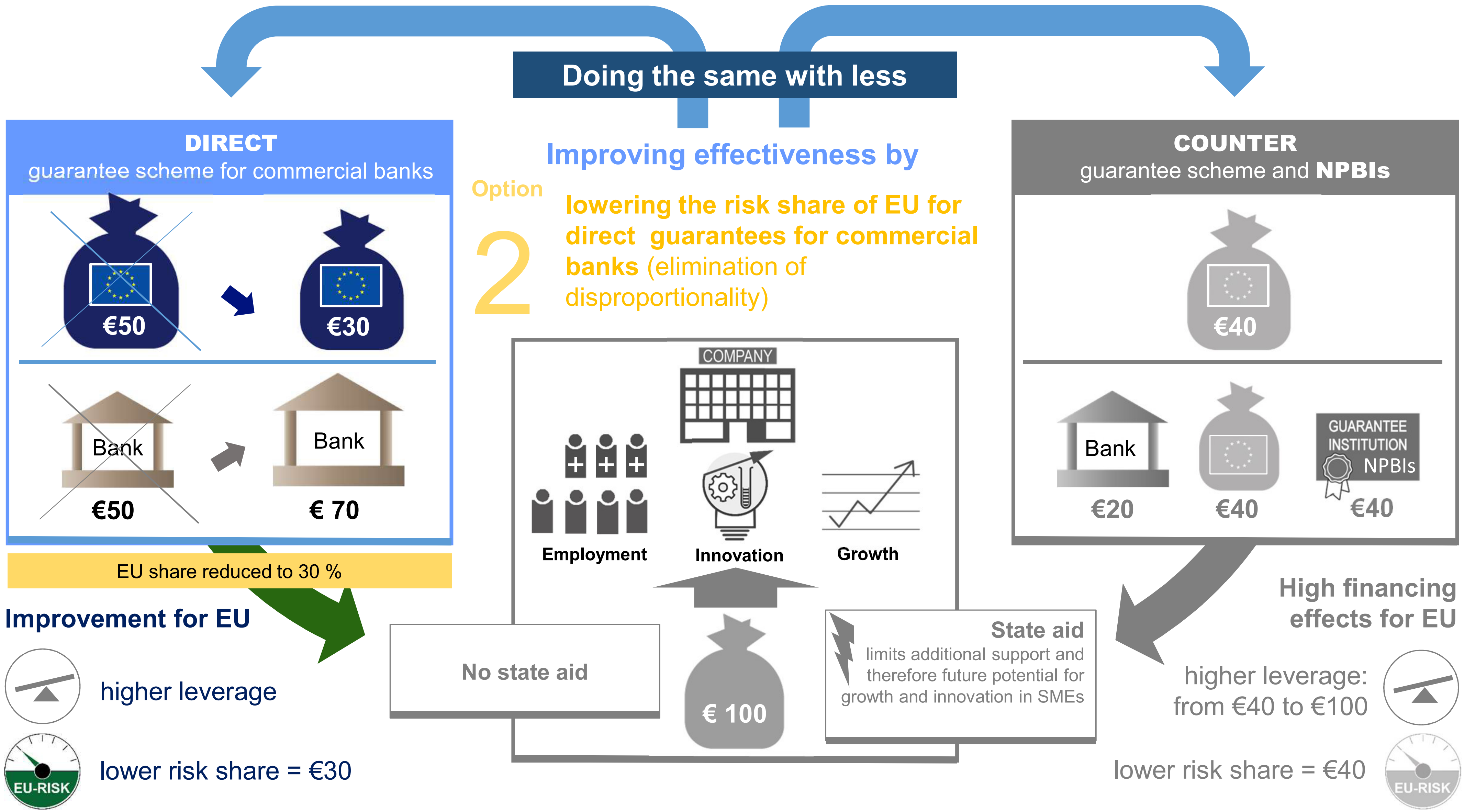
- **cover the whole market and cooperate with all commercial banks**
- **provide additional support services and products**
- **have a high selection quality focusing on SMEs that really need access to finance**
- **have lower collateral requirements than commercial banks and therefore provide more future financing scope for companies**

Two different options for future improvements

1. **no state aid for guarantees** provided by **national/regional guarantee institutions** and **NPBIs** (when counter-guaranteed by EU under same conditions for same project)
2. **lowering the risk share** of **EU** for **direct guarantees for commercial banks** (elimination of disproportionality)



Doing the same with less
DIRECT
guarantee scheme for commercial banks
€50
€40
Bank
€50
Bank
€60
EU share reduced to 40 %
Improvement for EU
higher leverage
EU-RISK
lower risk share = €40
Improving effectiveness by
Option 1
no state aid for guarantees provided by national/regional institutions and NPBIs (when counter-guaranteed by EU under same conditions for same project)
COMPANY
Employment
Innovation
Growth
No state aid
€ 100
State aid
limits additional support and therefore future potential for growth and innovation in SMEs
COUNTER
guarantee scheme and NPBIs
€40
Bank
€20
€40
GUARANTEE INSTITUTION
NPBIs
€40
High financing effects for EU
higher leverage: from €40 to €100
lower risk share = €40
EU-RISK



Doing the same with less
DIRECT
guarantee scheme for commercial banks
€50
€30
Bank
Bank
€50
€ 70
EU share reduced to 30 %
Improvement for EU
higher leverage
EU-RISK
lower risk share = €30
Improving effectiveness by
Option
2
lowering the risk share of EU for direct guarantees for commercial banks (elimination of disproportionality)
COMPANY
Employment
Innovation
Growth
No state aid
€ 100
State aid
limits additional support and therefore future potential for growth and innovation in SMEs
COUNTER
guarantee scheme and NPBIs
€40
Bank
€20
€40
GUARANTEE INSTITUTION
NPBIs
€40
High financing effects for EU
higher leverage: from €40 to €100
lower risk share = €40
EU-RISK

EU Financial Instruments in form of guarantees in the next Multiannual Financial Framework

"Doing more with less"

1

In contrast to direct guarantees counter-guarantees have three specific characteristics:

- higher leverage of EU-money
- less risk share for EU
- additional guarantee part at Member States' level often includes state aid

2

EU Guarantee Instruments in form of guarantees can be improved by

- increasing the risk share of commercial banks when using EU Direct guarantees
- eliminating state aid elements for additional guarantee part at Member States' level of EU counter-guarantees and for NPBIs

3

Increasing the impact of EU guarantee schemes:

- Higher leverage of EU Guarantees
- Lower risk share taken by EU
- Improved state aid regulation will promote future growth, innovation and employment in companies in Europe to an even larger extent.