AECM, EAPB, ELTI & NEFI Comments on the
Interim Evaluation of the Programme for the Competitiveness of
Enterprises and Small and Medium-sized Enterprises (COSME) (2014-2020)

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INTRODUCTION

The European Association of Guarantee Institutions (AECM), the European Association of Public Banks (EAPB), the European Association of Long-Term Investors (ELTI) and the Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI) warmly thank the European Commission for the possibility to provide feedback on the interim evaluation of the programme for the competitiveness of enterprises and small and medium-sized enterprises (COSME) (2014-2020) focussing on the activities of the period of 2014 to 2016.

Our members have long-lasting experiences in implementing EU financial instruments and, in particular, 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, 21 members of in total 90 members of the 4 associations 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 our 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 and, in particular, the COSME LGF, are of utmost importance for us and for our members and we would like to submit the following comments and requests as joint contribution to the interim evaluation of COSME.

GENERAL COMMENTS

We strongly support COSME's specific objective "to improve access to finance for SMEs in the form of equity and debt" as well as the operational objective to "provide enhanced access to finance for SMEs in their start-up, growth and transfer phases through a debt financial instrument and an equity financial instrument". These objectives possess a continued relevance contributing also to the Union priorities of smart, sustainable and inclusive growth.

With regard to 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 have to be met in order to sign an agreement.

As to the design of the LGF, in general it addresses our members' needs, enabling them to support even more micro, small and medium-sized enterprises (SMEs). From the outset, it needs to be stressed that the LGF has proven to be very successful and without doubt, there is a continued market need for it. However, some features of the LGF could be improved to make it easier to use and to broaden its scope of application and its effectiveness in supporting even more 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.

THRESHOLD OF 150,000 EUR

One of the most pertinent issues, where we see an urgent need for modification relates to the current requirement for differentiation between loans of up to 150.000,00 EUR and above this threshold., Where loans are above this threshold of 150.000,00 EUR, we believe that the requirement to ensure that the SME does not meet the criteria to be eligible under the SME window in the Debt Facility of the Horizon 2020 programme is unnecessarily onerous and certain countries may not have funding programmes under Horizon 2020 .

From our point of view, this threshold should ideally be entirely abolished allowing all kinds of high-risk financing under COSME without any examination whether it is an innovative project to be financed or not. This would make the application of the LGF simpler and more practical, terminating an excessive administrative burden for present financial intermediaries and, at the same time, would attract more financial intermediaries. The important consequence would be that proportionately more SMEs could be supported and their financial needs which are also often higher than 150.000,00 EUR could be better met.

The second-best option would consist in a substantial increase of the threshold to minimum 500.000,00 EUR to correspond better to the needs of SMEs.

BALANCED RELATIONSHIP BETWEEN COUNTER-/CO-GUARANTEES AND DIRECT GUARANTEES

While the LGF is provided to guarantee institutions or other national promotional institutions in the form of counter-guarantees or co-guarantees it is provided as direct guarantee to any other financial intermediary, usually commercial banks. From our point of view there remains room for improving the coherence between these two ways.

In some countries, where no operative national promotional institution or guarantee institution exists (like, for instance, in Malta[2] or in Cyprus) or where these institutions do not offer all instruments demanded by SMEs, direct guarantees are the only way to reach out to SMEs or to cover the whole variety of instruments. However, in an increasing number of countries, where a national promotional institution or guarantee institution has been established, direct guarantee contracts are concluded in parallel to counter-/co-guarantee contracts. This is the case in Estonia for example, where a COSME LGF counter-guarantee contract was concluded by the EIF with KredEx (a guarantee institution/NPI) as well as a COSME LGF direct guarantee contract with Swedbank (a commercial bank). The same situation can be found in several other Member States.

We request that the provision of EU guarantees and of financial instruments in general should be adjusted to the characteristics of the Member States or regions since the involvement of national promotional institutions and / or guarantee institutions results in many advantages. To name only a few:

- Compared to direct lending programmes, credit guarantee schemes have much lower initial cash flow needs, and as such, have a high leverage (or multiplier) component which means a more efficient use of public money. Therefore, they may also be used when fiscal constraints are tight and when public resources are scarce.
- Involving our members in the lending chain results in a higher degree of risk sharing which is advantageous for all parties involved.
- Since our members are cooperating with all commercial banking players in their domestic markets, they cover all SMEs.

