



**aecm**  
EUROPEAN ASSOCIATION OF GUARANTEE INSTITUTIONS

SME Finance Forum webinar series:  
Virtual Roundtable on COVID-19 Mitigation Efforts

## **Risk Sharing in the Biggest Crisis Ever: Situation in Europe focusing on Guarantees**

Katrin STURM, Secretary General of AECM – 23 April 2020

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# The European SME landscape



# Statistics on SMEs

**25  
million**

Number of SMEs  
and its share in  
2018

**99.8 %**

**747,500,568  
people live in  
Europe  
(03/2020)**

**create 85%  
of all  
new jobs**

**EUR  
4.4  
trillion**

Value added and  
its share in 2018

**56.2 %**

**94  
million**

**66 %**

Number of  
employees and  
its share in 2018

Data from Eurostat and statista and [https://ec.europa.eu/growth/access-to-finance\\_en](https://ec.europa.eu/growth/access-to-finance_en)

# Definition of an SME

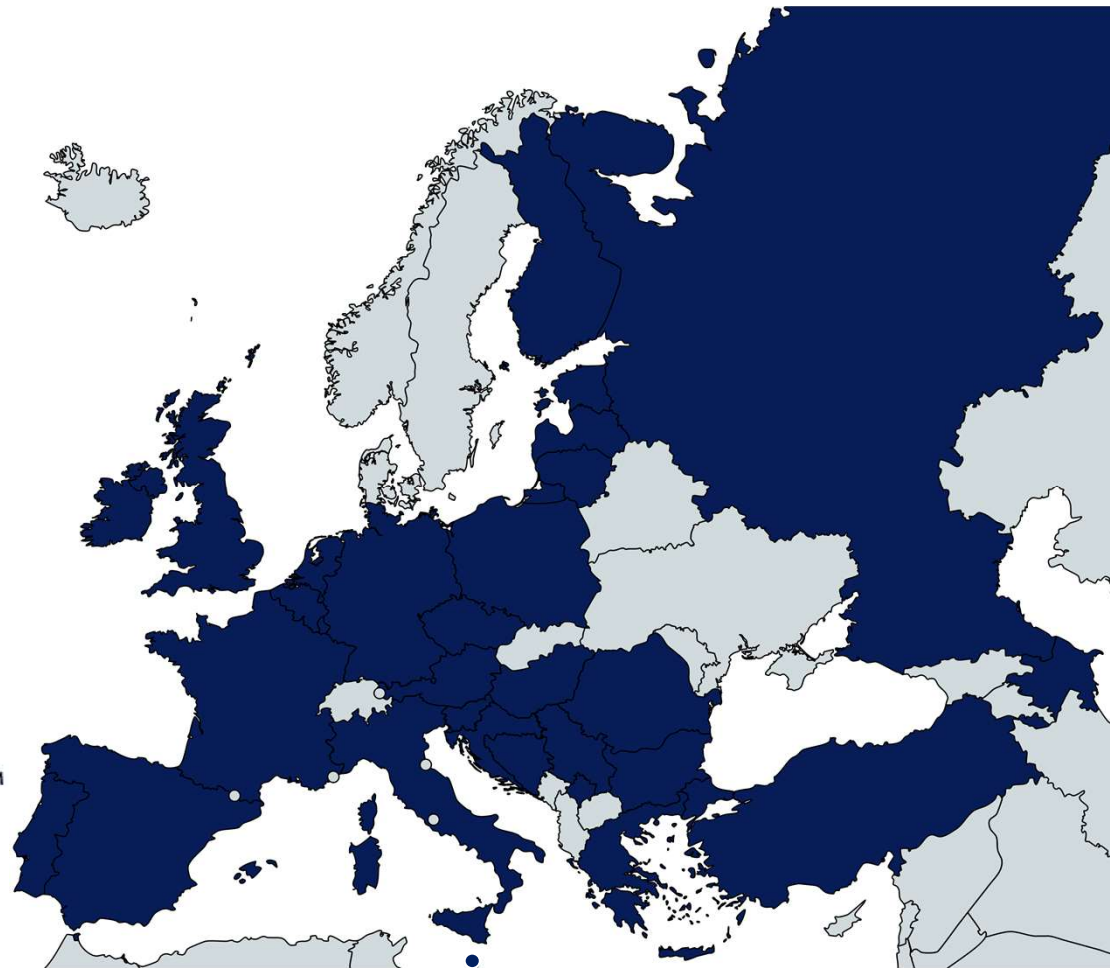
- Most used definition of an SME at EU level:

<b>Company category</b>	<b>Staff headcount</b>	<b>Turnover</b>	or	<b>Balance sheet total</b>
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

- Relevance in many EU policy areas: promotional funding programmes, state aid, banking regulation and many more

