AECM comments on the SME Strategy

AECM and its members fully share the priorities of the SME strategy reflected in the strategy's three pillars, i.e.:

- Capacity-building and support for the transition to sustainability and digitalisation;
- Reducing regulatory burden and improving market access; and
- Improving access to financing.

Support Twin Transition and Business Transfers

The Commission refers rightly to the fact that **SMEs are central to the EU's twin transition** to a **sustainable** and **digital economy and that this twin transition is also key for SMEs' continued competitiveness, efficiency and growth**. Guarantee institutions are accompanying SMEs in their transition projects and thereby ensure that these are not hindered by difficulties in getting access to finance. They do so by **addressing the lack of collateral** which is one of the main reasons for credit refusals to small enterprises, including notably young entrepreneurs and start-ups.

The Commission acknowledges rightly that SMEs are very diverse and rightly recognises their different needs. Accordingly, there should be strong incentives for companies to innovate, digitalise and to go sustainable, but no obligation; at the same time, traditional companies with low margin to engage in the twin transition shall not be disadvantaged and need to continue being financeable. As we point out in our position paper on the Sustainable Europe Investment plan, **support under EU financial instruments shall be driven by market demand** in order to ensure highest efficiency in its use.

Business transfers as well play a growingly important role. Guarantee institutions have either specific programmes in place to accompany such projects or cover them with their general activity. It is an important signal that the Commission mentions the establishment of a transfer-friendly business environment in its SME strategy.

Efficient use of EU Financial Instruments

AECM would like to highlight the positive experiences with the existing EU SME guarantee schemes, which have been in place and have been intermediated since 1998 by AECM's members. These should be continued.

AECM members are among the heaviest users of EU Financial instruments under the current programmes COSME, InnovFin, EaSI and CCS providing the highest leverage. Under COSME the leverage effect of guarantee societies amounts to 40.9x compared to 19.1x provided by commercial banks. Guarantee institutions stand ready to **contribute to the continuation of the success of EU Financial Instruments for SMEs** and to become financial intermediaries and implementing partners under **InvestEU**.

The SME window under InvestEU will be a crucial tool to counter market failure in the area of SME finance[1]. That is why it is of utmost importance that

- reporting requirements especially in the area of **climate tracking** are designed in a way that allows also small and medium-sized financial intermediaries with limited resources to cope with it. The taxonomy is too complex to be an appropriate tool for the InvestEU climate tracking. Instead, we suggest setting up a simplified list of markers allowing to easily categorise financial transactions.
- the **fee structure** is designed in a way that allows to preserve the promotional character of the instrument both for capped and for uncapped products.
- The **financial allocation** is sufficient. The recent proposal of Council President Charles Michel to cut InvestEU funding by 13.5 % clearly does not do justice to the high objectives of this programme.
- The choice to target SMEs perceived as high risk or those having insufficient collateral needs to be maintained.

We also welcome the strong focus put on start-ups and scale-ups, which are an important part of the beneficiaries of guarantees. At the same time, we share the Commission's analysis, that at all stages of development, i.e. over the entire business cycle, SMEs are in need of support.

Moreover, we welcome the upgrade of the **Enterprise Europe Network** (EEN), whereby it remains essential that the advisors of the EEN have a good understanding of SMEs' access to finance including credit guarantee instruments allowing them to give adequate advice in this area. The **InvestEU Advisory Hub** is an ideal tool to complement both, financings under InvestEU and advisory actions of the EEN.

[1] For an overview of market failures in SME lending and mitigation techniques: OECD (2018). *Financing SMEs and entrepreneurs 2018. An OECD Scoreboard*, OECD Publishing, Paris

Proportionate Regulation

AECM fully agrees that regulations, standards and administrative formalities weigh heavily on SMEs which equally applies to small and medium-sized financial institutions. The majority of our members are small or medium institutions with limited resources. In addition, it needs to be taken into account that they are working with small enterprises with even scarcer resources and they pursue a business model that is simple, very focussed and in most cases non-profit[2]. This distinct business model requires distinct and simplified regulation that takes account of the particular character of guarantee institutions. In this light, AECM welcomes the reemphasised endorsement of the **"Think Small First"** and the **"once only" principles**.

