The role of risk-sharing instruments in the EU’s policy on SMEs

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Financing of competitiveness, innovation and employment policies

European Commission
DG Economic and Financial Affairs

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EU SMEs (Final Beneficiaries)

- 28 million **SMEs** in the EU:
  - account for more than **99% of all companies**
  - employ **66.5% of all private-sector workforce**

- **Very flexible**

- **Stable** employer, source of organic **growth** and **innovation**

**Share of total number of EU companies**

- 91%: Micro-enterprises 1 to 9 employees
- 7%: Small firms 10 to 49 employees
- 1%: Medium-sized firms, 50 to 250 employees
- 1%: Large enterprises

*Source: Eurostat, Commission Communication on Modern SME policy for Growth and Employment*
Why SMEs?

- Supply of credit to SMEs remains constrained as banks deleverage, accumulate capital and repair balance sheets.
- Continuing market gaps and deficiencies in debt and equity markets for financing of enterprises, and especially SMEs
  - 75% of SMEs dependent on external financing, mostly debt
  - 'access to finance' the second most pressing problem for European SMEs, right after getting customers

BUT

- EU budget (and national budgets) unlikely to increase

THEREFORE

- A strong case for Financial Instruments

Data: EC ex-ante assessment of the EU SME Initiative, Access to Finance Surveys, EU 2020 Strategy
Financial Support to SMEs

- **Grants** (for research, innovation, climate change, etc.)
- **Financial instruments**
  - **Guarantees** to financial intermediaries that provide lending to e.g. infrastructure projects, SMEs, persons at risk of social exclusion
  - **Equity/risk capital**, e.g. venture capital to SMEs with high growth potential or risk capital to infrastructure projects
  - **Other risk-sharing arrangements** with financial intermediaries in order to increase the leverage capacity of the EU funds
- **or a combination** of the above with other forms of EU financial assistance in single instruments (e.g. grants)

EU Financial Instruments: Why?

- 3 types of benefits
  - **Policy impact** – effective way of delivering on policy objectives, financial intermediaries pursue EU policies
    - *Only economically viable projects are supported*
    - *Market distortion connected with grants is much higher than with FIs, where market distortion is limited to the necessary minimum*
  - **Multiplier effect** – multiplication of scarce budgetary resources by attracting private resources to financing public policy objectives
  - **Institutional know-how** – EU can use the resources and expertise of financial intermediaries
Debt instruments

- **Guarantees** to financial intermediaries that provide lending to e.g. infrastructure projects, SMEs, persons at risk of social exclusion

- **Securitisation** support (guarantees) to financial intermediaries against a commitment to provide additional lending e.g. to SMEs

- **Other risk-sharing arrangements** with financial intermediaries in order to increase the leverage capacity of the EU funds
1998-2013: EU Financial Instruments for SMEs

Debt Financing

- SME Guarantee Facility
  2007-2013: So far approx. EUR 536m of EU budget generated **EUR 20.7bn of lending to 381,000 SMEs**, volumes are still increasing.
  
  > 2 Securitisation deals. EUR 2,6m of EU budget expected to generate 15,5 times of lending to SMEs

- Risk-Sharing Finance Facility (RSFF)
  2007-2013: Dedicated guarantee for SMEs, supporting **lending of 2.8bn to research and innovation intensive SMEs and small mid-caps**.

Equity

- Investments in venture capital funds
  2007-2013: So far, EUR 557m of EU resources generated **EUR 3.1bn of total investment volume** available, amounts growing fast. 530 highly innovative SMEs covered so far.
Current Instruments

- Regional and Cohesion policies (ESI Funds)
- EU-level instruments
- Joint instruments (SME Initiative)
- Investment Plan for Europe (EFSI)
The SME Initiative

- Build on the proposals for COSME and Horizon 2020 and their ex-ante assessments, to pool resources with the European Structural Investment Funds.

