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

The Spanish Case

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### Overview

#### Total

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage GDP</th>
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</thead>
<tbody>
<tr>
<td>Financial measures</td>
<td>EUR 158.8bn</td>
<td>14.2%</td>
</tr>
<tr>
<td>Fiscal measures</td>
<td>EUR 73.3bn</td>
<td>6.4%</td>
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<tr>
<td><strong>Total</strong></td>
<td>EUR 232bn</td>
<td>20.6%</td>
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</tbody>
</table>

**Financial measures**

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**

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)

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+ Flexibilization of supervisory rules, bankruptcy filing moratorium
Timeline

March 2020
- Loan moratoria
- 1st tranche of public guarantees (EUR 100bn)
- Short-timework scheme (ERTEs)

May 2020
- Short-timework scheme extension
- Sectoral loan moratoria

July 2020
- 2nd tranche of public guarantees (EUR 40bn)
- Fund for Supporting the Solvency of Strategic Companies (EUR 10bn)

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**

1. Loan moratoria
2. Public Guarantees
   - 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)
3. Measures to support corporate solvency
4. Tax measures to support liquidity
   - Direct transfers to restructure loans backed by public guarantees (EUR 3bn)

EUR 158.8bn (14.2% GDP)

**Fiscal measures**

1. Direct transfers
2. Tax and social contribution exemptions
3. Other measures

EUR 73.3bn (6.4% GDP)
Public guarantees managed by ICO: main features

- **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.

<table>
<thead>
<tr>
<th></th>
<th>SMEs and self-employed</th>
<th>Rest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>997,028</td>
<td>19,738</td>
<td>1,016,766</td>
</tr>
<tr>
<td>Public guarantees (EUR m)</td>
<td>68,095</td>
<td>24,175</td>
<td>92,27</td>
</tr>
<tr>
<td>Total funding (EUR m)</td>
<td>85,21</td>
<td>36,29</td>
<td>121,5</td>
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</table>

Source: ICO
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

- **Firms / self-employed receiving less than EUR 1.8m in State Aid**
  - Extension of up to 5 years for a total maturity of max 10 years

- **Firms / self-employed receiving more than EUR 1.8m in State Aid**
  - Extension of up to 5 years for a total maturity of max 8 years

**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
Code of conduct for loans backed by public guarantees (III)

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.
Lessons learned

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.