

WEBINAR – COVID III, April 2020 (transcript ENG)

Nils Jebens: Hello, this is Nils Jebens from the Nordic Chamber office. I would like to welcome you all to this webinar as much as I would like the circumstances to be different. It is the first in the series of webinars to assist and guide all our members and other people interested through this absolutely surreal crisis. Today's subject is the COVID programme. We will especially focus on the COVID III programme which will be released in a couple of weeks time. Personally, I have applied for COVID I and for COVID Praha and I have yesterday been told by my bank that I am not eligible for COVID III. Anyway, I think we are very fortunate today to be able to present Mr Jirásek, CEO of the Czech-Moravian Guarantee and Development Bank (ČZMRB), arguably with the best first-time information on this issue. Before I hand over to Mr Jirásek, I wish you all the best and good luck through the corona crisis and God bless you. Thank you.

Lea Turcarová: Good afternoon to all thirteen participants. Let me explain what the webinar will look like. You will see Mr Jirásek throughout the webinar and I will ask him questions that you, the participants, sent. With respect to the situation that was announced on Monday that COVID Praha was immediately exhausted and would not be renewed, at least based on the latest information, Mr Jirásek will mostly focus on the programme COVID III. At first, he will shortly introduce the programme and will answer your questions afterwards. Dear participants, please welcome Mr Jiří Jirásek, CEO of the Czech-Moravian Guarantee and Development Bank, who will provide a brief summary about the COVID III programme and its conditions. He will then answer the questions you have sent. I will read the questions for you and Mr Jirásek will respond.

Jiří Jirásek: Good afternoon everybody and let us launch into the COVID issue. The COVID issue first appeared in March when, along with the epidemic outbreak that affected us, we started to prepare programmes in collaboration with the Ministry of Industry and Trade of the Czech Republic to help companies overcome the complicated period they are confronted with and will be confronted with in the future. The COVID I programme was the first measure to have been adopted. The preparation of this programme started early in March when it was not quite clear how the situation would develop. As it showed later, the set-up of the product was not optimal because the demand was enormous. It soon became apparent that guarantee schemes would be the only option for providing substantial support for small and medium-sized enterprises. In the view of this fact, we prepared the COVID II and COVID Praha programmes with the help of EU funds. It is a guarantee system and these programmes were also in high demand. Speaking about COVID II, we received applications for CZK 17–20 billion in total and the demand for COVID Praha was also extensive. The City of Prague provided to us only CZK 600 million which will cover about CZK 1.4 billion because the scheme further includes a contribution to the clients' interests. Being covered by EU funds, the guarantee schemes were rather traditional in the sense that there is a great number of legislation requirements that we must check and make sure to be met, e.g. the SME statute, which is a rather sensitive issue. Our products are meant for small and medium-sized businesses only and we have to observe the EU definition. This is something that many of you

may have experienced – it is simple at first sight but as soon as you come across the principle of independence, you find out that things are much more complicated. And there are further issues that add to it. The schemes include the element of public support and everything was done under *de minimis* regime. The COVID III programme that is currently being prepared is an utterly different scheme. It was facilitated by the EU's temporary legislation, namely the temporary framework for public support that provides guarantees under certain conditions without, putting it simply, including the element of public support. This enabled us to apply a new structure to draw up COVID III. In this case, ČMZRB will no longer issue guarantees to clients; instead it will issue a guarantee contract for the portfolio to the particular bank that shows interest in the programme. The participating bank will include its clients into this portfolio and will determine who will be given support. Naturally, the element of public support will not be there because the legislation allows it. It will be much simpler for clients as they will not have to apply to ČMZRB for any guarantee and will not have to make any agreements with ČMZRB. Everything will take place within the clients' standard cooperation with commercial banks. The client will conclude a credit contract with the bank. The bank will decide about the inclusion of the client into its portfolio which will be secured by ČMZRB. Some liken this system to the system of guarantees provided by the European Investment Fund. In my view, main attention will focus on COVID III because all three programmes – COVID I, COVID II, and COVID III – are short-term programmes that we are dealing with at the moment and that are not expected to be dealt with in the future. The COVID III programme is mainly designed to provide aid to small and medium-sized businesses. Yesterday, the parliament discussed a draft bill on providing a guarantee for ČMZRB's obligations that will ensue from the guarantee schemes. The guarantee budget is up to the amount of CZK 150 billion, and with respect to the set-up of the scheme it will be able to provide guarantees of company loans up to CZK 500 billion which is a big amount. Based on our experience about the average size of a loan guaranteed by us, there will be about 150–200 thousand guaranteed loans which is a substantial amount. This was a brief introduction to COVID III. I am now ready to answer your questions.