# AECM and its members

 <b>AUSTRIA</b> <ul style="list-style-type: none"><li>• aws</li><li>• NÖBEG</li></ul>	 <b>GERMANY</b> <ul style="list-style-type: none"><li>• VDB</li></ul>	 <b>POLAND</b> <ul style="list-style-type: none"><li>• BGK</li></ul>
 <b>AZERBAIJAN</b> <ul style="list-style-type: none"><li>• MCGF</li></ul>	 <b>GREECE</b> <ul style="list-style-type: none"><li>• ETEAN</li><li>• TMEDE</li></ul>	 <b>PORTUGAL</b> <ul style="list-style-type: none"><li>• SPGM</li><li>• IAPMEI</li></ul>
 <b>BELGIUM</b> <ul style="list-style-type: none"><li>• PMV/z</li><li>• Fonds Bruxellois</li><li>• SOWALFIN</li></ul>	 <b>HUNGARY</b> <ul style="list-style-type: none"><li>• Garantiqa</li><li>• AVHGA</li><li>• MVA</li></ul>	 <b>ROMANIA</b> <ul style="list-style-type: none"><li>• FGCR</li><li>• FRGC</li><li>• FNGCIMM</li><li>• FRC-Counter</li></ul>
 <b>BOSNIA AND HERZEGOVINA</b> <ul style="list-style-type: none"><li>• GF Srpska</li></ul>	 <b>IRELAND</b> <ul style="list-style-type: none"><li>• SBCI</li></ul>	 <b>RUSSIA</b> <ul style="list-style-type: none"><li>• FSECA</li></ul>
 <b>BULGARIA</b> <ul style="list-style-type: none"><li>• NGF</li><li>• Sofia Fund</li></ul>	 <b>ITALY</b> <ul style="list-style-type: none"><li>• Assoconfidi</li><li>• ISMEA</li></ul>	 <b>SERBIA</b> <ul style="list-style-type: none"><li>• GF Vojvodina</li></ul>
 <b>CROATIA</b> <ul style="list-style-type: none"><li>• HAMAG-BICRO</li></ul>	 <b>KOSOVO</b> <ul style="list-style-type: none"><li>• KCGF</li></ul>	 <b>SLOVENIA</b> <ul style="list-style-type: none"><li>• SEF</li><li>• SRDF</li></ul>
 <b>CZECHIA</b> <ul style="list-style-type: none"><li>• CMZRB</li></ul>	 <b>LATVIA</b> <ul style="list-style-type: none"><li>• ALTUM</li></ul>	 <b>SPAIN</b> <ul style="list-style-type: none"><li>• CESGAR</li></ul>
 <b>ESTONIA</b> <ul style="list-style-type: none"><li>• KredEx</li></ul>	 <b>LITHUANIA</b> <ul style="list-style-type: none"><li>• Garfondas</li><li>• INVEGA</li></ul>	 <b>TURKEY</b> <ul style="list-style-type: none"><li>• TESKOMB</li><li>• KGF</li></ul>
 <b>FINLAND</b> <ul style="list-style-type: none"><li>• Finnvera</li></ul>	 <b>LUXEMBOURG</b> <ul style="list-style-type: none"><li>• MC</li><li>• MPME</li></ul>	 <b>UNITED KINGDOM</b> <ul style="list-style-type: none"><li>• BBB</li></ul>
 <b>FRANCE</b> <ul style="list-style-type: none"><li>• SOCAMA</li><li>• SIAGI</li><li>• Bpifrance</li><li>• EDC</li></ul>	 <b>NETHERLANDS</b> <ul style="list-style-type: none"><li>• NIA/InvestNL</li></ul>	 <b>MALTA</b> <ul style="list-style-type: none"><li>• MdB</li></ul>



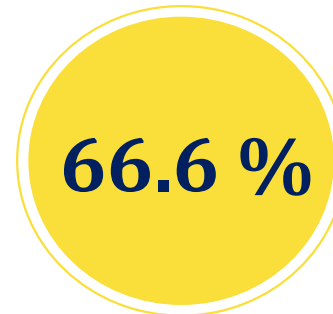
# Statistics on AECM and its members



of guarantee  
volume in portfolio



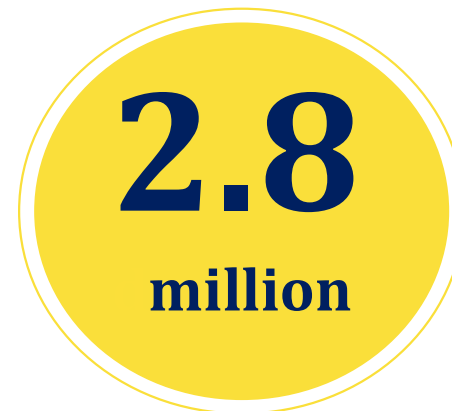
of newly granted  
guarantees (1<sup>st</sup> half)



Average coverage  
rate (2018)



