



28 September 2010

EUROPEAN COMMISSION SME FINANCE FORUM

BRUSSELS, 28 SEPTEMBER 2010

ACCESS TO CREDIT AND TO FINANCE FOR SME'S: THE WAY FORWARD

COMMENTS BY PHILIPPE DE BUCK,
DIRECTOR GENERAL OF BUSINESSEUROPE

A. A quick look at the total picture

For BUSINESSEUROPE, four factors or preconditions play an essential role for improving SME access to finance:

- Healthy banks, since SMEs need solid financial partners to help them develop;
- Well designed rules for increasing capital requirements of banks;
- A dynamic policy on the part of EIB Group designed to promote better SME access to finance;
- Encouragement of private equity. Private equity should be seen as the ideal source of financing for SMEs, and obstacles to its development should be removed.

Advancing the financial markets reform must be done according to a balanced approach.

BUSINESSEUROPE supports regulatory initiatives that resolve the regulatory failures that led to the financial crisis. But to regain confidence, reforms must strike the right balance and be mindful of their consequences for SME's.

Businesses have expressed concerns that tighter capital requirements will force banks to be more restrictive in terms of credit leading to a raise in the cost of borrowing which will undermine the emerging recovery. Global banking regulators share these concerns, and have proposed transitional arrangements for implementing the new standards.



However, Basel III contains liquidity requirements that would lead to a bias towards government debt as opposed to equity which is considered more risky. As demand for capital intensifies, SME's will thus find it increasingly difficult to obtain the finance they need for investment.

Now that the detailed Basel III regulations are being written, it is vital that comprehensive impact assessments are carried out which address the cumulative impact of different pieces of regulation in particular on SME's (cfr the SME test foreseen by the Small Business Act).

B. Comments on some existing European instruments to support SME finance

1) Financial instruments developed in the field of regional policy

We generally support the concepts underlying the financial instruments developed in the field of regional policy (JEREMIE, JESSICA, and JASPERS). JEREMIE in particular helps creating a revolving effect on the structural funds rather than the usual one-off grants. We welcome this as it increases the leverage effect of the funds. Yet, in a number of cases, the implementation of JEREMIE has been reported as slow and unsatisfactory by Authorities and we need therefore to check what can be done to improve it. Several shortcomings have been identified:

- Firstly, JEREMIE is an optional instrument and therefore the regional managing authorities must decide to take part of it - which many do not;
- Secondly, procedures are time-consuming and difficult to be introduced. Implementation costs are also non negligible;
- Finally, there is a clear lack of information regarding financial engineering instruments.

BUSINESSEUROPE therefore asks the Commission to simplify the legal provisions of the JEREMIE and Managing Authorities to take advantage of the enormous potential of this instrument.

2) The EIB loan schemes and the EIF instruments

Our basic message here is that a good start has been made, but that the range of products and services of the EIB Group should be broadened.

The traditional EIB loan schemes and the EIF's more market-based instruments of the EIB Group have demonstrated their strength as tools to support the financing needs of start-ups and of growing European companies. Of course, from an operational point of view, things can always be improved.



C. Orientations for new initiatives

At present, external funding is still difficult to obtain, and the additional effect of banking sector restructuring, and prudential financial regulation, imply that the lending capacity of the banking sector will be negatively affected over the medium term. Therefore, we believe that the EU focus should shift gradually towards alternative ways of financing, namely:

a) First: deepening of the European venture and risk capital pools.

We clearly suffer from the lack of an integrated venture capital market within the EU. Remedying this is vital.

We also call for amending the draft European directive on Alternative Investment Fund Managers, which places private equity on the same footing as hedge funds. In our view, this is not appropriate. It has generated provisions that are likely to render private equity investment transactions more difficult and less attractive in Europe.

For example, disclosure requirements which require the public disclosure of commercially sensitive information such as details on merger and acquisition plans, research and development strategy or the capital structure of the company will discourage European investors from investing long-term risk capital in European companies. This should be rectified.

National tax systems should be improved to make risk capital investments more attractive.

b) Second: introducing and widening the use of risk sharing facilities.

c) Third: improving the number of European companies able to tap financial markets directly. Action should be taken to promote pooled corporate bond issuance for SMEs which often have no access to this form of finance.

d) Finally, BUSINESSEUROPE stresses the importance of improving access to innovation finance.

BUSINESSEUROPE sees a significant potential in the following policy lines currently being discussed within the Commission in the context of the preparation of a communication on the Innovation Union, such as:

1. By end 2010: get the Member States reprogramming their cohesion funds to enhance funding in particular for SME research and innovation projects. Increased means would be put at the disposal of the EIB Group for expanding lending and equity financing for innovation through existing instruments;



2. By 2014: put in place a new generation of instruments to overcome market gaps and increase finance for innovative SMEs. With additional finance made available to the EIB Group, specific market gaps could be addressed through:
 - An expanded facility to stimulate knowledge transfer, seed and start-up finance;
 - A new European Growth and Innovation Facility to facilitate access to venture capital for fast growing firms SMEs;
 - A renewed Risk Sharing Finance Facility (RSFF) to support investments in R&D and innovation projects by entities of any size;
 - An innovation loan facility to facilitate bank loans for fast growing SMEs.

3. Move towards an integrated European Venture Capital market: by 2012, introduction of a new regime is considered, which would allow Venture Capital funds established in any Member States to operate and invest freely across the EU, without unfavourable tax treatment.

BUSINESSEUROPE is at the disposal of the Commission to explore these themes more in depth.
