

Exchange of good practices on national solvency measures for SMEs during and after the Covid-19 crisis

The Spanish Case

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Total

EUR 232bn
(20.6% GDP)
*(excluding
loan
moratoria)*

Financial measures

EUR 158.8bn
(14.2% GDP)

1. Loan moratoria

EUR 59.2bn (5.3% GDP)

2. Public Guarantees

EUR 143bn (12.7% GDP)

3. Measures to support corporate solvency

EUR 11bn (1.0 % GDP)

4. Tax measures to support liquidity

EUR 4.8bn (0.4 % GDP)

Fiscal measures

EUR 73.3bn
(6.4% GDP)

1. Direct transfers

EUR 39.5bn (3.6% GDP)

2. Tax and social contribution exemptions

EUR 7.8bn (0.7% GDP)

3. Other measures

EUR 26.0bn (2.3% GDP)

+ flexibilization of supervisory rules, bankruptcy filing moratorium

Timeline

March 2020

- Loan moratoria
- 1st tranche of public guarantees (EUR 100bn)
- Short-timework scheme (ERTEs)

July 2020

- 2nd tranche of public guarantees (EUR 40bn)
- Fund for Supporting the Solvency of Strategic Companies (EUR 10bn)

May 2020

- Short-timework scheme extension
- Sectoral loan moratoria

March 2021

- Direct transfers to businesses and the self-employed (EUR 7bn)
- Fund for Supporting the Solvency of Companies hit by COVID (EUR 1bn)
- Direct transfers to restructure loans backed by public guarantees (EUR 3bn)

Highlight of measures

Financial measures

EUR 158.8bn
(14.2% GDP)

1. Loan moratoria

2. Public Guarantees

3. Measures to support corporate solvency

4. Tax measures to support liquidity

▪ ICO Public Guarantees (EUR 140bn)

- Fund for Supporting the Solvency of Strategic Companies (EUR 10bn)
- Fund for Supporting the Solvency of Companies hit by COVID (EUR 1bn)

Fiscal measures

EUR 73.3bn
(6.4% GDP)

1. Direct transfers

2. Tax and social contribution exemptions

3. Other measures

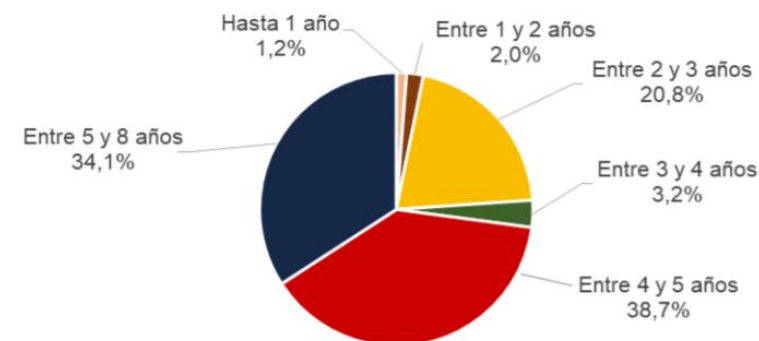
- Direct transfers to restructure loans backed by public guarantees (EUR 3bn)

- **Provided by the Spanish Government and managed by ICO** in partnership with Spanish financial institutions.
- **The guarantee covers 80% of the principal of new loans and 70% in the case of renewals to self-employed and SMEs.** For bigger companies, the guarantee covers 70% of new loans and 60% of renewals.
- **Valid for the term of the granted loan, with a maximum term of 8 years** (extended from an original maximum term of 5 years). **The cost of the guarantee, between 20 and 120 basic points,** will be covered by the collaborating financial entities.
- Deadline for applications: 31/12/2021
- Implementation in two rounds:
 - First round (EUR 100bn) aimed at supporting liquidity
 - Second round (EUR 40bn) aimed at fostering investment