[2] The Malta Development Bank Act was passed on 05 May 2017. It is envisaged that the Maltese Development Bank will be fully operational by the first half of 2018.

- Our members are characterized by a deep knowledge of their local market (both national and regional). Due to their proximity to SMEs they are able to thoroughly assess SMEs' needs for financing and identify market gaps which enables them to provide the appropriate funding supports and, thereby create a significant economic additionality. Our members are able to implement tailor-made financial instruments locally, thus adapting to the needs of the markets and this knowledge should be leveraged rather than diluted.
- Having a promotional mandate, our members support only those SMEs who really need it. Due to their promotional mission our members fill the market gap of guaranteeing access to finance for SMEs also in times of crisis, when finance is even more needed.
- Moreover, our members ensure a better visibility of funding solutions.

Accordingly, the macroeconomic impact of the LGF provided as counter-guarantee on the economy is significantly higher thanks to a higher input/output relation and a higher economic additionality in terms of innovation, employment and growth. To achieve greater coherence, the conditions for counter-guarantees should be set in a more favourable way. Therefore, it would be desirable to build on the differentiation of the LGF already foreseen in option 1, i.e. when the financial intermediary undertakes to provide new higher risk loan product to SMEs / Final Beneficiaries: Under this option, all rating classes are deemed "Acceptable Rating Classes" in case of counter-guarantees, whereas for direct guarantees only up to the bottom quartile (more risky 25%) of the loan portfolio is considered in order to identify the High Risk SMEs quartile (e.g. lower rating class at origination)3. We explicitly thank DG GROW for this distinction and strongly encourage to continue in this direction.

ADEQUATE FUNDING

We underline that the LGF is indispensable for helping SMEs in getting access to finance and therefore, it needs to be consistently enhanced. Given the importance of the LGF for the support of SMEs, we have a profound interest in relying on the EU to endow it with sufficient funding. Accordingly, we welcomed that the budget allocation to COSME shall be more than doubled under EFSI 2.0. We would encourage the continuation of this approach.

STATE AID

There is a need to modify and harmonise the State aid regulation in order to ensure it is practice-oriented and more market conforming to evolving market requirements. In any consideration of State Aid rules also applying to COSME, 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 LGF is provided.

Furthermore, in order 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.

[3] For further information cf. question 15. "SME High Risk definition option 2 calculation specificities" of the frequently asked questions http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/2014-12-17-cosme-lgf-faqs.pdf

Finally, focussing again on the entrepreneur, there should not be any difference between the provision of the LGF 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 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 and at least the counter-guaranteed part of the guarantee should be excluded from the calculation of the gross grant equivalent of the guarantee so that the entrepreneur would benefit at least in part from the state aid consistency of the LGF.

DURATION

A revised approach of the duration would be welcomed. At present, individual financing transactions must have a minimum duration of 12 months and a maximum duration of 10 years. The minimum duration should be shorter and the maximum duration should be longer, at least 15 years, so that more SMEs could benefit from the LGF.

SIZE & SCOPE

The LGF should also be applicable to small mid-caps. Despite their difficulties in financing their investments, “non-innovative” mid-caps can neither benefit from InnovFin nor from COSME as the former is dedicated to innovative businesses and the latter targets SMEs. In order to tackle this financing gap, small mid-caps should be made eligible under COSME so that the scope of the programme includes also “non-innovative” small mid-caps. It would widen the range of COSME beneficiaries and strengthen the continuum of financing for non-innovative businesses.

BUREAUCRACY

It seems that the administrative requirements have been increasing slowly but continuously(?) from one programme to another. One needs to be very careful in striking the right balance between transparency, administrative burden, proportionality and costs. Accordingly, 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.

