

State guarantees provided in 2020 via official credit institute (ICO) facilities to address the economic and social impact of COVID-19

Compliance and performance

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FULL REPORT (ES) 

What we assessed and why

We assessed the management of public guarantees granted under the government's three guarantee facilities to mitigate the impact of the pandemic and foster economic recovery, as follows:

- the Liquidity Facility, providing up to €100 billion in state coverage for bank loans to meet the liquidity needs of businesses and the self-employed;
- the Investment Facility, providing up to €40 billion for businesses and the self-employed to cater for new investments, expand and update business premises and capacities, and preserve businesses and jobs; and
- the Rent Guarantee Facility, providing up to €1.2 billion to help socially and economically vulnerable tenants pay their rent.

The auditee, Spain's Official Credit Institute (ICO), was entrusted with managing these state guarantee facilities.

We conducted this audit in view of the importance and the fiscal impact of these guarantees for Spain's economic recovery.

What we found

At 31 December 2020, clients had received more than €114 billion in loans to cover liquidity and cash-flow needs, for which the Liquidity Facility had to guarantee more than €86 billion.

The Investment Facility had guaranteed a total of €1.4 billion (13 % of the amount authorised), for which clients had received €1.8 billion in loans. The Liquidity and Investment Facilities financed almost one million operations in 2020, 98 % of which targeted SMEs and the self-employed, who accounted for 70 % of the total loans received via these guarantee facilities (€81 billion). Large companies made up barely 2 % of their clients, but accounted for almost 30 % of the total loans received (€34.7 billion).

Under the Rent Guarantee Facility, barely 2 % of the total authorised amount of €2 billion was used. Only 6 914 tenants used the facility in 2020, for loans and guarantees totalling €24.7 million.



The ICO adapted an existing generic IT application to manage these guarantees. We identified limitations and flaws in this application, such as errors in its automatic validations (e.g. mandatory fields left empty and discrepancies in values). We also encountered a lack of other validation functions to ensure the quality and consistency of data (e.g. company data on the start of its activity and the number of employees, and errors in credits or guarantee amounts).

In addition, we found errors in classification checks (e.g. SME or large company operations), which is relevant because guarantees for SMEs were subject to different conditions. We identified 2 311 companies benefiting from guarantees that had registered both SME and large company operations. Some of these were SMEs, while others were not. Large companies had also secured guarantees intended for SMEs, and vice versa.

Moreover, we found weaknesses in ICO procedures for checking loan recipients and the respective lender conditions. These led to complaints from clients for reasons such as high interest rates, requirements of guarantees in addition to collateral, and delays in disbursing funds.

There were breaches of state aid rules, for example because the ICO did not report all aid to the national aid database, or did not report it by the required deadline. We also identified cases where de minimis limits had been exceeded.

What we concluded

We recommended that the ICO should:

- improve its IT application, analyse the areas where we identified errors and inconsistencies, and change formatting requirements and internal validations;
- further streamline the verification and scrutiny of operations by standardising the content of the required supporting documents and reassessing the type of mandatory documents;
- correct data discrepancies and inconsistencies identified in the operations, and obtain a reliable database to allow for better monitoring and to facilitate *ex ante* and *ex post* verification and scrutiny; and
- ensure effective communication with the national aid database, and ensure that aid is reported on time and that checks on the limits laid down in state aid rules are improved.

Furthermore, we issued a recommendation concerning the conclusion of contracts with lending banks. In these cases, the ICO should stress the banks' obligations arising from the provision of the guarantee facilities, which mostly relate to:

- verifying the loan's purpose and the terms of the operations; and
- prohibit making operations conditional on clients signing up for any other service or product.