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EUROPEAN ASSOCIATION OF MUTUAL GUARANTEE SOCIETIES

Growing together

Lisbon, 28<sup>th</sup> November 2008,

***AECM Declaration on the Financial  
Crisis and SME access to finance and  
the contribution of guarantee schemes  
28 November 2008  
Lisbon***

On 28<sup>th</sup> November, AECM Member organisations met in Lisbon to discuss the impact of the financial crisis on the access to finance of SMEs in Europe and on the policy measures that should be taken to help counter the impending credit crunch. The members present have issued the following declaration:

**The importance of SMEs for the European economy**

AECM regards SMEs as key players for boosting the economic activity, employment, rural development and innovation of the EU economy within a context of globalised competition. As such, providing a level playing field for SMEs vis-à-vis larger companies, in particular with regard to access to finance should be an even more important priority than before the break-out of the financial and economic crises.

**The impact of the financial crisis**

While during the course of last year, it could have seemed that the financial crisis would have no direct impact on the real economy, it now is becoming more and more apparent that such a contagion is taking irreversibly place and might stretch over a longer period than previously expected. The crisis will affect the SMEs' financial position in various ways:

- Trust within the financial system has been fundamentally eroded and will take a long time to rebuild. Fear of systemic risk have paralyzed the interbanking market and otherwise reduced liquidity in the system. Furthermore, banks having lost substantial amounts in the sub-prime crisis, will have to rebuild their capital basis before getting back to a normal lending activity. Although most Member States have launched banking bailout packages, in some countries, the financial sector has been hesitant to make use of these funds for fear of stigmatisation. All in all, many banks are refraining from their core activity, i.e. assumption and management of risk, which in turn risks having an impact on the lending activity to the retail, i.e. SME, customer.
- SMEs will also be hit by the drastic order freeze and production stops undertaken by larger companies, for which they often are suppliers. With a high degree of dependency on a single customer, the consequences can be nefarious for SMEs. This can for example be well illustrated in the automotive sector.
- In certain Member States, particular branches of the economy have been specifically hard hit. Thus e.g. the building sector in Spain faces an abrupt slump, with consequences for many small contractors.
- Finally, SMEs will also experience a much higher degree of late payments and delinquencies than in the past years, risking to push many otherwise sound SMEs into default.

#### **The response of guarantee systems to the crisis**

SME guarantee systems are ideally placed to help fighting the impact of the crisis on SME Finance. As a natural intermediary between banks, SME customers and the public authorities, they bring added value to all parties involved, with a positive effect on SME access to finance:

- Guarantee systems share the risk of the financial institution to a large extent, often going up to 80% of the loan amount. Banks, particularly in a risk-adverse environment, will be more willing and able to take on more risk than without a guarantee.
  - In the current context of shrunken own funds positions, guarantees institutions provide their banking partners with a useful mitigation effect under Basel II. Having to provide less regulatory capital for the guaranteed part of the loan, banks will be able to issue a greater volume of loans for a given amount of own funds.
  - Guarantee schemes also provide a higher degree of confidence to the financial system. They are usually supervised financial intermediaries, who usually proceed to an individual risk analysis of each single loan, thus avoiding the risk of moral hazard. They also provide additional information to the both the bank and SME partners and act as an interface.
  - Finally, SME guarantee schemes can reach a relatively high number of SME beneficiaries thanks to an average leverage factor of around 8 x guaranteed funds over own funds. This makes guarantees a particularly efficient and uncomplicated support tool.
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- Given these strong assets, AECM member organisations reaffirm their resolve to work in cooperation with the banking partners and the public authorities to facilitate SME access to finance in these difficult times.

### Policy suggestions

In order to fulfil their role in the most efficient manner, AECM's member organisations suggest the following policy actions to the EU and Member State authorities in order to improve the framework conditions for guarantees and SME access to finance:

- About one third of AECM member organisations have taken part as financial intermediaries in the Multiannual Programme (MAP), predecessor programme of the Competitiveness and Innovation Programme (CIP). The EU counterguarantees made available under the MAP have been viewed by AECM members as extremely useful and value-adding and will also constitute a vital element in combating the impact of the financial crisis. However, while the CIP is now already headed for mid-term review, it has to be noted that unfortunately, only a few AECM member organisations have so far been able to sign their bi-lateral contract with the European Investment Fund (EIF). AECM calls upon the European Institutions to speed up the signature of the remaining contracts, so that the CIP guarantee funds can be put to use. Furthermore, AECM calls both on the Commission and the EIF to adopt a more flexible eligibility criteria for Financial intermediaries. Also AECM encourages both the Commission and the Parliament to substantially increase the funds made available under the guarantee facilities of the CIP.
- Most of AECM member organisations benefit from a public co- or counterguarantee, allowing to further increase the leverage factor of its guarantee instruments. These are subject to state aid regulation, which is seen as very limiting. Out of the available options, most AECM members use the De Minimis Regulation as an uncomplicated and flexible way of exempting SME guarantees. However, the general € 200.000 (and the € 7.500 in agricultural sector) exemption ceilings over 3 years together with the cumulation requirement with other aid types significantly limits SME access to finance. Thus, as a general rule, AECM suggests that the ceiling be raised to € 400.000 for general de minimis ceiling (and at least to € 100.000 ceiling in agriculture).
- Moreover, AECM suggests a revision of the safe-harbour rates included in the recently adopted Guarantee Notice as they are clearly above the market price for the respective risk classes.
- Independently of the above suggestions, given the current circumstances and in view of the potential gravity of the crisis ahead of the EU, AECM suggests a temporary moratorium on state aid regulation for SMEs, including the agricultural sector to ensure a maximum flexibility of Guarantee schemes to respond to the needs of the SME sector.
- In order to further alleviate the lending banks balance sheets and boost SME lending, AECM proposes to create the necessary conditions in cooperation with the respective national supervisory authorities to bring down to 0 % the

weighting of the own funds requirement for the part of the guarantee that is counter-guaranteed by the national authorities.

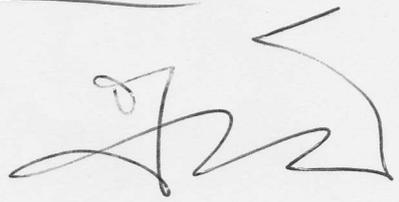
- In general, Member State authorities are invited, for the time of the crisis, to flexibilise their counterguarantee mechanisms with regard to the scope (including e.g. working capital where this is not the case) and to term (allowing short-term guarantee commitments, where this is not yet the case).
- AECM would welcome a structured dialogue with the representatives from the EU Institutions, the banking sector, SME organisations as well as the representatives of the regions and of civil society, to further examine the solutions to the crisis.

Adopted on the occasion of the Extraordinary meeting of the AECM  
General Assembly in Lisbon on the 28<sup>th</sup> November

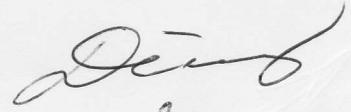
  
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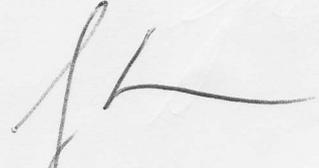
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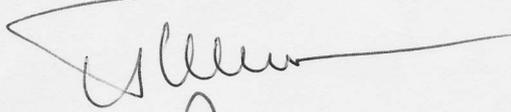


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