

Bank Lending and Guarantees, how to improve the current system

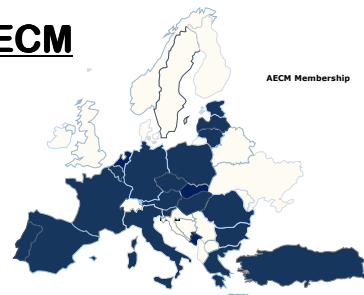
Public Hearing of the
European Economic and Social Committee

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Marcel Roy – Secretary General AECM



Some figures about AECM



378 guarantee systems in 23 countries

AECM key figures (31.12.2011, provisional)

- Own funds € 9,4 billion
- Guarantees issued in 2011 € 27,6 billion
- Guarantees in portfolio € 79,7 billion
- Multiplier effect ~ 9 x
- Beneficiary SMEs 2,7 million



Why guarantees ?

- **Credit finance is important to SME in the EU, as they**
 - Have no or little access to venture capital, mezzanine capital, bond issues, etc
 - Have weak own funds positions => limited capability to auto-finance investment or working capital needs
 - Rely predominantly on loan finance
 - Usually have a relative lack of bankable collateral
- => Risk of unrealized GDP and employment growth
- **AECM members facilitate access to finance by providing credit default guarantees for SME that:**
 - Are economically healthy
 - Have an economically meaningful project but at the same time do not dispose of sufficient collateral to access bank credit



What are guarantees ?

- **Main aspects of the Guarantee instrument**
 - Risk sharing agreement between the bank and guarantee institution:
 - Bank has a promising investment proposal but cannot grant the loan for lack of collateral
 - Guarantee institution will assess proposal, on positive decision: issuance of the guarantee to substitute missing collateral (up to a maximum of 80% of the loan amount)
 - The banks remains responsible for at least 20% of the loan
 - In case of default, the guarantee institution pays the bank the agreed share of the outstanding loan amount on first demand
 - **Additionality:** Only operations that the bank could not do on its own



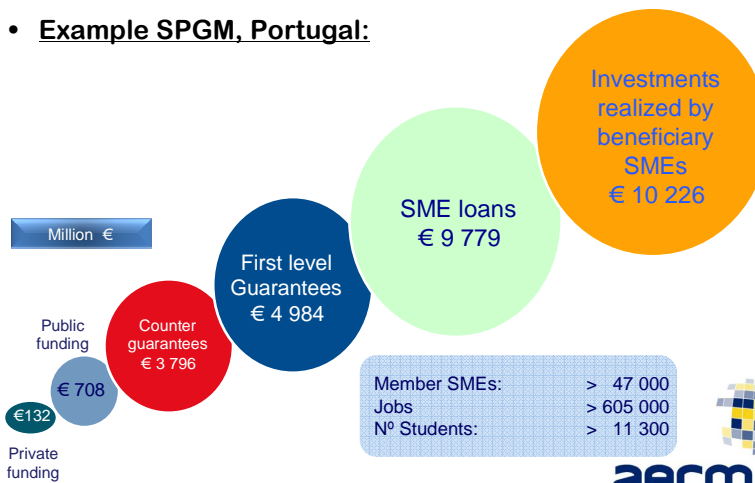
Guarantees and SME support policy

- **Guarantee schemes' philosophy** :“Help for self-help” principle – non-profit orientation
- **Important element of public support policy**
- Regardless of whether they are private or public, guarantee schemes function as a transmission chain of SME policy
- Therefore, they usually benefit from public support via counterguarantees
- **The guarantee , a highly efficient tool:**
 - Revolving instrument
 - High multiplier effect of public resources
 - Guarantee volume in portfolio of 9 x own funds
 - Multiplier effect of the public counterguarantee
- **Excellent performance of AECM members under CIP**



Multiplier effect of a counterguarantee

- **Example SPGM, Portugal:**



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- **General Comments:**
 - AECM welcomes new generation of financial instruments
 - **Need for efficiency and synergies:**
 - Avoid interruption between programming periods
 - Allow for flexibility in contracts parameters (volumes, caps, pricing, etc.) to address changes in economic environment
 - Ensure highest level of coherence between programmes (structure, application process, eligibility, reporting requirements, auditing)



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- **Type of guarantee operations to be supported:**
 - **Guarantee facility should cover operations with high EU added value to boost competitiveness of SMEs:**
 - **Loan applications with high risk profile from SME without specific innovative orientation:**
 - » Business start-ups
 - » Business transfers
 - » Internationalization
 - » Etc.
 - **The additional EU guarantee will provide additional leverage for operations which would not be realized at national level alone**



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- Type of guarantee operations to be supported:

- EU added value of guarantees for business transfers :

- *“Approximately 450.000 firms with 2 million employees are being transferred each year across Europe. The study estimated that every year, there is a risk of losing approximately 150.000 firms and 600.000 jobs due to inefficiencies in the business transfers system. The smallest businesses have been found to be the most vulnerable to failed transfers”*

(Commission Final Report on Business Dynamics: Start-ups, business transfers and bankruptcy, 2011)



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- Type of guarantee operations to be supported:

- EU added value of guarantees for business transfers :

- *“...business transfers often require more financing than start-ups. Where a small business is transferred to a private person or another small business there is often no major collateral and repayment of the transfer related debt solely depends on the cash flow of the business. A thorough assessment of the company's situation is thus necessary which creates relatively high transaction costs. The costs and risks are, especially for smaller companies, often considered by banks as unfavourable in relation to the financing volume”.*

(source: Commission Communication: Continuity through a new beginning 2006)



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- Guarantees under COSME :
 - Need for a higher threshold under COSME:
 - Loan amounts for business transfers often exceed the €150.000 threshold proposed by the Commission
 - AECM does not see the relevance of the separating threshold, underlying operations are of different nature (no overlap)
 - Welcome discussions in EP ITRE Committee on allowing operations over €150.000 under COSME, if they are not admissible under Horizon 2020
 - However, questions arise from the burden of proof – Financial intermediaries have to prove that project is not innovative



COSME & Horizon 2020

- Guarantees under Horizon 2020:
 - Specific comments:
 - All potential SME beneficiaries (including start-ups) should be able to access the programme
 - Therefore:
 - » Broad definition of innovation to ensure that all forms of innovation are eligible (e.g. Process innovation)
 - » Level playing field: Scope of financial intermediaries should include specialized financial intermediaries, such as guarantee societies to ensure that all distribution channels to the SME beneficiaries are used (not the case under RSI)
 - » Mezzanine operations should be eligible for guarantee coverage under Horizon 2020



Thank you for your attention

