

## AECM on the COSME evaluation

The European Association of Guarantee Institutions (AECM) is pleased to provide feedback on the evaluation of the EU programme for the competitiveness of enterprises and small and medium-sized enterprises (COSME). In particular, we would like to comment on the COSME Loan Guarantee Facility (LGF).

AECM members were heavy users of the LGF: 22 members have or had at least one contract under COSME. By the end of 2020, all of them together issued an outstanding guarantee volume of bEUR 6 under COSME. The market share of our members accounted for 35.8% in 2020 and 96.9% of AECM members' slice of COSME signatures were counter-guarantees<sup>1</sup>.

Overall, our assessment of the COSME LGF programme is very positive. Undoubtedly, the programme was a success. Several top-ups were necessary to satisfy market demand. In the following, we would like to comment in more detail on the positive, but also on the negative aspects of the COSME LGF:

- 👍 COSME was very market oriented with a lean regulatory framework. Reporting under COSME was still manageable which allowed for the participation of smaller intermediary institutions with scarcer resources. Of course, the lean framework translates into a simple application process for small businesses and lower administrative costs.
- 👍 Cooperation with the European Investment Fund (EIF) on COSME is highly valued by our members. It was reported to be very smooth and constructive. The technical support in the frame of EIF on-site inspections as well as the cooperation with a team that knows the specific market circumstances in the respective Member States, were most helpful.
- 👍 COSME was offered free of charge. This allowed financial intermediaries to distribute its support at promotional terms, allowing also very small companies to afford a guarantee.
- 👍 We appreciated the flexibility of the European Fund for Strategic Investments (EFSI) that allowed for several top-ups for COSME, and especially for the rapid

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<sup>1</sup> AECM Statistical Yearbook 2020, p. 20f, [Link](#)

top-up in response to the COVID-19 pandemic. Without these top-ups, the outreach of COSME would have been very limited.

- 👍 COSME allowed members that do not have a counter-guarantee from the national or regional government to benefit from a counter-guarantee thereby enabling them to improve conditions at which their guarantees are distributed to SME beneficiaries. In some cases, the EU counter-guarantee allowed guarantee institutions to reach out to sectors that they would not have been able to serve without the counter-guarantee.
- 👎 Direct guarantees to commercial banks have a significantly lower leverage effect than (counter-) guarantees that are intermediated via guarantee institutions or via national promotional banks and institutions (NPBIs). Since counter guarantees were granted at similar conditions as direct guarantees, but with the added advantage that in most cases no state aid was involved. We observed in some cases a crowding-out of the more efficient counter-guarantee solution.
- 👎 The kEUR 150 threshold for companies to benefit from COSME without the need to demonstrate that they do not qualify for the InnovFin SME Guarantee Facility was a hurdle.
- 👎 The rules for combination of ESI funds with centrally managed financial instruments such as COSME were too complex. The same applies in the case of contribution of ESI funds to COSME resources.
- 👎 Under COSME, it was not possible to seek counter-guarantee coverage for good performance and good tender participation guarantees in the construction sector. Such guarantees benefit especially smaller companies in the construction sector and therefore would have had a positive impact on the economy.
- 👎 The maximum duration of ten years under COSME was too short. Planning is especially important for small companies. Many investments in buildings, which often require increasing production capacity, are part of a long-term strategy and clearly exceed the ten year term. In order not to disadvantage small companies vis-à-vis larger ones, it is important to improve their access to longer-term finance.

- 👉 COSME did not allow lenders to take a pledge on the investment object. This made lending procedure more difficult. Without this restriction, more transactions could have been guaranteed, as a pledge is widely accepted by SMEs and also a critical element for the risk management of partner banks.
- 👉 The COSME loan guarantee agreement was only available in English. Due to its very detailed content and complex arrangements, this constitutes a major problem, especially for smaller guarantee institutions. For this reason, it would have been desirable if contracts had been available in all official EU languages.

The experiences with COSME and other financial instruments under the previous financial period are of highest relevance for the design of new generations of financial instruments. We therefore request legislators to take this evaluation into account when mid-term reviewing the InvestEU programme in 2024.

## About us

The 46 members of the **European Association of Guarantee Institutions (AECM)** are operating in 31 countries in Europe. They are either private/mutual 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. This so-called SME financing gap is recognised as market failure. By guaranteeing for these enterprises, guarantee institutions help to address this market failure and facilitate SMEs' access to finance. The broader social and economic impact of this activity includes the following:

- Job creation and preservation of jobs by guaranteed companies
- Innovation and competition: crowding-in of new ideas leading to healthy competition with established market participants
- Structure and risk diversification of the European economy
- Regional development since many rural projects are supported
- Counter-cyclical role during crises

SME guarantees generally pursue a long-term objective and our members, if public, private, mutual or with mixed ownership structure, have a promotional mission.

AECM's members operate with counter-guarantees from regional, national and European level. At the end of the year 2021, AECM's members had about bEUR 312 of guarantee volume in portfolio, thereby granting guarantees to around 5.9 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU (counter-)guarantees from the very beginning in 1998.

Have a look at our [AECM brochure](#) and at our most recent publications:

[AECM brochure on Ukraine measures](#)

[AECM Statistical Yearbook 2021](#)

[AECM members' support programmes beyond standard debt guarantees](#)

[AECM covid brochure – Update February 2022](#)

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