

BUSINESSEUROPE



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The new SME Finance Initiative

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Content of presentation

- The challenge of access to credit
- Proposed new SME Finance Instrument
- State of play and outlook at political level



Access to credit : trends and challenges

- Loans of less than 1 mio EUR:
1.2% of Eur. GDP in 2005, 0.6% in 2012
- Bank deleveraging
- Cost of short-term loans: 2.8% (D); 4.5% (IT); 5% (SP); 6.5% (GR)
- More constraints if economy picks up



How to improve SME access to credit

- Repairing systemic weaknesses in financial markets
- Rapid implementation of “Growth and Jobs” Compact
- Innovative SME-g geared financial instruments:
 - Significant size
 - Quick outcomes
 - High leverage effect
 - Support to careful revival of securitisation markets



Joint European Commission/EIB instrument

Joint EC / EIB June 2013 report proposed a new SME-gearred EU financial instrument blending:

- resources from the EU budget (Structural Funds, COSME, H2020,...)
with
- the lending capacity of the EIB Group



Potential size of the new instrument

Potential sources of funds:

- Structural Funds: up to EUR 10 bn (MS opting-in on a voluntary basis)
- COSME + H2020: EUR 0.4 bn
- Total: up to EUR 10.4 bn

By comparison:

- Size of COSME and H2020 Guarantee Facilities: 0.6 - 0.75 bn each



EC / EIB proposal: two basic options

Money from H2020, COSME, Structural Funds to be used for:

- Guarantees for new SME loans granted by banks and / or
- Guarantees for securitisation of SME loan portfolios:
 - Securitisation frees resources in banks' accounts for new SME lending
 - Portfolios made more attractive for investors



Which guarantees for securitised loan portfolios?

Tentative risk-sharing model in case of losses connected to loan portfolios:

- Junior risk ($R < 10\%$): banks, Structural Funds
- Mezzanine tranche ($10\% < R < 20\%$): COSME, H2020, EIF, ESF
- Senior risk ($20\% < R < 30\%$): EIB and private investors



Potential outcomes with 10.4 bn funding

Estimates for the two options (Source: EC)

1. Guarantee instrument for *new loans*

- New lending supported: EUR 55-58 bn
- = 580 000 SME
- Leverage: 5

2. Securitisation instrument for *existing + new loans*:

- New lending supported: EUR 65 to 100 bn
- = 650 000 to 1,000,000 SMEs
- Leverage: 6 to 10



Assessment of EC / EIB proposal

- Significant potential offered by both technical options, if well designed
- Importance of securitisation markets; take care of restoring investors' confidence
- Any securitisation model should:
 - ✓ cover securitised products with sound risk profiles
 - ✓ include incentives for responsible risk-taking by banks
 - ✓ Exclude the “legacy assets” of banks



State of play at political level

- Institutions / entities involved:
 - European Council
 - ECOFIN Council
 - General Affairs Council
 - Individual Member States (opt-in)
 - European Parliament/European Commission/EIB Group



October EU Summit: tentative assessment

- New SME Finance Instrument decided
- Quick start with loan guarantee instrument
- Door left open for securitisation instr.
- Good first step, even if the most powerful financing model has not yet materialised



Views on key points for action agenda

Continued advocacy needed:

- Push for ensuring that enough Member States participate in the scheme
- Support EIB preparatory work on securitisation schemes

