NPBIs ready to fight the COVID-19 economic crisis

Brussels, 19 March 2020

The European economy needs support in the current crisis situation. There is a chance to soften the impact of the economic downturn but companies require liquidity immediately and the financing of investments should be continued simultaneously.

The European Union and the Member States have an efficient network of promotional banks and institutions. Today, they have been asked to show their mettle. Promotional instruments should address the needs at national, regional and local levels. National Promotional Banks and Institutions (NPBIs) are best prepared to provide the necessary support on the ground. The first instruments are already working. In order to accelerate disbursements of European support measures we now need:

- The efficient inclusion of experienced implementing partners, notably NPBIs who have banking experience, market know-how and who can implement public support within hours;
- The utmost flexibility within existing rules, notably the state-aid regulation and the public procurement regulation;
- An adaptation of existing EU financial instruments in order to avoid long-lasting negotiations between public authorities and implementing partners for new programmes.

The European economy is facing a unique challenge on a completely new dimension with a major sanitary crisis that threatens everyone’s daily life throughout the entire world. The economy will see a downturn which can already be felt. The economy will certainly be hit on a massive scale in the short-term, but long-term consequences could also be tremendous if long-term investment is put in jeopardy. We need to go on investing for the future and we, as NPBIs, are ready and fully-prepared to make this happen.

1. Support now – Being close to the actors

In this situation, all cornerstones of the economy need support from very small companies, self-employed, solo-entrepreneurs, SMEs on to mid-caps and globally-acting conglomerates, the airport and healthcare systems as well as in the fields of export and tourism. Our ambitious aim should be that no job be lost due to the current crisis, and no
company should become bankrupt due to the liquidity problems caused by this crisis as long as we take decisive and coordinated measures. What is sure is that all means of support be provided immediately. We cannot afford long and bureaucratic negotiations of public authorities with the relevant support schemes needing to be available within days rather than weeks.

In addition to their financial capacity and banking experience, NPBIs are ready to help with their comparative advantage as a result of their local presence, client-relationship base, market knowledge as well as their capability of aligning national and European policy goals and investment competencies. As already experienced for many decades under national and European schemes, actions taken by NPBIs have allowed for final beneficiaries all over Europe to benefit from the different support schemes including debt- and equity products, financing for working capital as well as from long-term investments. All the competencies and instruments have been adapted to the respective needs of each EU Member State at national, regional and local levels.

In this context, NPBIs stand ready to act as implementing partners of national measures as well as European ones.

2. Concentration on existing instruments and contracts

As far as existing financial products can be adapted to the new situation, they are ready to provide the necessary backing. Existing working capital instruments are efficient products to bridge gaps for companies in need. Broadening existing guarantee schemes brings private banks into the situation in order to help businesses whom they know and have worked with for a long time. NPBIs have longstanding relations to on-lending and co-financing banks with most of the initial support schemes being implemented within a few days and via the existing business relations. What is true at national or regional level is even more important for European support schemes. Existing instruments, notably those for SMEs and mid-caps, should be eligible in the crisis. By this reasoning, there is no need to negotiate public budgets or new refinancing contracts. This is the prime strategy to bring support to the European economy, in all EU Member States, within a few days. The existing NPBI networks ensure non-discriminatory access.

3. Flexibility within existing rules

NPBIs highly appreciate the announcement made by the European Commission to execute the utmost flexibility for existing rules, particularly the implementation of State Aid regulations. These rules are not adequate in the current exceptional situation. The full potential of the financial announcements can only be fully put to work with certain adjustments. The European Commission should take into account the extremely high
demand in the market. I.e. the initial budget capacity for one of the first instruments being fully absorbed after 24 hours and which had to be increased immediately. The European Commission should:

a) consider the application of the temporary framework and/or all temporary measures, at least until 31.12.2021 (with the option of a prolongation). ELTI welcomes the announcement of Vice-President Vestager in this regard.
b) increase the threshold of the De-minimis regulation to EUR 1.000.000 as it was done during the financial crisis in 2008. The higher threshold should also be applicable to financial instruments such as loans, equity and guarantees, as long as the gross grant equivalent does not exceed the threshold provided. This would give additional flexibility to European companies in need.
c) consider the possibility to increase the guarantee coverage for bank loans up to 90% in the new temporary state aid framework announced by Vice-President Vestager on 17.03.2020 with no other restrictions in terms of loans maturity so as to support working capital needs of companies and also their rebound on a longer term,
d) increase the 20% current state aid equivalent within the General Block Exemption Regulation (GBER). If the increase will be limited to a specific period of time (with the possibility to prolong if needed), this measure would be implementable very quickly.
e) implement comparable procedures for mid-caps and large companies so that the number of the necessary individual notifications will be limited and that DG Competition could concentrate its resources to “relevant cases”,
f) temporarily change the definition of undertakings of difficulties in the following way: ‘Undertakings in difficulties’ are activities which fulfilled the criteria until 31.12.2019. Undertakings which come into difficulties after this date are not seen as such given the virus-crisis. The need to examine and document the fact “as a result of the COVID-19 outbreak” should be suspended.
g) clarify that the “private investors test” is fulfilled even if a NPBI is taking up to 90% of the risk for a financing transaction including equity investments. A minimum of 10% private risk should be sufficient.
h) consider to bring the utmost flexibility to the public procurement regulations with the overall aim to save as much time as possible in order to quickly disburse the much-needed financing.

4. Adequate EU financial instruments

The requests received from on-lending or co-financing banks show that these intermediaries are asking for tools to mitigate risks which are not diversifiable. The requests received from direct client companies demonstrate that they need funding as fast as
possible. The EU response through SME financial instruments (COSME and InnovFin) as well as EIB guarantee programs, could be significantly more efficient, taking into account the following suggestions:

- Additional COSME funds should be made available by the EC so as to allow for the signing of new contracts or the increase of existing portfolios throughout Europe;
- The 20% guarantee cap rate under COSME is not adequate to mitigate a non-diversifiable risk. It should be increased to 50%. A combination of EU- and National budgets should be paved in this manner;
- The 50% guarantee coverage under COSME and InnovFin should be increased to the maximum possible. If cap rates are kept, 100% should be considered, and as far as is required, in cooperation between the EU and the respective EU Member State.
- The maximum eligible loan amount of EUR 150,000 under COSME should be increased;
- The minimum eligible loan maturity should be reduced to 3 months, so as to support working capital financing needs. A limit to 30% of the annual turnover might be taken into consideration for companies older than 5 years;
- Given the systemic risk posed by COVID-19, banks need full cover / sector general instruments. InnovFin should include working capital and liquidity support systems to companies in general and not only to innovation projects;
- Making it possible to provide companies with a 6-month grace period for their loan interest, under COSME and InnovFin, while extending the termination date of these contracts with the EIF, if deemed necessary;
- The possibility of including retroactively eligible loans contracted after 1 February 2020;
- The possibility of extending existing guarantees to cover maturity extensions of existing investment loans should be considered in order to avoid being classified as an NPL;
- The restructuring of the medium- and long-term loans of financially sound companies should also be considered eligible under COSME/InnovFin;
- As far as EIB Group guarantee programs are concerned: there should be an increase of the risk appetite through an up to 70% risk coverage for uncapped guarantee and the possibility to include unsecured loans (loans with low collateral and short-term loans to support working capital needs) within the portfolio;
- Introducing a portfolio guarantee on working capital loans, with a flat rate for a portfolio of loans, via financial intermediaries, rather than a single guarantee with annual premiums based on rating and size of the undertakings;
- Reviewing reference volumes under COSME Option 2 as less loans will be granted going forward due to the systemic risk of the effects of Covid-19;
- The possibility that Structural funds could be used as co-financing tools in the temporary state aid framework.
5. Not to sacrifice long-term financing

Urgency plans are crucial but they should not obliterate long-term needs and strategic choices. On the contrary, this crisis should give us the opportunity to confirm our engagement for a greener economy and improved infrastructure: schools, hospitals, digital infrastructure are key today – as fully demonstrated by this crisis, but also for the long-term prosperity of our economies. InvestEU, the Green Deal, programs such as the CEF or cohesion funds should not be sacrificed due to unintended fiscal constraints.

The cooperation with the EIB Group – the permanent observer of the association as well as the EIB and EIF – as long-standing partners of NPBIs - also stand fully ready to quickly deploy all support needed by NPBIs, such as funding, securitisation and other instruments.

Europe is facing unprecedented challenges. Hence, a sufficient budget must be made available. In this context, the announced EUR 1bn EC support is merely a drop in the ocean. Companies require vital support and time is of the essence to take the necessary decisions. Implementing partners stand ready alongside public authorities, at all levels, to offer the much-needed support. Let us start today!
The European Association of Long-Term Investors – ELTI

ELTI members represent an European-wide network of National Promotional Banks and Institutions who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-border solutions or investments with an European impact. Following the specific public mission of each member, the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. Most of the members offer various debt-products but not all members have a mandate for investment in equity.

The 30 members of the European Long-Term Investors Association (ELTI) a.i.s.b.l. are major long-term investors and represent a combined balance sheet of EUR 1.8 trillion. The Association promotes and attracts quality long-term investment in the real economy, including:

- strengthening cooperation, including at an operational level, between European financial institutions as well as with other Institutions of the European Union (EU) acting as long-term financers;
- informing the EU and its Institutions on the role and potential of the Members as institutions and agencies for long-term financing;
- strengthening the access of the Members to information on matters related to the EU;
- exchanging information and experiences among Members and with national and international organisations sharing the Association’s interest in the promotion of long-term investment;
- developing the concept of long-term investment within the economic and financial sector and promoting academic research on long-term investments;
- representing, promoting and defending the shared interests of its Members in the field of Long-Term Investment in full transparency.

The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level\(^1\). The European Investment Bank (EIB) as the status of a permanent observer. ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions\(^2\).

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\(^2\) Nordic Investment Bank (NIB), Council of Europe Development Bank (CEB), Long-Term Infrastructure Investors Association (LTIIA), Fund Manager of Financial Instruments in Bulgaria (FMFIB) Bulgaria, NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, INVEGA Lithuania, Turkiye Sinai Kalkınma Bankası (TSKB) Turkey