Average  
guarantee size

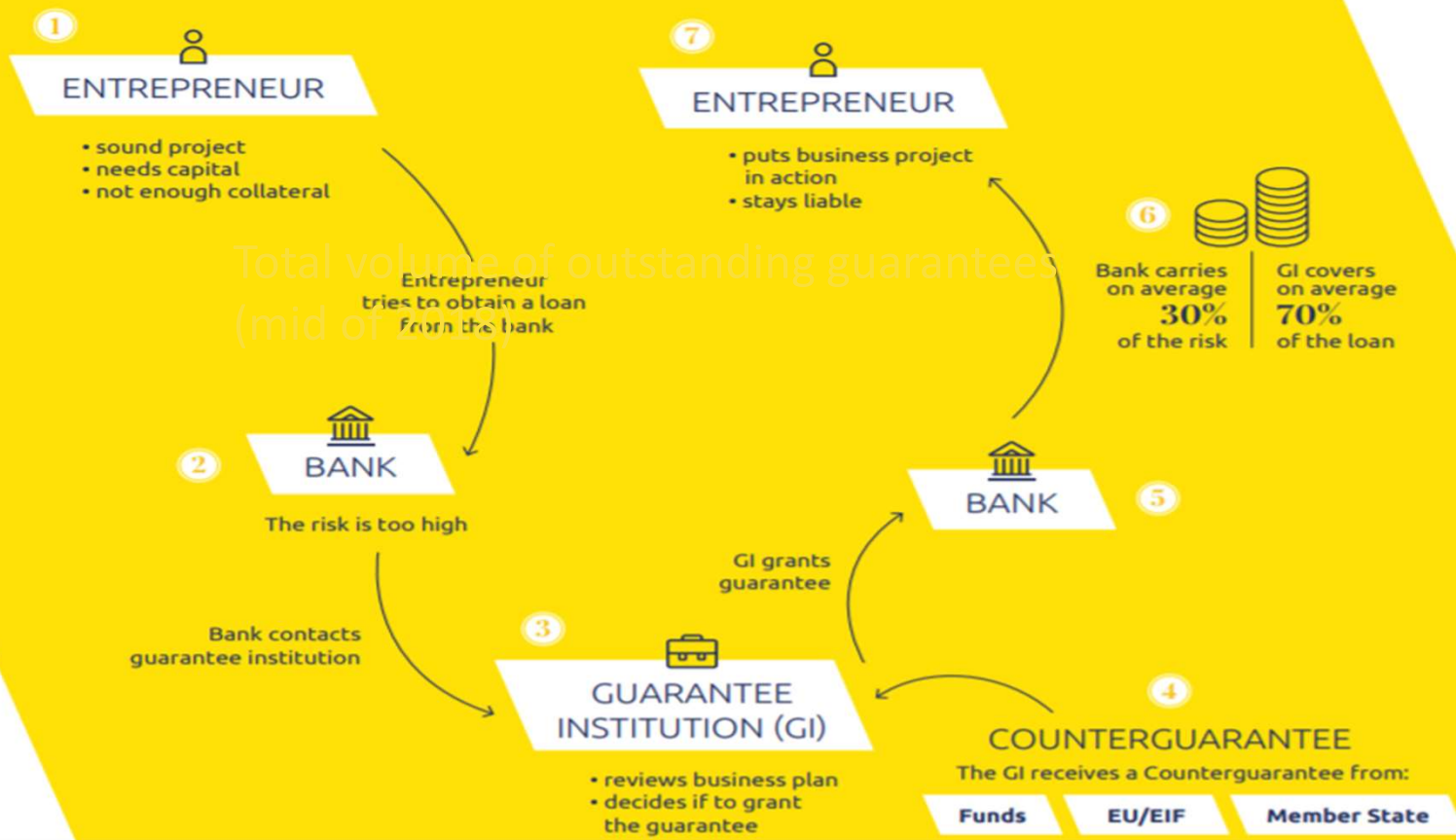


SMEs benefit from  
a guarantee

All data as of 30 June 2019

# HOW DOES A GUARANTEE WORK?

## INDIRECT APPLICATION



# Added value of guarantees

## FOR SMEs

- **Access to finance** for economically sound projects
- Additional **support** and **expertise**
- Recognition of qualitative factors in **risk analysis**
- Geographic **coverage of all SMEs**
- In some guarantee schemes, SMEs **participate in the management**

