Mr. Vazil Hudák
EU SME Envoy
Per email to the Secretariat of the EU SME Envoy: GROW-SME-ENVOY@ec.europa.eu
Copy to Director General Olivier Guersent and to Director General Kerstin Jorna

Brussels, 21 June 2021

The Pan-European Guarantee Fund

Dear Mister Vazil Hudák,

The European Association of Guarantee Institutions (AECM), the European Association of Public Banks (EAPB), the European Association of Long-Term Investors (ELTI), the Network of European Financial Institutions for SMEs (NEFI) and the association of Crafts and SMEs in Europe (SMEunited) would like to draw your attention on a difficulty in the area of access to finance of small and medium-sized enterprises (SMEs).

More precisely, we would like to draw your attention to some challenges that hinder significantly the deployment of the Pan-European Guarantee Fund (EGF). Please note that we currently have ongoing discussions with the Directorate General for Competition (DG COMP) of the European Commission in this respect; for your kind information, we enclose our respective latest written correspondence from which encouragingly follows that DG COMP is taking our points under careful consideration and is assessing the situation.

As you know, the EGF was established to support SMEs affected by the pandemic. It aims at ensuring that SMEs in the participating Member States have enough short-term liquidity available to endure the crisis and are able to continue their growth and development in the medium to long-term.

Even though the Eurogroup welcomed already on 09 April 2020 the initiative of the EIB Group to create the EGF and invited the EIB to operationalize its proposal as soon as possible 'and stand ready to put it in place' without delay[1], SMEs still do not benefit from the EGF. In addition, there is a strong risk that SMEs will not reap the full benefits of the instrument as conceived to help them face the crisis, for the following reasons:

[1] Cf. point 15 of the press release published at https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/

1. **The EGF State aid Scheme and the Temporary Framework are foreseen to be applicable only until 31 December 2021.**

Considering that only part of the 27 Member States took part in the EGF, it was necessary for the 22 participating Member States to provide the European Commission with a notification before implementing the EGF. On 14 December 2020, the European Commission confirmed that the EGF was in line with EU State aid rules[2]. This means that the support measures that will be provided by the EGF will contribute to managing the economic impact of the coronavirus in line with Article 107(3)(b) TFEU and the general principles set out in the "Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak" (TF). Yet, at least for the time being, the TF will only be in place until the end of 2021. This means that from the 1st of January 2022 onwards a different State aid regime will need to be applied, namely the *de minimis* Regulation.

However, to switch the State aid regime at the turn of the year 2021/2022 is for the following line of reasoning not an option:

The *de minimis* Regulation only allows for public support to be granted to "single undertakings" over three consecutive fiscal years up to a threshold of € 200,000. Due to the impact of the pandemic, the recourse to the *de minimis* Regulation for granting State Aid has been massive over the past months, which led to a heavy mobilization of such threshold. This does not leave enough room thereunder to support SMEs through the EGF measures. Consequently, the possibility for the EGF to implement in 2022 its financial support under the *de minimis* Regulation will be very limited, which will prevent SMEs in need from getting access to this support. In addition, it took more than a year to make the EGF operational and, hence, such a burdensome switch of the State aid regime will become necessary after a fairly short time of application. This also means that the majority of the EGF funding would fall within the *de minimis* Regulation and not, as originally intended, the analogue application of the TF.

Therefore, given the exceptional circumstances resulting from the COVID-19 crisis and the overarching objective of the EGF in supporting the recovery, it is essential that the EGF State aid Scheme (aligned with Sections 3.1 and 3.2 of the TF) is prolonged by 1 year until the end of December 2022 to allow the intended financial support to reach all SMEs. Otherwise, the EGF will not reach its intended goal.

2. **Prohibition to grant after 2021 maturity extensions on EGF-supported transactions.**

[2] Cf. the press release https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2407 and the Commission Decision C(2020) 9237 final of 14/12/2020, and the Commission Decision C(2021) 2783 final of 16/04/2021 with regard to Slovenia

Currently, it is only permitted for SMEs to request (and for Financial intermediaries to grant) changes to their ongoing loans, including the extension of the repayment schedule (*i.e.* in the context of a request for an additional grace period), until 31 December 2021. This provision will have adverse implications regarding access to finance for healthy SMEs in their recovery phase. While it is unlikely that SMEs will face difficulties in repaying their loans in the short-run (*i.e.* during the next 6 months until the end of 2021) it is of utmost importance to allow them - jointly with their lending banks and the financial intermediaries channelling the EGF - to have room for possible adjustments in the longer-run, especially regarding the repayment schedule throughout the duration of the loan as soon as the undertaking faces difficulties in repaying it (*within the limit of the maximum guarantee coverage of 15 or 6 years foreseen by the EGF Scheme by analogy to Sections 3.1 and 3.2 of the TF*). This appears to be even more essential given the high level of uncertainty that hangs over the recovery of certain sectors after the crisis and leads our associations and respective members to predict a substantial number of requests from SMEs for extension of their credits' duration.