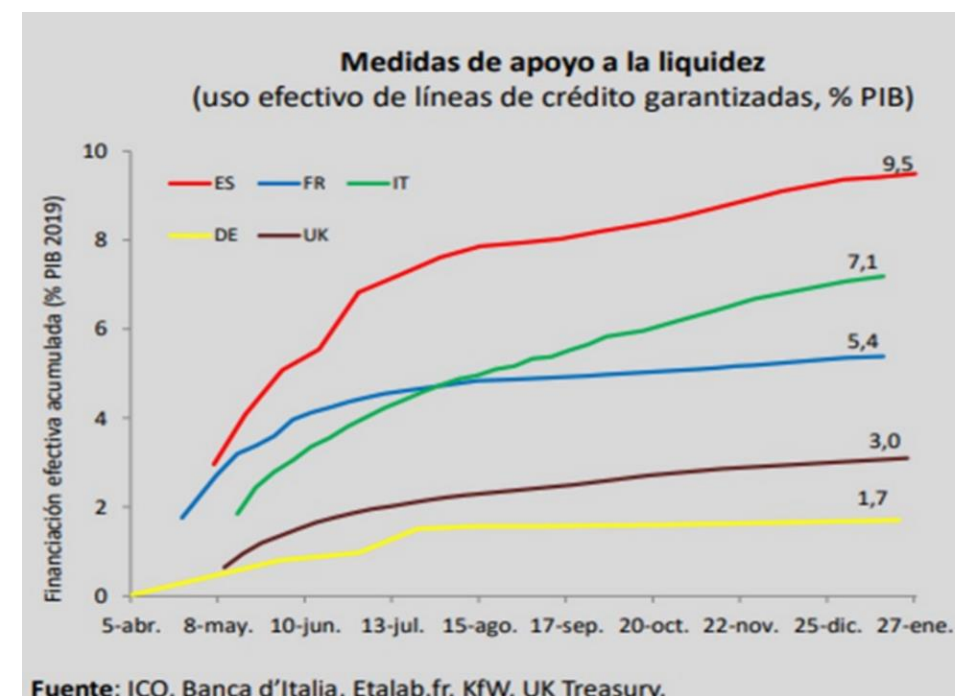
Public guarantees managed by ICO: key figures

Large take-up across the economic fabric in terms of firm size and sector. Micro SMEs and self-employed account for 75% of guarantees.

	SMEs and self-employed	Rest	Total
Operations	997,028	19,738	1,016,766
Public guarantees (EUR m)	68,095	24,175	92,27
Total funding (EUR m)	85,21	36,29	121,5



