AECM Positions regarding EU financial instruments under COSME, Horizon 2020 and Structural Funds

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I. General comments / Horizontal issues

For several programming periods, AECM Member organizations have acted as financial intermediaries for European support programmes, e.g. given under the CIP and its predecessor programmes and in the context of structural funds.

Nine of AECM's member organizations are currently financial intermediaries under the Competitiveness and Innovation Programme (CIP). Under the CIP, AECM members have issued over € 5,3 billion in guarantees to over 130.000 SMEs in Europe The CIP and its predecessor Framework programmes have proven to be of particular added value for AECM members, which are non-profit SME guarantee institutions, and their beneficiary clients..

Indeed, both before as during the financial crisis, the CIP financial instruments have allowed a great number of SMEs get access to finance and contribute to the global European economy in terms of employment and GDP growth. The EIF-managed counterguarantee programme has allowed our members to remedy specific market gaps regarding SME access to loan finance. Loan operations with high risk profiles, such as e.g. business transfers, which are of crucial importance and which would under normal conditions not have been undertaken by credit institutions, could be realized thanks to the risk sharing agreement between guarantee institutions and the CIP funds. Among others due to the leverage factor obtained through the use of CIP funds AECM considers the current CIP to be highly relevant in terms of European Added Value.

In the coming years, loan guarantees will continue to be of central importance in an environment of rising interest rates and stricter prudential supervisory rules, which will all put SME lending under pressure. In this context, COSME will be of key importance as a successor programme to the CIP.

Structural funds are also of importance for AECM members. Indeed, about a third of the AECM members and about half the number of countries represented in our Association are active in the field of structural funds. An AECM survey has shown that the EU counter-guarantee and equity instruments are the most useful and the most efficient for the SME guarantee schemes' development. Also, in our view "financial engineering instruments" offer the best leverage for the public funds. Our members are currently running a total of 26 programs involving Structural Funds, for a total number of over 104,000 SME beneficiaries. Some guarantee programs have thousands of beneficiaries, which we feel clearly demonstrates capability of guarantee societies to reach many more SMEs than any alternative financing program of a comparable size.

Given the importance of these programmes and the future guarantee mechanism for research and innovation, and since AECM's members often act as intermediaries for more than one single programme, we call upon EU institutions to aim at achieving a greater simplification and flexibility as well as the highest degree of synergies possible between the of the rules related to the administrative processes (application, reporting, auditing, etc.) of COSME, Horizon 2020 and Structural Funds, in order to make the task of intermediaries easier.

II. Position on COSME

AECM welcomes the Commission's recently published proposal for COSME, which is currently under discussion at the European Parliament and the Council, as a strong commitment to continued support for SME access to loan finance via guarantees under the successor programme.

However, AECM attracts the attention of EU policy makers on the following issues that need addressing:

- AECM regrets that a maximum threshold amount has been established for single guarantee operations under the COSME. In fact the Commission's proposal **fixes a loan amount of max. € 150.000** as an eligibility criteria for guarantees under COSME. Any operations with amounts above this threshold would have to fall under the Research and innovation programme. Previously, there had not been such a threshold and it presents some problems in particular for the financing of start-ups and business transfers:
    - Indeed, the financing needs for such operations easily exceed this amount. However, not all SMEs with financing needs above €150.000 are necessarily innovative companies and would not be able to make use of the innovation financial instruments. They would be excluded from EU financial support, despite possible merits of their investment projects.
    - If such a threshold would have to be maintained, AECM would suggest applying the threshold of €500.000 to the **counterguarantee** amount to be issued to an individual operation under COSME. This would make more sense, as guarantee and counterguarantee coverage rates of different loan applications can be variable. A counterguarantee threshold of € 500.000 would allow guaranteeing higher levels of investments, more adequate for operations like business transfers.

- AECM also notes that there is an apparent contradiction with the general scope of the LGF in the Regulation and a more restrictive interpretation in Paragraph 1.5.4 of the Legislative Financial Statement in annex to the Regulation proposal, that apparently intends to focus the scope on cross-border guarantee operations. As AECM has argued during the consultation phase, cross-border guarantees only represent a microscopic part of all guarantee operations, as the great majority of SMEs need financing for their local market. AECM cannot recognize any market failure with regard to this type of guarantees, and indeed, where cross-border cooperation between guarantee institutions has been set up, only a very limited number of demands have materialized p.a.. This would in no way lead to the critical mass needed under the COSME programme. In turn, we see the competitiveness of European SMEs very well served by supporting investments on their local markets, where they are under competitive pressure from companies coming from other member states or even from outside the EU. In particular, in AECM's view, added value is provided by aiming at supporting specific investments, which would normally not have found financing at national level. This concerns in particular market niches, that are perceived as especially high-risk by the banking sector, e.g. business transfers, start-ups, etc. These investments would not be realized in absence of EU support. We therefore suggest that the passage under 1.5.4 be deleted, allowing COSME to continue to focus on specific market gaps at national level (business transfers, start-ups, etc) and which at the same time represent policy concerns at EU level.

III. Position on Horizon 2020

At the end of the month of January, the EIF has launched a call for expression of interest for the Risk Sharing Instrument (RSI), that will provide guarantees for investments by innovative companies. The RSI is a pilot project and widely as a predecessor for the future guarantee facility for research and innovation under Horizon 2020. In this respect, AECM has the following concrete concerns:

- The programme should handle an innovation definition, that is as flexible as possible, to allow wide SME access. Aside from active research and development, it should also allow for other types of innovation, such as process innovation, etc.

- The RSI has mainly targeted Financial institutions with credit activities. Pure guarantee institutions, that have been in the business of guaranteeing SME loans and investments in Europe for decades, are thus effectively excluded from the scope of eligible financial intermediaries. AECM calls upon European policy makers to ensure that under Horizon 2020 this unjustified and unnecessary discrimination is removed and that guarantee institutions will be admitted on a level playing field along with other financial intermediaries.

- The RSI has excluded guarantee operations for mezzanine capital (i.e. subordinated loans) from its scope, probably due to the short duration of the pilot phase. In our view, this type of investment should be eligible under Horizon 2020.