## FOR PUBLIC AUTHORITIES

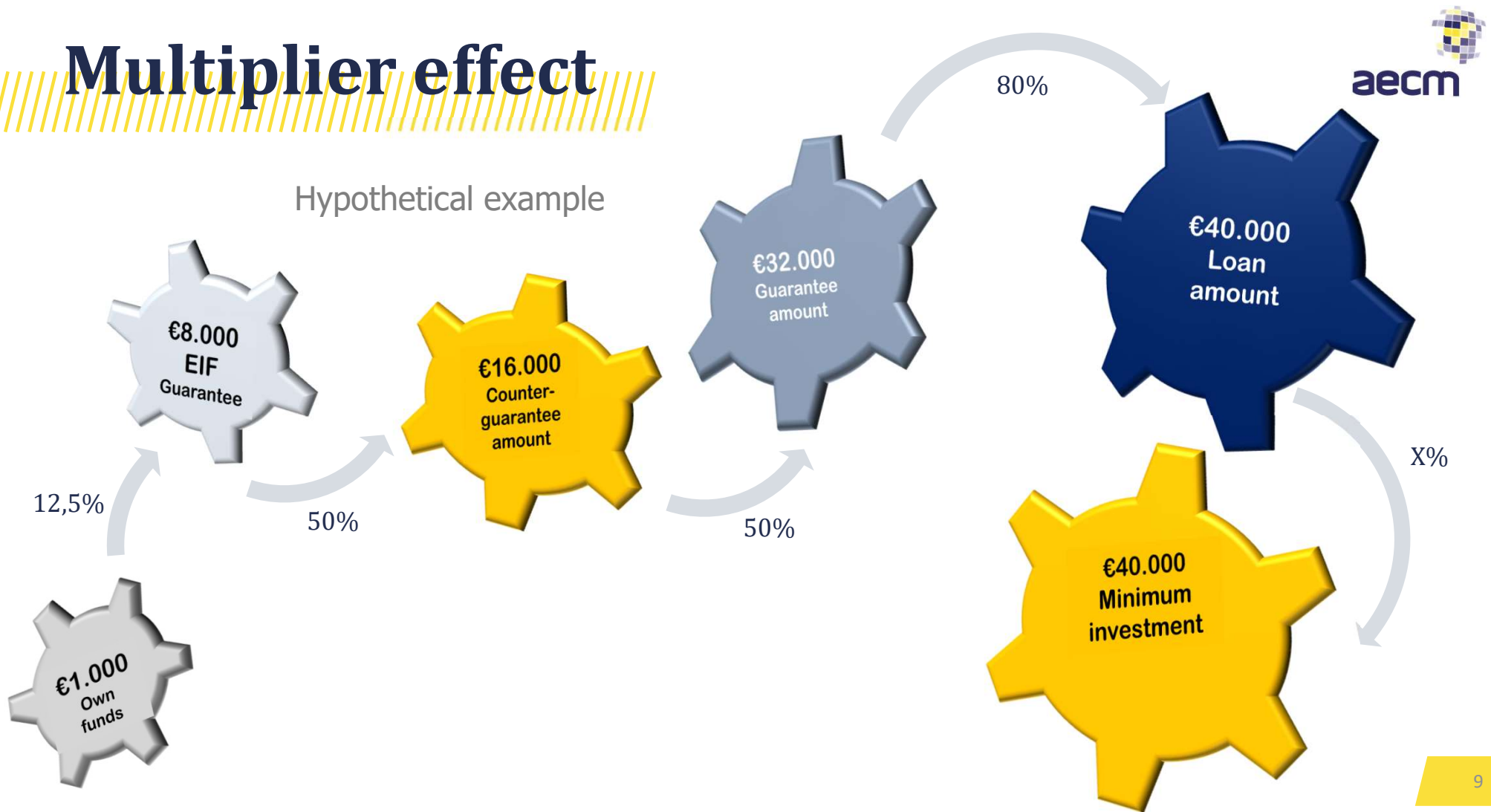
- **Cost efficient** due to risk sharing
- **High leverage effect**
- Costs are **outweighed** by benefits
- **Efficient way** to implement policy objectives e.g. public support for specific sectors
- In times of financial downturns guarantees can be a **part of a counter-cyclical public policy** toolkit to support lending to SMEs

## FOR BANKS

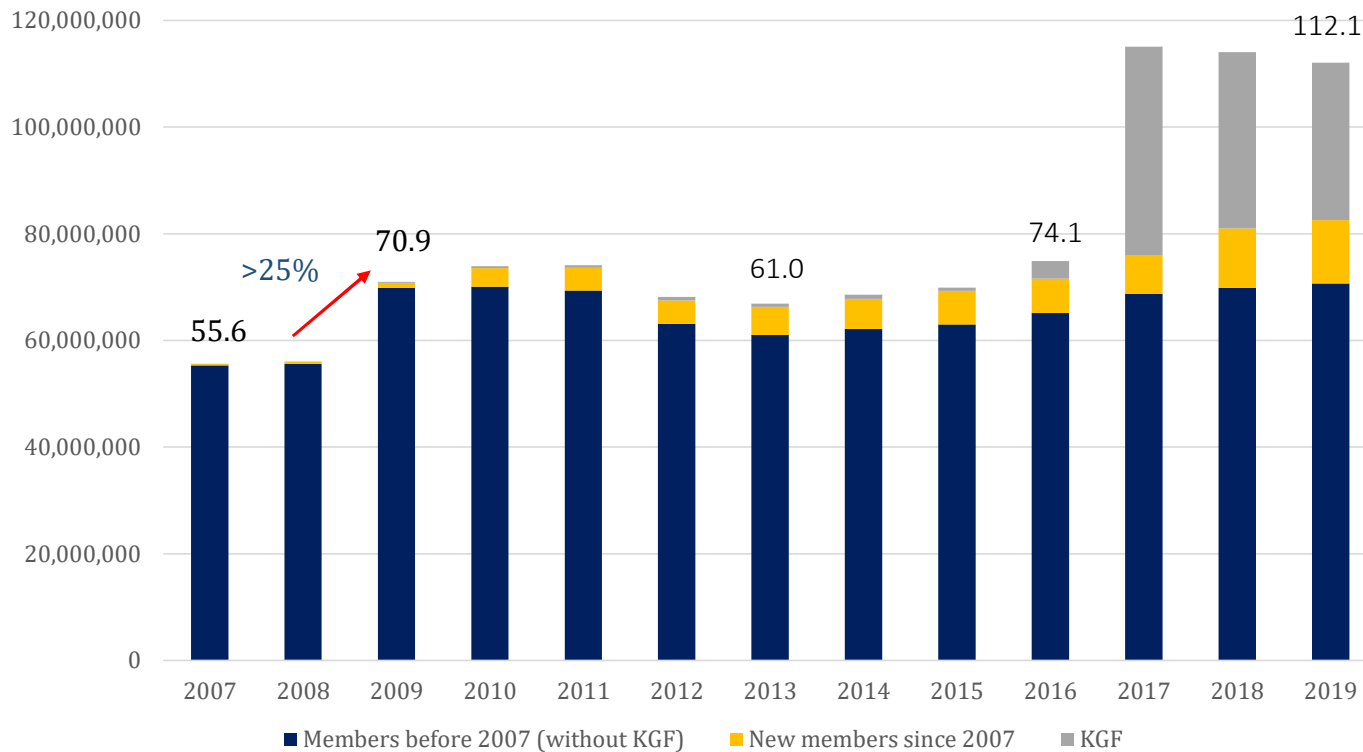
- **Reduction of its risk** exposure
- **Increase** of lending activity
- **Positive effect** of guarantees on the capital requirements in many countries
- Additional **expertise** results in **stronger decision**
- **High level of liquidity** of guarantee in case of default



# Multiplier effect



# Development of guarantee volume

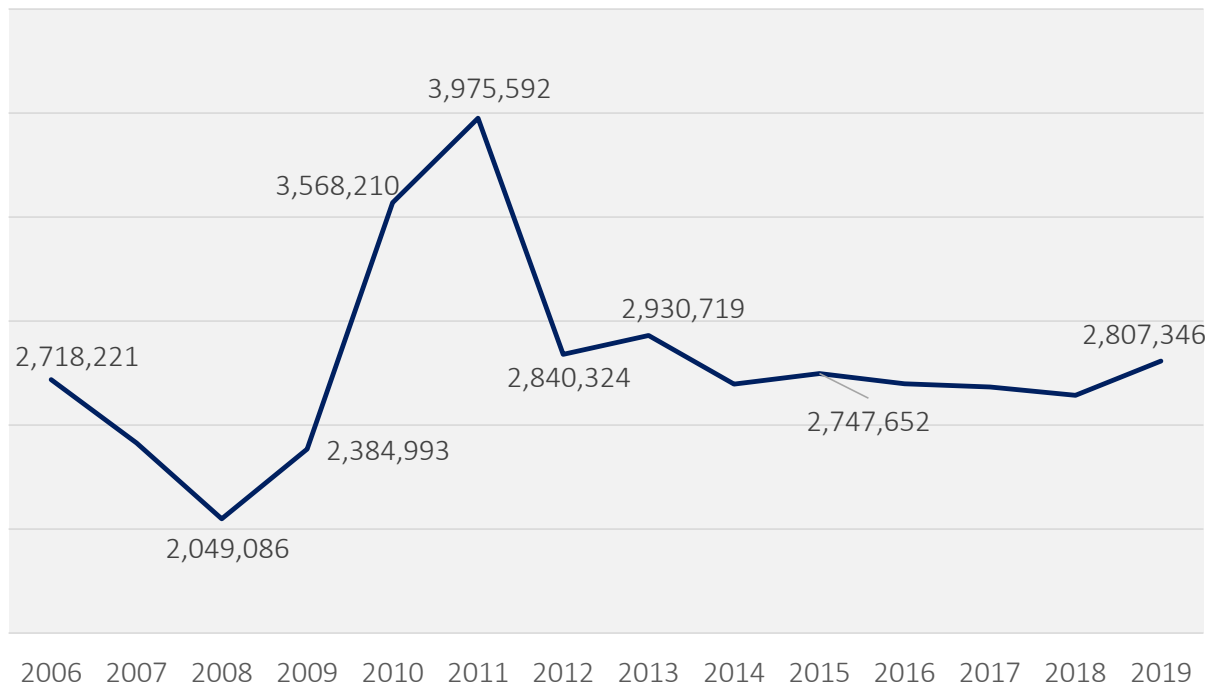


Factors of volume increases:

- **Counter-cyclical role during the crisis**
- Accession of new members
- Policy-driven expansion of KGF/TR

*Development of outstanding guarantee volumes (in KEUR) of AECM members*

# Development of supported SMEs



Development shows:

- strong anti-cyclical role
- important role in overcoming market failure in stable times