Unintended by the EU, but has happened in practice, are adaptations of reporting requirements for ongoing agreements; such changes of regulatory requirements should be avoided to not cause unnecessary and costly changes of IT systems.

It should be ensured that the rules for all EU guarantee instruments, and financial instruments more generally, (COSME, InnovFin, the cultural and creative sector, etc.) are ideally compatible, summarised in the form of a common rule book, or otherwise as much aligned as possible.

ADDITIONALITY CRITERIA

The LGF provides financing for transactions, which otherwise would not get financed, either by providing riskier loans or by substantially increasing the volumes. Some of our members noted critically that these additionality criteria are too restrictive leaving insufficient flexibility especially to those financial intermediaries that already provide a wide range and a large volume of loans. Accordingly, we would prefer if the existing criteria could be interpreted more extensively based on a qualitative approach to better fit the market reality.

There is a strong need for guarantees to cover unsecured loans to non-innovative SMEs and small Midcaps, financing intangible investments in key areas for their competitiveness such as robotization, digitization, energy efficiency and internationalization. These investments are also key to support the factory of the future priority. Therefore, a third additionality criterion should be added, considering subordinated loans additional as such to provide specific support from the EU targeting those investments which are essential for the development and competitiveness of businesses.

OUTLOOK TO THE NEXT PROGRAMME GENERATION

The guarantee instrument in form of a counter- or co-guarantee is well recognised at international, European, national and regional level and is still needed, thus deserves entire support. This is also reflected in the fact that the LGF is one of the key actions of the COSME programme.

Also in the future, the demand for public support in the form of an EU counter-guarantee instrument will remain since the market failure will remain. Therefore, we strongly encourage the EU institutions to continue with, to strengthen and to enlarge the scope of the LGF.

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.

In this context, we would like to stress that we don't see any need to create new alternative schemes. The COSME LGF works well and like its predecessor instruments it has stood its test.

As to discussions underway to combine COSME and Horizon 2020[4] under the next MFF AECM, EAPB, ELTI and NEFI would like to underline that no matter what the result will be, it is vital that the conditions for EU guarantee instruments, and financial instruments in general, will become simpler, that the processes will be leaner, that synergy effects will be created and that, above all, the share dedicated to SMEs will constitute an appropriate percentage.

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, taking them into account when undertaking the interim evaluation of the COSME programme. It goes without saying that we are happy to contribute further to the important discussion around this evaluation and that we are prepared to provide the European Institutions with any additional information that may be required determined a well-informed outcome.

[4] The EU Framework Programme for Research and Innovation

About AECM, EAPB, ELTI and NEFI:

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.

The European Association of Public Banks (EAPB) is the voice of the European public banking sector. EAPB represents directly and indirectly over 90 financial institutions with overall total assets of over € 3.500 bn and 15% market share of the European financial sector. EAPB members are national and regional promotional banks, municipality funding agencies and public commercial banks across Europe. EAPB members provide financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies and the promotion of a greener economy to the financing of social housing, health care, education and public infrastructure at national, regional and local level.

Members of the European Association of Long-Term Investors (ELTI) represent a European-wide network of 27 major long-term investors. The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level. They represent a combined balance sheet of over Euros 1.5 trillion. ELTI also includes the European Investment Bank (EIB) as a permanent observer and multilateral financial institutions, regional financial institutions and non-banking institutions such as associations as Associated Members. With its combination of members that represent almost all Member States, ELTI bears a unique and coherent European perspective on long term investment and its members offer a wide range of financial solutions tailored to the specific needs of their respective country and economy.

The Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI), which was founded in 1999, consists currently of 19 financial institutions from 19 European Union member states. In 2016 NEFI members actively supported and financed approximately 350 000 SMEs all over Europe with more than EUR 51 billion of financing mainly in the form of loans and guarantees.
NEFI pursues the objective of following the financial, political and legal developments in the fields of European economic and financial policies and all measures adopted by the EU institutions which are relevant for promotional financial institutions focusing on the facilitation of SMEs' access to finance. NEFI serves as a contact for the European Institutions providing know-how and information on all matters concerning promotional banking.