QUESTION: What requirements must be met by entities requesting a guarantee within COVID III? Will the EU criterion for small and medium-sized businesses be applied?

Jiří Jirásek: Let me start with the EU definition. The answer is 'no'. The SME definition will not be applied. Pursuant to the law, loans up to CZK 50 million will be guaranteed. Companies with less than 250 employees will receive a 90% guarantee while companies with 251–500 employees will be granted an 80% guarantee from us. From this viewpoint, the EU definition is not applied so you do not have to worry. The evaluation will depend on the number of employees. Moreover, this will be done by commercial banks; they will very quickly compare the number of employees to these criteria and will decide about the inclusion in the programme. Once again, I would like to underline that clients will not request any guarantee from ČMZRB; instead, everything will be done in collaboration with their bank. The client will come to the bank, ask for the loan and if the bank decides that the loan should be guaranteed by ČMZRB, they will arrange it directly with us. Naturally, I cannot rule

out that, for example, the contractual documents will say that the loan is guaranteed by ČMZRB but there will not be anything else. It is a very simple scheme which will deal with guarantees for operating loans only; there are no further restrictions. It is a very broad definition.

QUESTION: Where will the programme sources come from?

Jiří Jirásek: They will come from the government budget and will be paid by the Czech Republic taxpayers. Yesterday, the parliament discussed and passed the draft bill on the state guarantee of up to CZK 150 billion, i.e. the maximum amount of money within the guarantee scheme will be CZK 150 billion. Let me mention one important thing: the loans will be provided until 31 December 2020, i.e. only by the end of this year and the state guarantee scheme will run until June 2024. The amount of CZK 150 billion is the maximum amount that will be covered by the government budget. The money will gradually flow in based on the payment of guarantees. At the moment, we do not know how much of the guarantees will be paid out, the cap is set to 30% which means that out of CZK 150 billion we can make CZK 500 billion of issued guarantees. CZK 150 billion is the maximum amount and based on the payments, ČMZRB will receive the money from the government budget, the ministry of finances, and will provide it to settle the guarantees.

Nils Jebens: Our company applied for COVID I and COVID Praha and we received a refusal which is fine. I understand that volumes were not sufficient and also that the amount of work that goes into it is massive. Now, however, I spoke to my bank yesterday and they said yes, COVID III will cover 80% of the individual loans but only 25% of the total lending volume upon which they said that in our case COVID III does not help at all. Can you give some insight to this comment that the bank made?

Jiří Jirásek: That one part is inaccurate. Yesterday, the parliament passed the law on the coverage of the risks up to 30%, not 25% but up to 30%. It means that the risks of banks will be better covered, and they should therefore take greater risks. But if I was to answer openly, I think that banks must always act the same; the banking principle is based on the evaluation whether the loan will be repaid from the future revenue. Regarding guarantees, even if they are state guarantees, the banks can help but if they do not see a big chance of return within the given scheme or the given contract, their willingness can be limited. I am being very open now. The guarantee schemes, either in the Czech Republic within COVID III or elsewhere in Europe, help in increasing the number of clients that will get through the bank; however, it cannot be guaranteed that everyone gets through. It is a difficult situation and a question arises again whether to provide refundable support or subsidies to clients or entrepreneurs. I understand that it is difficult in some segments, but the policies of banks are the same all over the world, i.e. they need to see some probability that future revenues will enable the client to pay off the loan.

QUESTION: Will the programme be open until a specific date, as was the case of for example COVID II, or until the exhaustion of the sources, as was the case of

COVID I and COVID Praha? Will those who applied in other programmes be also allowed to apply in this programme? Can they apply for a different programme if their application for the previous programme was rejected?

Jiří Jirásek: I am going to repeat one thing. You should understand that this programme is not based on applications. It is designed differently: ČMZRB will take the guarantee for the portfolios of clients in particular banks. The banks will include their clients into their portfolios; therefore, there will be no relationship between the clients and ČMZRB and they will not have to apply for it. It will work as follows: the client will come to his commercial bank and the bank will say 'we will give you the loan only if it is guaranteed by ČMZRB'. That is, it. The bank will make sure that the client is included in the portfolio that we will then guarantee. This is the advantage. I will give you an idea of how tough the situation is. We received applications in the amount of CZK 20 billion for the COVID II programme in two days whereas the demand for our guarantees for the entire last year was about CZK 14 billion. The capacity is not set up to this amount. It is prepared, we can increase it, but it is not very easy. From this viewpoint, the demand is huge and thanks to the legislation we came up with this form of a portfolio guarantee. Its procedure is extremely simple. The client does not apply but the particular bank decides about his inclusion in the portfolio. In order to answer the other question – the programme will deal with loans that will be provided until the end of this year, i.e. 31 December 2020. The capacity of the state guarantee is limited by CZK 500 billion which is sufficient, I think. If it turns out to be insufficient, the parliament or the government will have to decide what next steps to take but it is difficult to foresee it now.

