

26 March 2020

Mobilizing for European SMEs: EAPB policy recommendations for addressing the Covid-19 Crisis

The Covid-19 Crisis has just hit the entire European economy with an unprecedented intensity. This crisis is very different from the one we witnessed ten years ago. Its extraordinary speed caused by the unexpected supply and demand shocks requires accordingly quick policy measures. In the spirit of the current situation, national and regional promotional banks across all Europe have promptly introduced necessary measures to help their respective markets. The European Association of Public Banks (EAPB) publishes this paper to outline its policy recommendations for action on EU level:

1) Mobilizing the EFSI products

- The entire focus should currently be put on SME financing (and in justified cases larger companies) as those are the first economic victims of the Covid-19 Crisis. Although long-term investments will be important for the subsequent stimulation of economy, we now call upon the European Union to reallocate all available funding to short-term liquidity aid to European firms (e.g. working capital, credit lines).
- As this crisis begins with a liquidity crisis of European firms, the EAPB members again stress that **the European Investment Fund has an indispensable role to play**. The immediate response to the liquidity crisis should be **additional funding** and **adjusting parameters of the EIF-managed COSME guarantees and InnovFin SMEG** as much as possible under their respective legal basis, and to exceptionally allow for a flexible interpretation of their rules.
- As regards **COSME LGF**
 - **increase the guarantee rate** up to 90%
 - **increase the guarantee cap** up to 50 % to correspond to the current market needs
 - **increase the maximum eligible loan amount** of EUR 150.000 higher (a limit to 30% of the annual turnover might be taken into consideration for companies older than 5 years);
- As regards **InnovFin SMEG**
 - **lift the innovation criteria**, (InnovFin should include working capital and liquidity support systems to companies in general and not only to innovation projects)
 - relinquish the need for a **business plan**, and **external consultant opinion**
 - **increase the guarantee rate up to 90%**
- As regards **both COSME LGF and InnovFin SMEG**:
 - **Additional funding** that would enable EIF **to conclude also new contracts**, whereas regional and national promotional banks who already are contracted partners of EIF should get **a fast-track access**. NPBI that are not yet contracted partners of EIF should also be enabled to get a new contract quickly.
 - provide for **rescheduling, grace periods and deferments of existing loans** by permitting amendments while extending the termination date of these contracts with the EIF;
 - **Increase the counter-guarantee rate to the benefit of NPBI up to 90 %**
 - The possibility of **including retroactively eligible loans** contracted after 1 February 2020;
 - allow for **retroactive restructuring of existing agreements** (e.g. review of target volumes, increase in cap rate) when needed

- The **restructuring of the medium- and long-term loans** of financially sound companies should also be considered eligible under COSME/InnovFin;
- **Postpone all monitoring and reporting** – there is simply no capacity at the moment
- Allow **refinancing of maturing existing credit exposures of final recipients**, which could not be repaid by final recipients at maturity
- include **loans with a maturity under 12 months**, it should be reduced to 3 months
- **extend the EIF mandate beyond 31 December 2020** in order to avoid rupture of financing during the commencing economic crisis. This is especially important in the event of a possible delay of the InvestEU Programme.
- **We suggest introducing a portfolio guarantee on working capital loans**, with a flat rate for a portfolio of loans (retroactively eligible loans contracted after 1 February 2020, via financial intermediaries), rather than a single guarantee with annual premiums based on rating and size of the undertakings
- We welcome the timely initiative of the EIB Group announcing a mobilization of EUR 40 billion to tackle the Covid-19 Crisis and the **explicit integration of NPBIs into this investment plan**. The more intermediaries are included, the more finance will be leveraged.
- A good solution could be **a special EIB/EIF portfolio guarantee to NPBIs** for their Covid19-related investment, especially for those intermediaries that do not implement COSME or InnovFin. Such EIB portfolio guarantee should be **complementary to other state- or regional level instruments** to ensure leverage.
- To ensure optimal coordination of investment activities, the EIB Group should involve continuously and discuss its steps with national and regional promotional banks in respective Member States.

2) Structural Funds: The Corona Response Investment Initiative

- The EAPB welcomes the European Commission's proposal for a Corona Response Investment Initiative directed at health care systems, SMEs, labour markets and other vulnerable parts of our economies. By **relinquishing Member States' obligation to refund prefinancing** to the European Commission, the proposal will help frontload investments and alleviate national budgets.
- Above all, a flexible approach is key to a swift response. Accordingly, we strongly support making Covid-19-related investments eligible for support under the remaining EUR 28 billion of uncommitted structural funds. The new measures will help SMEs with acute liquidity shortages and contribute to strengthening the response capacity of health services.
- We appreciate the fast adoption of the regulation. Nevertheless, we are concerned that the proposed modifications may be inadequate to achieve our common ambition:
 - The current pandemic severely challenges administrative capacities and is likely to cause significant delays in disbursement of funding. To avoid penalizing vulnerable beneficiaries, we urge the Commission to go beyond the n+3 regime currently in place and **prolong the ESIF programming period 2014-2020 by at least one year**.
- Because of existing customer relationships, **Financial Instruments are particularly effective at channeling working capital support to SMEs** (Article 2(2) CRII). However, the proposal provides little flexibility to make use of funding available under FI.
 - It should be clarified that – where several thematic objectives are programmed under a horizontal priority axis – resources may be transferred to financial support corresponding to different thematic objectives, within the same priority axis, subject to the thresholds pursuant to Article 2(1) CRII-Regulation.

- Providing adequate support may require **combining existing debt and guarantee instruments with grants**, for instance in the form of interest rate subsidies. The Commission has promoted this option for the upcoming programming period 2021-2027. We advocate for a “bridging clause” enabling MAs to anticipate the future ruleset and implement necessary adaptations as of now.
 - Where new FI have to be set up to redirect funding, this should be possible in an unbureaucratic manner, i.e. **without ex-ante assessment** and **exempted from public procurement rules**.
 - EAFRD-funded FI should equally be eligible to grant support to priority investments.
- For all forms of support, we urge the Commission to publish temporary guidance in order to **radically simplify procedures** and provide legal certainty to Managing Authorities and Implementing Bodies:
- Permitting extension of project/payment authorization periods
 - Accepting receipts in the form of scanned copies and via e-mail, independently of whether beneficiaries use computerized accounting systems
 - Suspending the separation of functions where necessary due to personnel shortages (Article 72(b) CPR)
 - Suspending public procurement verifications
 - Suspending durability of operation verifications (Article 71 CPR)
 - Allowing multiple payment claims by one final beneficiary or project to be treated as single operation for the purposes of disbursement and audit (Article 125(5) CPR)
 - Allowing on-the-spot verifications to take place n+1 after the random sample was drawn without requiring additional approval

The European Association of Public Banks (EAPB) gathers over 30 member organisations which include promotional banks such as national or regional public development banks and local funding agencies, public financial institutions, associations of public banks and banks with similar interests from 17 EU Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders.