

Analysis of the Plataforma Pymes on business finance after the Covid-19 Crisis: Three proposals for SME and self-employed access to the European Central Bank's monetary policy of private asset acquisition

Madrid, May 21, 2020. Since the explanation of the economic crisis unleashed by the covid-19, numerous measures have been taken, both by the EU and by the Spanish Government to carry out public rescues under the cover of oligopolies with excessive rents and companies with a dominant position in the market:

1. Royal Decree Law 9/2020, which exempts SAREB from the causes of dissolution, in fact exempting it from the need to carry out a capital increase of some 15 billion euros
2. Establishment of a possible "corralito" by the spanish regulator CNMV to limit the redemption of investment fund units to their participants.
3. Extension by 2 years of the period on listing of savings banks on the stock exchange to privatize their capital, thus avoiding a low valuation.
4. Prohibition by both the European regulator (ESMA) and the CNMV of short positions on listed companies, protecting their contributions.
5. Extension by 1 trillion euros of the ECB's purchase programme for the acquisition on the secondary market of public debt and corporate bonds of listed companies.
6. Temporary deregulation by the ECB of the requirements imposed on collateral to be provided by Eurosystem financial institutions in order to obtain financing.
7. Compensation for possible rating downgrades of the public debt of Euro Zone Member States below the minimum required by the ECB for acquisition, by taking into account the rating prior to 7 April 2020.
8. Establishment by the ECB of the PELTROs: refinancing procedure for financial institutions to protect them from the rise of the Euribor.
9. ICO guarantee line for bond issues in the Alternative Fixed Income Market (MARF): intended for non-financial companies that had issued note programmes before 21/04/2020. There is a possibility that new covered issues will be used to cancel previously issued promissory notes.
10. ICO's acquisition programme for issued promissory notes in MARF by non-financial companies.
11. Study by the European Commission of the extension of the Member States' legal framework for State aid for the recapitalisation of large companies with a dominant position, which would affect free competition and fair price formation.

The Plataforma Pymes, far from criticizing these public bailouts, believes that they should be accompanied by conditions that would also benefit, directly or indirectly, European SMEs and self-employed.

In this regard, three possibilities are proposed:

1. Condition any of the rescue instruments applied by the ECB or ESMA so that the beneficiary company is up to date of its commercial debts with SMEs and the self-employed. Likewise, the possible entry of public capital into the shareholding of companies with a dominant position must be conditioned to the gradual disappearance of abusive market conditions that lead an extra cost on the inputs and outputs of SMEs and the self-employed.
2. To review the terms of bank financing through the guarantee system provided by Promotional Banks (ICO in Spain) and the European Investment Bank (EIB) Pan-european Guaranteed Fund.

The latest ECB "Survey on the Access to Finance of Enterprises" shows, for the first time since September 2014, that SMEs perceive their own financial situation as an impediment to access to finance. SMEs and the self-employed perceive that these credit programmes are more aimed at cleaning up the balance sheets of financial institutions than at helping the recipients of the loans themselves.

Some of the improvements proposed by the Plataforma Pymes would be the following:

- Elimination of cross-selling practices.
- Allocate these lines exclusively to SMEs and self-employed, without access to the ECB's private asset purchase programmes.
- Move towards bank deconcentration which makes it difficult to finance SMEs and self-employed.

For example, in the US there is a powerful system of bank financing atomized through the Community Banks, specialized in SMEs and self-employed. The SBA (Small Business Administration) reported that the \$350 billion federal government-backed credit line for SMEs and self-employed ran out in 14 days.

- Ensure that this type of financing, in addition to not being granted to companies based in tax havens, is also not available to companies with headquarters or subsidiaries in EU countries that allow the application of tax rulings or "taxes on demand".
- Express prohibition of the use of these funds to cancel previous debit positions of SMEs to the financial system. The aim is to make the net balance of bank financing to SMEs positive.
- Awarding funds to SMEs by EU financial institutions not resident in Spain. The aim would be to achieve greater capillarity in the concession, in line with what was done by the Community Banks in the United States.

To condition both the access of non-financial companies to the ICO guarantee programme for the issue of promissory notes in the MARF and for those whose issues are acquired by the ICO, that they are up to date in the payment of their commercial debts with SMEs and the self-employed.

3. Direct access for SMEs and self-employed to the ECB's private asset acquisition programmes through two mechanisms:
- Creation by the ECB of a program similar to the US Federal Reserve's Main Street Lending Program to support the financing of SMEs and the self-employed who were solvent before the Covid-19 program. Loans granted by financial institutions could be acquired by a Special Purpose Vehicle (SPV), subject to the liquidity obtained being redirected to the financing of this type of SME and self-employed.
 - Include, within the ECB programme of temporary flexibility of collateral - and once accepted by the Bank of Spain - loans to SMEs and self-employed with guarantees from Promotional Banks, such as the ICO. As a condition, at least 40% of the new liquidity obtained by financial institutions through this programme could be reused to finance SMEs and the self-employed without the need for additional guarantees.