We would like to remind that current provisions of the 5th Anti-Money-Laundering Directive stipulate that reporting and documentation needs to be done by both, the financing bank and the guarantee institution, for the very same financing project. This conflicts with the "once only principle" and should be remedied by the **current review of the anti-money laundering framework**. Please find our recommendations on how to resolve this situation in our detailed position paper on the AML action plan.

In our view, the current **transposition of the finalised Basel III accord into EU law** needs to grant special attention to SME finance. This attention, however, shall not be limited to the SME correction factor. Several foreseen provisions, for example in the area of regulatory retail, of the use of financial guarantees for credit risk mitigation or of equity finance need to be reassessed in the light of the objective to facilitate SME's access to finance. Please consult our dedicated position paper on the Basel transposition for more details.

Reducing red tape

As rightly pointed out in the SME strategy, regulations and administrative formalities are costly, especially for SMEs. We therefore warmly welcome initiatives to reduce bureaucratic burdens for SMEs. The **SME Test** needs to be systematically applied to all relevant new legislative proposals. This application shall be supported by a so-called **SME filter** as mentioned during the EP hearing of Commission Vice-President Maroš Šefčovič.

Governance

AECM strongly welcomes the setup of the **Strategic Entrepreneurship Ambassadors**. We recommend that this advisory group assembles not only entrepreneurs and their representatives but also representatives from the SME financing side.

We furthermore highly value the work of the **SME Envoys network** and strongly endorse a reinforcement of its role since the Commission rightly states that the strategy must be driven jointly by EU-level actions and strong commitment by Member States to bring

---

[2] The average guarantee size amounts to KEUR 33.2 (on 30th June 2019) and the unweighted average coverage rate of our members is 66.6% (on 31st December 2018).

results. As to the EU level we would welcome if the EU SME Envoy, who is the link between those two levels, could have the legitimate authority to be actively involved and have a special role in all Commission services.

State Aid

AECM appreciates the implementation of the State Aid Modernisation process (SAM) that has been simplifying the procedure for aid granting authorities at national, regional and local levels, allowing them to provide a range of actions boosting competitiveness and measures in favour of SMEs.

The Commission's intention to further simplify the existing state aid rules on combinations of national funds with InvestEU and Horizon funds is a step in the right direction which should be complemented by further actions, since despite these efforts for modernisation, difficulties are still encountered regarding the way state aid rules are applied in terms of SME financing. There is a strong need for grouping the state aid rules applicable to financial instruments in a clear manner. Besides, the language should be simplified.

Equally important is to improve the current rules, as we pointed out in our position paper on the Commission's decision to prolong for two years seven sets of state aid rules, otherwise expiring in 2020, and launch an evaluation on the application of EU state aid rules adopted as part of the State Aid Modernization (SAM) process, namely to raise the *de minimis* limits and clarify specific definitions.

Further, there is a need to align the state aid rules with the EU legislation. Currently, some provisions in structural funds pose problems of interpretation and compliance i.e.: when referring to RDI, it appears that the most difficult issue refers to eligible costs; referring to State aid for Risk Finance, the most difficult issue concerns the selection of and incentives to private investors. Besides, ESIF and State aid rules are not fully aligned in terms of eligible costs and selection of intermediaries. Finally, referring to the GBER, and as underlined in our position paper on the targeted review of the GBER, the Commission's proposal should offer sufficient room for manoeuvre for the Member States to calculate the gross grant equivalent of guarantees according to their own methodology and which has been notified and accepted by the Commission. This would allow greater flexibility in terms of aid amounts and, in particular, for longer maturities without exceeding the thresholds.

Brussels, March 2020

About us

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 more than EUR 112 billion of guarantee volume in portfolio, thereby granting guarantees to almost EUR 3 million SMEs. AECM's members are by far 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