Without being allowed to benefit from such restructuring, SMEs might no longer be able to repay the guaranteed loan. Asking another bank for a new loan is de facto impossible because it would not be operational to transfer the EGF guarantee from one intermediary to another since the guarantee agreement is concluded between the EIF and the initial financial intermediary and not between the EIF and the SME. Moreover, such transfer would be forbidden after 2022 which is the end of the inclusion period of new transactions under the EGF.

Consequently, restructuring remains the only solution for SMEs facing deteriorating developments to remain solvent. An obligation to the initial bank of keeping the same interest rate in case of extension would be sufficient to ensure that the SME can benefit from supportive conditions to meet their repayment schedule, especially considering that the rescheduling of the loan maturity would have no impact on the aid intensity.

Conclusions

Considering the above-mentioned issues, AECM, EAPB, ELTI, NEFI and SMEunited kindly ask the EU SME Envoy to take our points into your kind consideration in your day-to-day activities and bring it to the attention of Member States, namely:

1. Support the prolongation of the validity of the TF for State aid measures necessary to successful implementation of the EGF.
2. Support the amendment of the Commission's EGF State aid decision of 14 December 2020 accordingly, allowing for the implementation of the financial products under the EGF State aid Scheme by analogy to Sections 3.1 and 3.2 of the TF until 31 December 2022, to allow the intended financial support to reach the SMEs also in 2022. The

prolongation should be done in accordance with the latest version of the TF and should include the increased aid ceilings for financial products under the TF Section 3.1 to address the prolonged economic effects of the ongoing crisis, *i.e*. EUR 1.8 million per undertaking or EUR 270.000 per undertaking active in the fishery and aquaculture sector or EUR 225.000 per undertaking active in the primary production of agricultural products.
3. Allowing SMEs to request changes to their loan conditions, in particular the maturity extensions of their loans throughout the duration of the loan, *i.e.* beyond the end of the EGF State aid decision.

To conclude let us please underline that we have been and remain fully committed to support SMEs getting access to finance enabling them to overcome the economic impact of the COVID-19 crisis as quickly and as best as possible.

Annexes:

- Request of AECM, EAPB, ELTI, NEFI, and SMEunited for extending the applicability of the EGF State aid Scheme by analogy with Sections 3.1 and 3.2 of the Temporary Framework till the end of 2022 from 14 April 2021
- The reply of DG COMP from 17 May 2021

About us

The 48 members of the **European Association of Guarantee Institutions (AECM)** are operating in 31 countries in Europe. They are either private / mutual guarantee institutions 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 2020, AECM's members had about EUR 330 billion of guarantee volume in portfolio, thereby granting guarantees to around 5.2 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, having been 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

The European Association of Public Banks (EAPB) gathers member organizations (financial institutions, funding agencies, public banks, associations of public banks and banks with similar interests) from 15 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders. With a combined balance sheet total of about EUR 3,500 billion and a market share of around 15%, EAPB members constitute an essential part of the European financial sector, providing financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies/SMEs 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.

European Association of Public Banks – EAPB
Avenue de la Joyeuse Entrée 1-5, 1040 Brussels
Interest Representative Register ID number: 8754829960-32

Members of the **European Association of Long-Term Investors (ELTI)** represent a European-wide network of 31 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 2 trillion and annual financing commitments of more than Euros 225 billion. 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, under the status of 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.

European Association of Long-Term Investors – ELTI

Rue Montoyer 51, B-1000 Brussels

EU Transparency Register ID: 977980112556-82

The Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI), which was founded in 1999, consists currently of 21 financial institutions from 20 European Union member states and UK. 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.

Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI)
Rue Belliard 40, 1000 Brussels / Belgium
Interest Representative Register ID number: 44013762992-64

The Association of Crafts and SMEs in Europe (SMEunited), formerly known as UEAPME, is the association of crafts and SMEs in Europe with around 70 member organisations from over 30 European countries. SMEunited is a recognised employers' organisation and European Social Partner and acts on behalf of crafts and SMEs in the European Social Dialogue and in discussions with the EU institutions. SMEunited represents national cross-sectoral Craft and SME federations, European SME branch organisations and associate members and speaks on behalf of the 24 million SMEs in Europe which employ almost 95 million people. SMEunited is a non-profit seeking and non-partisan organisation.

SMEunited / Crafts and SMEs in Europe
Rue Jacques de Lalaing 4, B/1040 Brussels
Transparency ID: 558