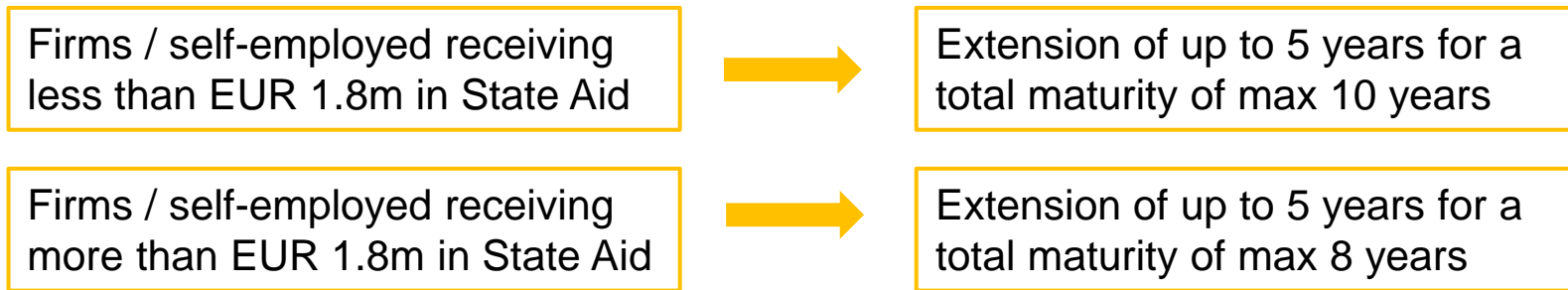
Sector	Nº ops.	Nº empresas	Aval solicitado (millones €)	Financiación (millones €)
Turismo, Ocio y Cultura	185.109	129.926	13.591,8	18.241,2
Construcción e Infraestructuras	109.341	67.371	10.001,6	13.093,1
Servicios Empresariales, Profesionales y Administrativos	92.496	65.349	8.157,6	10.968,0
Bienes de Consumo y Retail	84.619	59.519	4.962,0	6.366,7
Distribución Comercial de Alimentos y Bebidas	67.748	41.891	7.051,8	9.367,3
Bienes de Equipo e Industriales	67.073	37.894	7.721,5	9.995,9
Agricultura, Ganadería y Pesca	57.957	39.853	4.311,5	5.514,6
Transporte y Logística	51.220	29.838	3.773,8	4.838,9
Automoción y Material de Transporte	48.078	27.412	5.311,5	7.023,2
Industria Textil Y Moda y Retail	47.564	29.761	3.746,2	4.870,3
Industria y Servicios de la Salud	34.766	24.507	2.597,1	3.413,5
TIC	30.944	18.679	3.338,9	4.382,6
Servicios Inmobiliarios	24.441	18.853	2.058,6	2.632,8
Industria Alimentación y Bebidas	23.234	11.292	4.651,7	6.196,7
Energía	22.780	13.047	2.489,2	3.264,9
Educación	16.565	12.050	886,8	1.142,9
Industria Papel, Madera y servicios	15.887	9.191	1.348,6	1.754,9
Medio Ambiente	15.378	9.510	1.785,5	2.389,6
Industria Química	11.957	5.525	2.131,6	2.801,0
Metalurgia y otros Materiales	4.853	2.499	1.470,0	2.073,4
Industrias Extractivas	4.756	2.556	883,5	1.169,3



Code of conduct for loans backed by public guarantees (I)

- Launched in March 2021 and **endowed with EUR 3bn**
- Covers debtors whose loans are backed by a public guarantee and were granted by financial institutions that have endorsed a code of conduct.
- Three available measures, provided conditions are met
 1. Loan extension: extension of up to 5 yrs for a maximum of 10 years
 2. Loan transformation into hybrid debt instruments
 3. Direct transfer to write-off a share of the outstanding loan
- **Governance: Code of Conduct Control Committee**, chaired by the General Secretary of the Spanish Treasury and with representatives of the Ministry for Economic Affairs and multiple financial industry associations. Monitors quarterly data on the take-up of the measures included in the Code of Conduct

Loan (and guarantee) extension consistent with the State Aid Temporary Framework rules



Eligibility criteria

- Debtors are up to date with all their financial obligations and have not file for bankruptcy
- Debtors have not committed any tax or Social Security offense
- Year on year earnings down by at least 30%
- Additional commitments: no dividend payout in 2021 and 2022, no remuneration increase for management, commitment to continue with its economic activity to at least 30/06/2022

Implementation

- Automatic in 45 days upon request (deadline: 15/10/2021) provided that criteria are met
- If all criteria are met but the annual earnings fall is below 30%, it is up to the financial institutions to grant the extension

Loan transformation

- Loan transformation into participating loans (cost linked to firm's economic performance)
- Participating loans are not convertible into equity

Eligibility criteria

- Debtors must be firms having received less than EUR 1.8m in State Aid
- Debtors are up to date with all their financial obligations and have not file for bankruptcy
- Debtors have not committed any tax or Social Security offense
- Year on year earnings down by at least 30%
- Negative after tax P&L in 2020

Implementation

- Decision in 45 days upon request (deadline: 15/10/2021) by the financial institution