*Development of the number of SMEs supported by guarantees from AECM members*

# 2

## Policy measures in Europe following Corona virus outbreak

# Public health: What can the EU do?



- ↳ Exclusive competence
- ↳ Shared competence
- ↳ **Supporting competence**



## Article 168 of the TFEU

The EU can "complement national policies" and "encourage cooperation"

## Article 222 of the TFEU "Solidarity clause"

It obliges EU states to act jointly "in a spirit of solidarity" and to assist member states who asked for help

## Integrated Political Crisis Response Arrangement

EU must do everything it can, in order to support those under threat

# Who has been involved?

- European Commission
- European Council
- Council of the European Union
- Eurogroup
- European Parliament
- European Central Bank (ECB)
- European Investment Bank (EIB) and European Investment Fund (EIF) = EIB Group
- Creation of expert groups

→ **High number of initiatives in very short time (temporary!)**

# Meaning of guarantees

**There is widespread recognition that SMEs are the hardest hit:**

17 April 2020: **SMEunited**, the association of crafts and SMEs in Europe with around 70 member organisations from over 30 European countries, published a first summary of data received from its members about the impact of COVID-19 on SMEs, the use of available measures and some forecasts for the macroeconomic impact: <https://smeunited.eu/a-view-on-the-covid-impact-on-and-support-measures-for-smes>

→ out of all benefits available, loan guarantees are mentioned first

**There is widespread recognition of the guarantee instrument to fight economic impact:**

**Governments all over the world reinforce guarantee institutions / guarantee programs** (OECD WPSMEE 03 April 2020; EMGN 14 April 2020; feedback of AECM's members "AECM ELTI NEFI members actions to mitigate economic effects of the corona outbreak" <https://aecm.eu/publications/positions-papers/> per 14/04/2020 = 62 pages)

# Guarantees at EU level

## Top-ups for COSME LGF and InnovFin SMEG since 06 April 2020:

- € 1 billion redirected plus € 1.2 billion EIF own resources = **€ 2.2 billion portfolio guarantees**  
→ New guarantees shall unlock € 8 billion in additional working capital loans
- Available to **existing and** to **new** financial intermediaries
- **Streamlined application procedure:** existing financial intermediaries can proceed via contract amendment
- Applications are treated on a first come first served basis
- Both calls for expression of interest are open **until 30 June 2020**
- [www.eif.org/covid-cosme](http://www.eif.org/covid-cosme)
- [www.eif.org/covid-innovfin](http://www.eif.org/covid-innovfin)



**InnovFin**  
SME Guarantee



# COSME LGF COVID-19 measures



- For **SMEs** for **working capital**  $\leq$  € 150 K per loan
- **Budget increase** of € 714 million for specific COSME LGF COVID-19 sub-window
- **Max EIF commitment:**  $\leq$  € 50 million counter-guarantee & on-lending;  $\leq$  € 25 million for direct guarantee (higher amounts = subject to approval of European Commission)
- **Capped** guarantee **free** of charge
- **Guarantee rate** increased from 50% to up to **80%** as of **06 April 2020**
- Maximum guarantee **cap rate** increased from up to 20% to up to **25%**
- Minimum financial intermediary **risk retention decreased** from 20% to **10%**
- **Repayment terms:** postponement, rescheduling or credit holiday period explicitly allowed (= applied to existing or new transactions)
- Coverage of accrued or capitalised **interest** extended up to 360 days
- Max rollover period of **revolving credit transactions:** possibility to increase from 5 to **9 years**

# InnovFin SMEG COVID-19 measures



- For **mid-caps** ( $\leq 3.000$  FTE) for **working capital**  $\leq \text{€ } 7.5$  million per loan
- **Budget increase** of  $\text{€ } 1.5$  billion for specific InnovFin SMEG COVID-19 sub-window
- **Max EIF guarantee:**  $\leq \text{€ } 75$  million per operation
- The **uncapped** guarantee is subject to a **fee**
- **Guarantee rate** increased from 50% to up to **80%** as of **06 April 2020**
- Minimum financial intermediary **risk retention decreased** from 20% to **10%**
- **Repayment terms:** postponement, rescheduling or credit holiday period explicitly allowed (= applied to existing or new transactions)
- Coverage of accrued or capitalised **interest** extended up to 360 days
- Max rollover period of **revolving credit transactions:** possibility to increase to **6 years**
- **Innovation eligibility criteria:** Independent confirmations and business plans replaced by **self declaration**
- **Refinancing** of existing guaranteed transactions now **permitted**
- **Bridge financing** minimum maturity reduced to **6 months**



# Guarantees and state aid

**“Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak”**

**European Commission adopted on 19 March 2020** this Communication providing for **five types** of aid to enable Member States to use the full flexibility foreseen under State aid rules to support the economy

→ One type = aid in form of **guarantees on loans** to be granted on **31 December 2020** the latest

[https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_496](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_496)

**“Amendment to the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak”**

**European Commission adopted on 03 April 2020** this Communication extending the TF adding five new types of aid, increasing the intensities and adding flexibility

