



Call for Dialogue: Assessment of SMEs' Post-COVID Financial Health July 2021

Small and medium sized businesses (SMEs) have been [hard hit](#) by the ongoing COVID pandemic. This is especially the case in high employment sectors, such as tourism, hospitality, and leisure.

National governments and the EU have stepped in with unparalleled levels of support to help struggling SMEs¹. Banks have put in place a [variety of solutions](#) to help their clients, both in cooperation with and as a complement to public authorities' measures. Guarantee institutions have also played a key role in supporting corporate lending dynamics by setting up extensive support measures². In addition, accountants have helped SMEs adjust to the COVID circumstances based on their skills and capabilities around [financial distress](#) and business planning.

On top of their individual efforts, these sectors have also worked together at national and EU levels. In some cases, this has already led to initiatives aiming to reduce uncertainties and difficulties for SMEs. We also acknowledge the impact of the Roundtables organised by the European Commission in reinforcing these cooperative efforts and laud the efforts of national partners who have reached out to other sectors.

Altogether, these measures have probably helped to prevent thousands of bankruptcies and insolvencies, as pointed out by [Bruegel](#); however, in some cases, they may have also deferred solvency problems into the future.

Accountancy Europe, the European Association of Co-operative Banks (EACB), the European Association of Guarantee Institutions (AECM), the European Banking Federation (EBF), the European Savings and Retail Banking Group, SMEUnited and the five supporting organisations of this joint statement believe that it is time to start preparing for that future now!

¹ Including furlough schemes, tax deferrals, government-backed loans and guarantees, and loan moratoria. Many European countries have even temporarily [suspended](#) the enforcement of insolvency laws.

² cf. <https://www.flipsnack.com/AECMeurope/aecm-covid-brochure/full-view.html>

Our organisations concur that **SMEs, accountants, financial and guarantee institutions, and other key actors in the SME ecosystem need to get together to discuss SMEs' overall post-COVID business outlook**. Therefore, we announce the following:

1. We will **organise pan-European discussions** involving our sectors and the relevant public authorities at the EU level in order to ensure a common understanding of the challenges and solutions.
2. We will support initiatives by our national members when and where they deem it useful to organise **cross-sectoral national meetings**, reflecting country specificities and needs.

What would these discussions consist of?

Bottom-up, cross-sectoral voluntary discussions at the level of the national markets could be useful in leading to a **common understanding among the participating stakeholders on the up-to-date situation of SMEs, which is vital for the effective monitoring and assessment of companies' financial health and prospects**.

The signatories will support possible new or continued **national discussions** around these issues by providing relevant analyses and promote an exchange of best practices that could serve as an inspiration for these discussions³.

We also emphasise the overall need to foster the green and digital transition of the economy, as well as reporting and data sharing systems to meet changing business and market demands. Digitalisation can enable a better and more secure data exchange and provide more valuable insights through forward looking data and big data analytics. This will support the objectives of the twin transition of the EU economy.

Finally, in these discussions, there are two important balances to strike:

- While addressing what is different or unique about this crisis, we should also not overlook our best standard tool in getting out of a crisis: financiers working in a **competitive market** who use hard and soft data available to them about the creditworthiness of the borrowers. The market-based, time-tested risk assessment mechanisms should be allowed to function.
- While there is **diversity** in starting positions, impact of the crisis, structure of economies and characteristics of restructuring and insolvency frameworks, there is also a strong EU interest in ensuring **consistency and synergies** across national approaches. This means striking the right balance that gives an EU-wide steer to discussions that reflect national priorities.

Why is viability assessment important?

National dialogues to improve the availability of data and the assessment of viability can enable a better monitoring of businesses' post-COVID health, and therefore:

- **Help develop a sectoral view of SME debtors** at a particular risk of financial problems post-COVID;
- **Help governments better target any additional post-COVID measures**, such as national measures (such as tax forbearance measures) or the EU Recovery Fund allocations toward

³ We do not seek to be prescriptive or comprehensive. It should be up to our national members to decide to hold such discussions and what issues should be discussed.

uses that can make the most difference, i.e., in support of businesses and sectors most in need and which have the best chances of contributing to a sustainable recovery⁴;

- Facilitate **debt and loan restructuring** for viable borrowers; and
- Help identify what **additional measures** are needed to help “near-viable” SMEs survive post-COVID, i.e., businesses that would otherwise be healthy were it not for (for example) the debt overhang caused by COVID, which might still need additional temporary help to prevent them from going out of business.

In this context we note the recent paper of the [ESRB](#) focusing on preventing and managing a (potentially) large number of insolvencies. In particular, we agree with the following observations:

- ‘The rise in insolvencies that normally accompanies a contraction in economic activity has so far not materialised, but a major wave of **insolvencies may yet happen** if crisis management measures are withdrawn **too quickly**.’
- As we enter the post-COVID phase, the goal should be to **avoid insolvencies of fundamentally viable firms** and to **deal with** insolvencies of fundamentally **unviable firms efficiently**. This phase will require ‘a transition from broad-based, system-wide measures to a more targeted approach’.
- ‘Policies must be geared towards rebuilding the economy, **fostering adaptation to structural change**, rather than trying to preserve, or return to, the pre-pandemic economy.’
- Strategies to address solvency issues should include, where needed, ‘improved restructuring frameworks and debt relief or equity injections to repair balance sheets of corporates with **viable business models**.’
- Slow or overly complex restructuring proceedings ‘could damage in particular **SMEs**.’
- For companies found to be ‘unviable in the post-COVID-19 economy, **efficient insolvency procedures** should be developed to facilitate the swift redeployment of resources to more efficient uses.’
- A key challenge will be **distinguishing between viable and non-viable firms**, which cannot realistically be performed on the required massive scale by public administrations or courts. The information and expertise held by informed lenders, such as banks, and by guarantee institutions⁵, will be critical for the survival of viable companies. In our view, the better/earlier the information provided by SMEs/accountants, the easier it is for the banks and guarantee institutions to evaluate.

A clear implication of this report and the broader discussion is the need for **pan-European and national cooperation** among companies, lenders, guarantee institutions, the public sector, and providers of financial services. As a first step, public authorities, accountants, financial institutions, guarantee institutions, and SMEs themselves should join efforts in the assessment of the post-COVID solvency and prospects of SMEs. This would in turn support the design of more targeted and effective follow-up COVID aid measures, as well as a progressive transition to a stable, green, and digital economy.

⁴ By which we mean ‘sustainability’ in its more comprehensive sense i.e. environmental, financial and economic, societal etc.

⁵ cf. <https://aecm.eu/publications/reports-and-studies/>

Supporters of this statement (in alphabetical order):