Direct transfers to write-off debt

- The restructuring proposal must cover all debt (with and without public guarantee with one or multiple creditors)
- Direct transfers up to 50% of outstanding guaranteed loans (up to 75% in case of annual revenue in 2020 of at least 70%)
- Participating loans are not convertible into equity
- Financial institutions must be willing to accept a proportional write-off of the unguaranteed tranche of the loan

Eligibility criteria

- Debtors must have received less than EUR 1.8m in State Aid
- Debtors are up to date with all their financial obligations and have not file for bankruptcy
- Debtors have not committed any tax or Social Security offense
- Year on year earnings down by at least 30%
- Negative after tax P&L in 2020

Implementation

- The financial institution analyzes the deal and reaches a decision upon request (deadline: 01/12/2022)

Fund for Supporting the Solvency of Strategic Companies

Main features:

- **Fund endowed with EUR 10bn** and managed by SEPI, Spain's state-owned industrial holding company
- **Goal: to provide a temporary, last resort, solvency support to non-financial companies impaired by the COVID-19 pandemic**, which are regarded as strategic for the Spanish or regional economic structure
- Governance:
 - **the Fund's governing body is the Managing Council**, chaired by SEPI's President and with representatives of the Ministry for Economic Affairs, Ministry of Finance, Ministry of Industry and Ministry of Energy.
 - The MC analyses all request and approves all operations, that must also be authorized by the Council of Ministers.

Eligibility criteria:

- **Non-financial corporations based in Spain that do not constitute an undertaking in difficulty** as per Commission Regulation (EU) No 651/2014 as of 31/12/2019
- **Viable firms under financial stress:** Absent the Fund's temporary support, the company would probably cease its operations. Yet, after the restructuring process, the firm must prove to have a viable business plan
- **Strategic salience:** the closing of the business would have a substantial impact on employment and economic activity, at the national or regional level
- **Minimum ticket of EUR 25m**

Financial instruments:

- Equity, equity-like and debt instruments
- Cost of instruments in line with Spain's National Temporary Framework for State aid

Fund for Supporting the Solvency of Companies hit by COVID (I)



Main features:

- **Fund endowed with EUR 1bn** and managed by COFIDES, a public company focused on funding internationalization projects
- **Goal: to provide a temporary, solvency support to non-financial companies impaired by the COVID-19 pandemic.**
- Aimed at midcaps and SMEs too small for the Fund for Supporting the Solvency of Strategic Companies
- Governance:
 - **the Fund's governing body is the Investment Committee**, chaired by the Secretary of State for trade and with representatives of the Ministry of Trade, Ministry of Industry, Ministry for Economic Affairs and SEPI.

Eligibility criteria:

- **Non-financial corporations based in Spain that do not constitute an undertaking in difficulty** as per Commission Regulation (EU) No 651/2014 as of 31/12/2019
- Revenue between EUR 15m – 400m
- **Viable firms under financial stress:** Annual fall in revenue in 2020 > 20%, deteriorated capital structured but viable long-term business plan.
- **Strategic salience:** the closing of the business would have a substantial impact on employment and economic activity, at the national or regional level

Financial instruments:

- Equity, equity-like and debt instruments
- Cost of instruments in line with Spain's National Temporary Framework for State Aid
- SMEs are eligible for funds between EUR 3m – 15m. Midcaps are eligible for funds between EUR 4m - 25m.

Some lessons learned:

- **Build on existing capacities for a swift execution.** All measures were designed building on the experience and expertise of existing institutions:
 - **ICO:** 100% state-owned bank with ample experience with second-floor loan facilities and playing the role of state financial agency and instrument of the Government's economic and financial policies.
 - **SEPI:** state-owned industrial holding company with experience in multiple sectors (postal service, agro business, energy, communications, etc.)
 - **COFIDES:** 51% publicly owned firm with a total portfolio of EUR 1.1m
- **Work along with financial institutions to gain granularity and a hands-on perspective**
- **Different execution lags for different types of measures.**