→ Member States may grant **100% guarantees**; max. nominal value of € 800,000 per undertaking (= overall aid); no company in difficulty; SME

[https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_570](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_570)

# Actions of guarantee institutions (-1-)



Actions of guarantee institutions against economic consequences of COVID-19 are customized to the needs in the respective country / region

- Increase of **total guarantee volume** to be granted (e.g. KGF / TR)
- Increase of maximum **guarantee volumes per beneficiary** (e.g. VDB / DE)
- Increase of maximum **guarantee amount** (e.g. Garfondas / LT)
- Extension of **duration / maturity** of guarantee (e.g. SEF / SI)
- Increase of **counter-guarantee coverage** (e.g. CERSA / ES)
- Reduction or waiver of processing and guarantee **fees** (e.g. Assoconfidi / IT)
- Reduction or waiver / full subsidy of **interest** rates (e.g. FNGCIMM / RO)
- **Interests** and **fees** paid by **Government** (e.g. BBB / UK)
- **Fast-track procedures** with reduced documentation requirements (e.g. aws / AU )

# Actions of guarantee institutions (-2-)



- Extension of **repayment period** of guaranteed loans (e.g. ISMEA / IT)
- Significantly reduced **collateral** requirements (e.g. ALTUM / LV)
- Waiver of requirement of **collaterals** (e.g. SBCI / IE)
- Granting of an **amortization-free period** (e.g. Finnvera / FI)
- Increase of eligibility covering more SMEs than before (e.g. BGK / PL)
- Extension to further development **stages of companies** (e.g. aws / AT)
- Introduction of hotlines to give swift **advice** to companies under strain (e.g. Bpifrance / FR)
- some programs already ended due to **high demand** (e.g. CMZRB / CZ) and new programs / **further calls** are set-up

<https://aecm.eu/publications/positions-papers/> → March 2020, updated regularly

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# Final remarks

# Final remarks

- Negative impact of Covid-19 crisis bigger than the one of the financial crisis: OECD “decline in annual GDP growth by 2 percent points for each month that strict containment measures continue”
- Providing SMEs **quickly and unbureaucratically** with liquidity remains crucial
- **Economic recovery plans** must be agreed upon a.s.a.p., be at least pan-European, ideally globally and include
  - 19/02/2020: Shaping Europe's digital future = EU’s **digital** strategy
  - 11/12/2019: The European **Green** Deal; Annex Roadmap and key actions
  - 07/04/2020: WWF “contribute to accelerating Europe’s transition to a **just** and sustainable economy”

# Final remarks

- Revised **MFF** 2021-2027 as a chance to reorient and to revive EU economy after pandemic (cf. recovery plans)
- **Science, technology and innovation** policy has a critical role to play – researchers should take a **global** view
- Emerging **solidarity** at all levels is amazing – crisis highlighted the need for more Europe and more solidarity
- Re-establishment and full enforcement of **4 freedoms**, the cornerstones of the Single Market: movement of goods, persons, services and capital within the EU
- Crisis required unprecedented levels of surveillance and of **data** exploitation, causing also misinformation → avoidance of future adverse side-effects





# Any questions ?

**We are in this together. And we will get out of it together.  
Many thanks for your attention and stay safe and well!**