QUESTION: Which documents will have to be submitted by the entity along with the application? Can they use the documents / attachments / certificates that were submitted with their previous applications?

Jiří Jirásek: No, as I said, it will be extremely simple because the client will not apply for the guarantee from ČMZRB. Therefore, the SME statute will not have to be verified and no public support will have to be checked. There will be no applications, no forms. The process will be very simple – the client will apply for a loan at his commercial bank. The bank will say 'yes, we will give it to you with the guarantee provided by ČMZRB'. Done. The client will then make an agreement with his commercial bank and draw the loan as he wants and as specified by the contract.

QUESTION: How long in advance will the form and attachments of the application be released?

Jiří Jirásek: The answer to this question is very easy. There will be no forms.

Lea Turcarová: Perfect. I like it.

Jiří Jirásek: It makes me happy as well.

QUESTION: Will the purpose of the guaranteed loans be restricted?

Jiří Jirásek: Pursuant to the law, it must be an operating loan. It cannot be an investment loan.

QUESTION: Will the sources of the open call be strictly distributed among the regions and if so, what will be the rules?

Jiří Jirásek: It is not expected for the time being, at least not by us. Let me add one more thing: there is the law and the Ministry of Industry and Trade will have to prepare the programme which will be passed by the government and which will include the details of the specific programme. At the moment, I do not assume there will be any limits regarding regions. The means or the guarantee should be distributed among the commercial banks to roughly correspond to their market share in the segment of small and medium-sized businesses. I have no information about any geographical limits, and I must admit it would not make much sense to me. The system will work automatically; the banks will include in their portfolios the clients that need the guarantee.

QUESTION: Is there any aid planned for big companies with 1,000 or more employees, not just in the COVID programme but within some other programmes?

Jiří Jirásek: The Export Guarantee and Insurance Corporation (EGAP) prepare guarantees for big companies. I do not have any precise information at the moment, but it should go beyond our programmes. They should deal with loans for big companies, should provide larger volumes whereas the loans provided by us will not exceed CZK 50 million. The big companies will fall under the EGAP, but I am not familiar with the details.

QUESTION: What is the overall capacity of the COVID I and COVID II programmes and what are their financial sources? What proportion will be covered by EU funds?

Jiří Jirásek: It is easier to answer the COVID II programme, the guarantee scheme. The allocation comprises about CZK 17 to 20 billion depending on the parameters of the guarantees; it cannot be specified precisely. It is financed by the Cohesion Fund within the OPPIK operational programme which is the reason why it does not include Prague and why Prague-based companies quite logically complained. The situation of the COVID I programme is more complex: one half of the programme, CZK 500 million, is covered by national sources and about CZK 475–490 million is provided by EU funds. This means that the entire capacity of COVID I is nearly CZK 1 billion. We are currently working on the evaluation of a couple more cases and by the end of next week the limit will be reached. Unfortunately, we will have to reject the remaining applications.

QUESTION: Will the contribution to pay off the interests be part of the guarantees for commercial loans?

Jiří Jirásek: This element will not be part of the COVID III programme. There will be a standard relationship between the bank and the client.

QUESTION: Is the programme also designed for non-profit organisations, or more precisely for other legal persons in addition to business corporations?

Jiří Jirásek: Absolutely, the definition is 'businessman, funding for businessmen'. The question is who a businessman is. I would say that a businessman is everyone

who has a registration number but if there is a lawyer in our audience, please tell me. Those of you who know can answer this question. I am not sure.

QUESTION: Are the businessmen or the aggrieved entities obliged to provide evidence of the impact of the covid-19 epidemics on them?

Jiří Jirásek: They do not have to do anything. The purpose of this tool is to help companies obtain operating loans and to do it simply because naturally any additional conditions would require enormous administration work and protraction of the entire process. We attempt to make the programme easy and better available for the companies that need operating loans. It is as easy as that.

QUESTION: In what time horizon can the successful applicants expect to receive the money or the decision about being provided the guarantee? The latter depends on the banks, doesn't it?