- Use of EIB/EIF/National capacity

- Two products: **uncapped guarantees** and **securitisation**.
SME Initiative Securitisation Instrument

- Combines ERDF-EAFRD, COSME, Horizon 2020, EIF, EIB and possibly NPBs in one instrument;
- Two steps: a) securitisation of an existing/new portfolio and b) construction by the bank of a new portfolio;
- ERDF-EAFRD take 50% of the riskier tranche (Junior tranche);
- Bank would retain a material interest in the transaction (adequate portion of the Junior tranche approx. 50%) to help ensuring alignment of interest and good origination standards;
- EU resources together with EIF own resources guarantee the Mezzanine tranche
- EIB and other institutional investors invest in the Senior tranche.
European Fund for Strategic Investments

EU guarantee €16bn

EFSI €21bn

Infrastructure & Innovation window

EIB financing

Long-term investments ~ €240bn

SME window

EIF financing

SMEs and mid-cap firms ~ €75bn

Total over 3 years: ~ €315bn
EFSI SME Window

- **3 products already launched since July 2015:**
  - guarantees supporting loans to SMEs with a higher-risk profile;
  - guarantees supporting loans to innovative and research-intensive companies of up to 499 staff;
  - EUR 2.5bn boost to "Risk Capital Resources", a facility investing in venture capital and equity funds.

- **Further products** to be launched in 2016-2017, often in **partnership with national promotional banks**, to support
  - equity financing, including technology transfer and social investment;
  - **securitisation of SME loan portfolios**;
  - lending to innovative companies that lack collateral;
  - products for social enterprises and other target groups.
## Use of Financial Instruments

<table>
<thead>
<tr>
<th></th>
<th>EU budget</th>
<th>Grants + Financial Instruments</th>
<th>Financial Instruments</th>
<th>EFSI</th>
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<tbody>
<tr>
<td><strong>2007-2013</strong></td>
<td>€976</td>
<td>€900**</td>
<td>€15</td>
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<tr>
<td><strong>2014-2020</strong></td>
<td>€1,083</td>
<td>€1,000**</td>
<td>€31*</td>
<td>€16+5</td>
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</table>

Data in bn, current prices
* approximation
** rough estimate, includes direct payments under the Common Agricultural Policy
Financial Instruments breakdown

2007-2013

- €3.1 bn
- €2.5 bn
- €9.4 bn

2014-2020

- €7.4 bn
- €4.0 bn
- €20 bn

EU Level
Cohesion policies
Outside EU
## EU Level Instruments by Sector and Type 2007-2013

<table>
<thead>
<tr>
<th></th>
<th>SMEs and small midcaps</th>
<th>Infrastructure and strategic sectors</th>
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<tbody>
<tr>
<td>Debt</td>
<td>€944</td>
<td>€983</td>
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<tr>
<td>Equity</td>
<td>€705</td>
<td>€456</td>
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<td></td>
<td>€1,649</td>
<td>€1,439</td>
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<td>€3,088</td>
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Data in mn
### EU Level Instruments by Sector and Type 2014-2020

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<th>Infrastructure and strategic sectors</th>
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<tr>
<td>Debt</td>
<td>€2,201</td>
<td>€4,117</td>
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<td>€6,318</td>
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<tr>
<td>Equity</td>
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<td></td>
<td>€1,106</td>
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<td></td>
<td>€3,207</td>
<td>€4,217</td>
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<td>€7,424</td>
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Data in mn
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<tr>
<th>EU Level</th>
<th>Guarantees</th>
<th>Securitisation</th>
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<tr>
<td>2007-2013</td>
<td>€941</td>
<td>€3</td>
</tr>
<tr>
<td>2014-2020</td>
<td>€2,798</td>
<td>€4 - ?</td>
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<td><strong>Regional/Cohesion Funds</strong></td>
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<tr>
<td>2014-2020</td>
<td>€4,000*</td>
<td>0</td>
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<tr>
<td><strong>SME Initiative</strong></td>
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<tr>
<td>2014-2020</td>
<td>€1,079</td>
<td>€207</td>
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<td><strong>EFSI SMEW</strong></td>
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<tr>
<td>2014-2020</td>
<td>€1,200*</td>
<td>€100*</td>
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Data in mn

* estimate
Thank you for your attention!

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