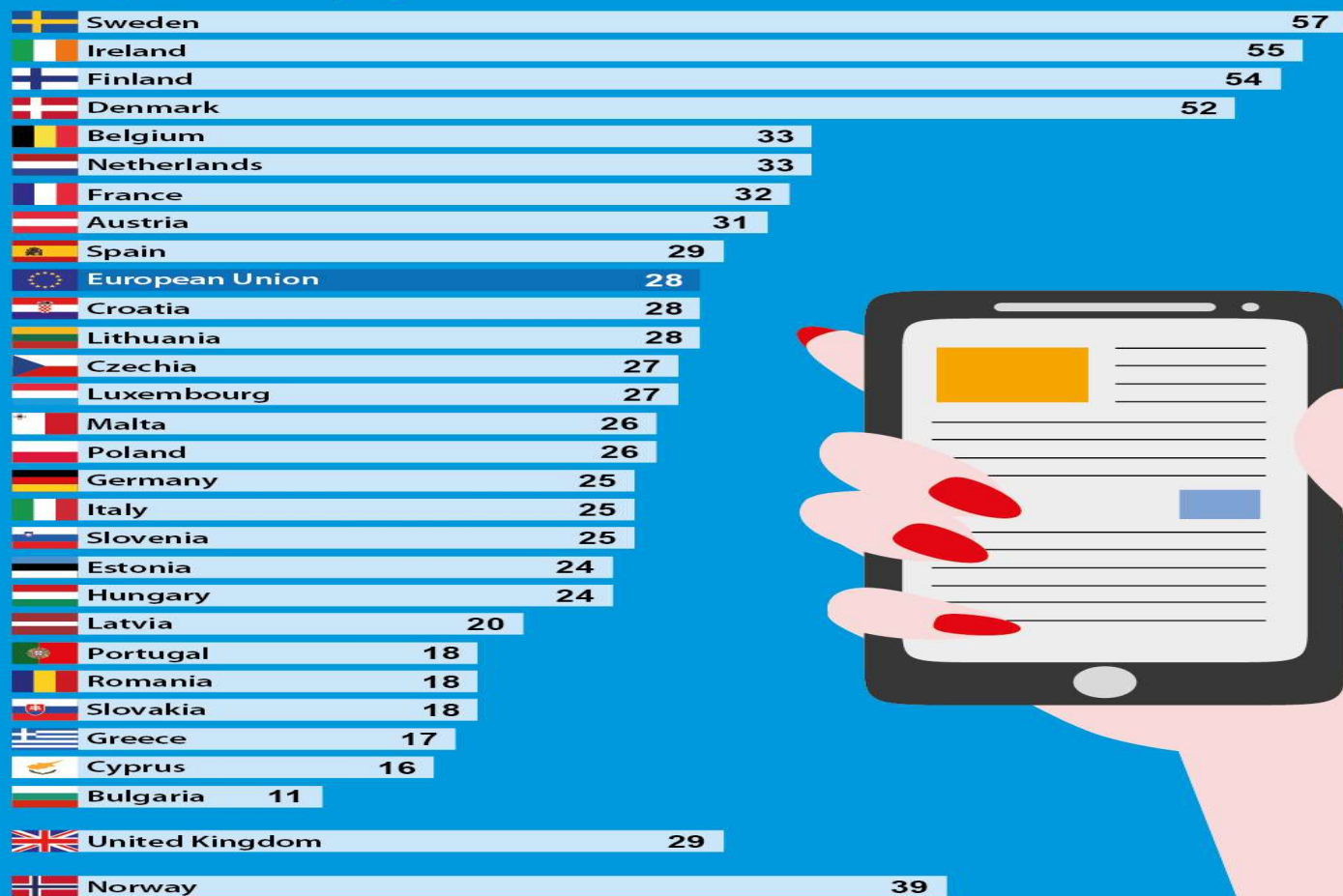
**European Association of  
Guarantee Institutions**  
Avenue d'Auderghem 22-28  
B-1040 Brussels  
Phone: +32 2 640 51 77  
Mobile: +32 476 91 37 24  
Mail: [katrin.sturm@aecm.eu](mailto:katrin.sturm@aecm.eu)

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# Backup

## Employees with corporate devices that allow mobile connection to the internet, 2019

(% of persons employed)



# State aid and guarantees (-1-)

## Temporary Framework for state aid measures to enable Member States to further support the economy in the COVID-19 outbreak

- **19 March 2020** - EC adopted a Communication on a Coordinated economic response to the COVID-19 outbreak. It provides for five types of aid:
  - Aid in form of direct grants, repayable advances or tax advantages
  - Aid in the form of guarantees on loans
  - Aid in the form of subsidized interest rates for loans
  - Aid in the form of guarantees and loans channeled through credit institutions or other financial institutions
  - short-term export credit insurance

# State aid and guarantees (-2-)

## Amendment to the Temporary Framework to enable Member States to further support the economy in the COVID-19 outbreak

- **3 April 2020** – EC extends and adds flexibility to the TF. It adds five new types of aid:
  - Support for coronavirus related research and development (R&D) in the form of direct grants or subsidies, repayable advances or tax advantages
  - Support for the construction and upscaling of facilities for testing products to tackle the COVID-19 outbreak
  - Support for the manufacture of products to tackle the COVID-19 outbreak
  - Aid in the form of deferral of tax payments and/or suspensions of social security contributions
  - Support in the form of wage subsidies for employees

# State aid and guarantees (-3-)

## **Amendment to the Temporary Framework to enable Member States to further support the economy in the COVID-19 outbreak**

In addition, the amendment also increases the intensities and adds flexibility to the conditions required for the categories of aid already allowed under the original TF:

- Member States will be able to grant interest-free loans and guarantees on loans covering 100% of the risk
- Member States will also be able to provide capital with a nominal value of up to €800,000 per company
- Additionally, these types of aid may be cumulated with de minimis types of aid. Because this aid has a cap of €200,000 per company and year (except for a few sectors), the receipt of both types of aid will mean that every company may receive up to €1,000,000 in a year

# State aid and guarantees (-4-)

## Section 3.2 of the TF: Aid in form of public guarantees

- Guarantee of up to 90% for loans for period of up to 6 years with minimum premium levels laid down in the TF
  - Guarantee up to 35% of the loan principal, where losses are first attributed to the State and only then to the credit institutions (i.e. a first-loss guarantee)
- Guarantee coverage, duration and premiums may be modulated (e.g. lower guarantee coverage may justify a longer guarantee duration or lower premiums)
- Guaranteed loans may refer to working capital or investment loans
- For loans with a maturity beyond 31.12.2020, the overall amount of the loans per beneficiary is capped to double the annual wage bill of the beneficiary for 2019, 25% of the beneficiary's total turnover of 2019, or with appropriate justification, the liquidity needs for the coming 18 months for SMEs (12 months for large enterprises)