Jiří Jirásek: Speaking about COVID III, it is simple. It depends on the banks, i.e. how prompt is their response and how quickly they process and provide the loans. We in ČMZRB have to conclude a contract with the state to obtain the mandate. Then we will conclude contracts with the banks, promising them our guarantee. The banks will observe their credit policies and include the clients in their portfolios. Therefore, there should be no delay at the time the programme is launched.

Lea Turcarová: I have already used up my list of questions. I am therefore asking the participants to e-mail me any additional questions at info@nordicchamber.cz to be addressed later. In the meantime, I would like to ask you, Mr Director, whether you had to hire more employees for this additional work or whether you are dealing with this situation with the same number of people you had before the COVID-19 pandemic erupted.

Jiří Jirásek: I will use the same example again. Last year, we provided 5,5 thousand guarantees in the approximate total amount of CZK 14 billion. That was last year where the capacity of guarantees was set up between CZK 15 and 16 billion. Recently, however, the demand increased by 1,000%; the number of required guarantees for COVID II is CZK 20 billion CZK. The clients expect, and I completely understand them, that the applications will be processed very quickly. However, we have to achieve our annual performance in just two or three weeks. We must increase the performance even with the COVID I loan programme adding to it. ČMZRB is a guarantee bank; loans occupy only a small portion of our work. Nevertheless, the guarantee scheme places demand on us to process the twentyfold amount of what we usually do. Those who have their own business or are in charge of an enterprise can imagine what it means to suddenly increase your production, either of services or products, by twenty times in just one week. Naturally, it had an impact on us because all clients expected us to get everything done immediately but the capacity was not set up to this amount. We are able to increase the capacity and we are doing so. We cooperate with the ministry as well as the organisations such as CzechInvest, Czech Export Bank, and the State Environmental Fund of the Czech Republic that help us with administration work; however, you cannot increase the capacity by a week or two. It bothers us. I have

some colleagues who have not had a free weekend since the beginning of March, including Easter. They have been working seven days a week. It is extremely difficult, and we try to deal with it, i.e. help clients and support them, but criticism appears anyway. We do our best and cannot fully forestall criticism. Moreover, when the COVID I loan programme was announced, many clients who had had problems prior to the crisis registered in this programme and so they could not obtain a loan. It is very demanding for us, we struggle, and I am very proud of my colleagues who deliver excellent performance. I feel bad when I hear negative criticism of our bank and I understand that our people are sensitive to it. They have been working six weekends in a row and then they read in the newspaper that ČMZRB is slow. I do understand what mass media release but on the other hand it is difficult for us to motivate people to continue working the same way. It is a great challenge for us, and it showed that we have great employees here and I only hope that they will stay and continue working like this and support companies.

QUESTION: Thank you. I personally have not read any negative response. Let me now read one additional question related to COVID III. Does the limit of 500 employees include connection to other entities, similar to the EU definition of SME, or does the limit of 500 employees apply to just one company registration number?

Jiří Jirásek: If the conditions were based on the EU definition, it would not work. The commercial banks would not be willing to do our regular job, i.e. evaluate the criteria such as the SME definition, because for one thing it is very laborious and for another it contains great risk of criminal liability, as we in the Czech Republic know. So, if there were such a definition, the process would be extremely difficult and complicated. This is why the law says – let me quote: ‘business loans are to finance businesses with up to 500 employees. This is the only condition; it must be a business with less than 500 employees or a business with 250 employees. If we used the EU definition, it would be extremely laborious and lengthy. Everyone who has ever worked with this definition and is familiar with it knows that it is sometimes nearly absurd. For example, a client comes and thinks he had been SME for the past fifteen years but when you associate him with some group via a natural person, you tell him that he is not and has never been a SME. Such a client would look at you, thinking that you are a bureaucrat making things up, not realising that you simply protect him from troubles. This is similar to some media cases that are sometimes based on the fact whether it was a small or medium-sized business.

QUESTION: Will it be possible to provide portfolio guarantees to all commercial banks or will there be a specific list of participating banks? If so, will the list be available?

Jiří Jirásek: The general intention is to have an open system, i.e. to provide guarantees to all the banks that show interest in them. It should include all the banks that finance small and medium-sized business. I expect it will include all the twenty banks here and their list will definitely be available.

Lea Turcarová: Thank you very much. I have asked all the additional questions. Should the participants of this webinar have any further questions, please e-mail them to me. Mr. Jirásek, thank you very much for your time and we keep our fingers

crossed for you and your employees to cope with this situation and satisfy as many applicants as possible.

Jiří Jirásek: Thank you very much. I am also happy I could be with you and I wish you good luck and hope you do well during this rather difficult period. Let us manage everything and perhaps it will strengthen us to be better, more flexible, faster, etc. Have a good rest of the afternoon.