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# Press Release

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## SME loan guarantees: positive results but better targeting and coordination with national schemes needed, say EU Auditors

**The size of two EU loan guarantee programmes was set without a comprehensive analysis of market needs, and too many of the companies which benefitted were not in real need of a guaranteed loan, according to a new report from the European Court of Auditors. Nevertheless, companies that received a guaranteed loan did grow. A significant share of companies that received an innovation-related guaranteed loan displayed only a modest degree of innovation, say the auditors. This is not in line with the focus and ambition for excellence stated in the regulation. The auditors also note that the European Commission has not yet provided sufficient evidence of the impact of the loan guarantees and of their cost-effectiveness. While the Commission has overall responsibility for the programmes, the implementation is entrusted to the European Investment Fund (EIF).**

The auditors analysed whether EU loan guarantees supported smaller businesses' growth and innovation by enabling them to access finance. They examined the two centrally managed instruments currently in operation: the InnovFin SME Guarantee Facility for research- and innovation-driven companies and the Loan Guarantee Facility. Over the 2014-2020 period, the EU budget is expected to provide €1.78 billion to cover both potential losses on loans and the costs of running the instruments. This figure rises to €3.13 billion when top-up funding from EFSI, the European Fund for Strategic Investments, is included. In terms of financial volume, the two instruments are relatively modest compared with those provided by the EU for national SME guarantee schemes under the Structural Funds and those provided by Member States themselves.

"*Our auditors found that there is a need to better target viable businesses lacking access to finance, and those that conduct research and innovation with a high potential for excellence*," **said Neven Mates, the Member of the European Court of Auditors responsible for the report.** "*The schemes also need to be coordinated with similar schemes at national level*".

Compared to the past, the guarantee instruments commenced operations quickly, say the auditors. While available EU funding increased substantially, the assessment of market needs carried out did not cover all guarantee instruments and did not show how they should respond to these needs. The Commission has so far provided only limited evidence as to the effectiveness of previous loan guarantee instruments, while the level of costs and fees paid to the EIF, was not sufficiently substantiated. Although the evaluation arrangements for the current instruments have improved, several weaknesses remain, such as a lack of data for evaluating the effect on innovation activity, and limited scope for scrutinising the schemes through

***The purpose of this press release is to give the main messages of the special report by the European Court of Auditors.***
*The full report is on www.eca.europa.eu.*


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academic research.

Based on an econometric study conducted for France, loan guarantee instruments helped beneficiary companies grow more in terms of total assets, sales, employee numbers and productivity. The effects were higher for smaller and younger businesses, i.e. those more likely to have struggled to obtain a loan without the guarantee. This has important implications for targeting beneficiaries under the instruments.

The auditors found that in their sample, covering nine Member States, a significant share of beneficiary companies would not have struggled to get access to finance and thus were not in need of a guaranteed loan. Lending to companies that did have access to finance was particularly pronounced at private financial intermediaries under the InnovFin SME Guarantee Facility. By supporting businesses that already have access to commercial loans, the EU instruments risk competing with the private sector, say the auditors.

The InnovFin SME Guarantee Facility is intended to focus on companies carrying out research and innovation with a high potential for excellence. However, two thirds of the companies in the sample either only made standard product or process developments, or carried out no innovation at all.

The auditors observed a stark divide between private and public intermediaries: public ones do much better in focusing on businesses in knowledge-intensive sectors, in other words: those more likely to innovate.

Finally, the auditors note that similar instruments already exist on a large scale in most Member States, which has important repercussions for the EU schemes and calls for improvements in their implementation. We expect the Commission to address most of our recommendations for possible successor instruments under the forthcoming multiannual financial framework. Specifically, the Commission should:

- better target viable businesses lacking sufficient access to finance;

- ensure, in the case of the InnovFin SME Guarantee Facility, that targeted businesses are more innovative;

- perform a comprehensive evaluation of the effectiveness of the previous and current guarantee instruments and conduct an ex-ante evaluation of the possible successors;

- identify how centrally-managed instruments can best respond to market needs by ensuring coordination with national and regional funded instruments.

## Note to Editors

For almost 20 years, the EU has helped European small and medium-sized enterprises access debt financing by providing loan guarantees. The guarantees are provided to financial intermediaries, which are expected to increase their lending to viable businesses that would otherwise experience difficulties in obtaining loans. To help these businesses, the EU provides funds for two centrally managed guarantee instruments and, under cohesion policy, it co-finances similar instruments put in place by national or regional authorities. Member States also provide their own resources to similar schemes.

In 2016 the Commission, the European Investment Bank and the EIF decided to make part of EFSI's budgetary resources available to top up the EU contribution for the two instruments.

Special Report No 20/2017: "EU-funded loan guarantee instruments: positive results but better targeting of beneficiaries and coordination with national schemes needed" is available on the ECA's website (*www.eca.europa.eu*) in 23 EU languages.