



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

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**Financing of competitiveness, innovation and employment policies**

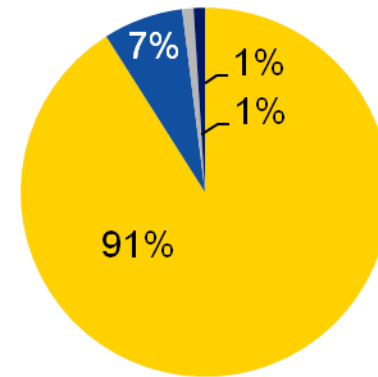
**European Commission  
DG Economic and Financial Affairs**

**London, 31 May 2016**

# 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



- Micro-enterprises 1 to 9 employees
- Small firms 10 to 49 employees
- Medium-sized firms, 50 to 250 employees
- 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 (EFSD)**

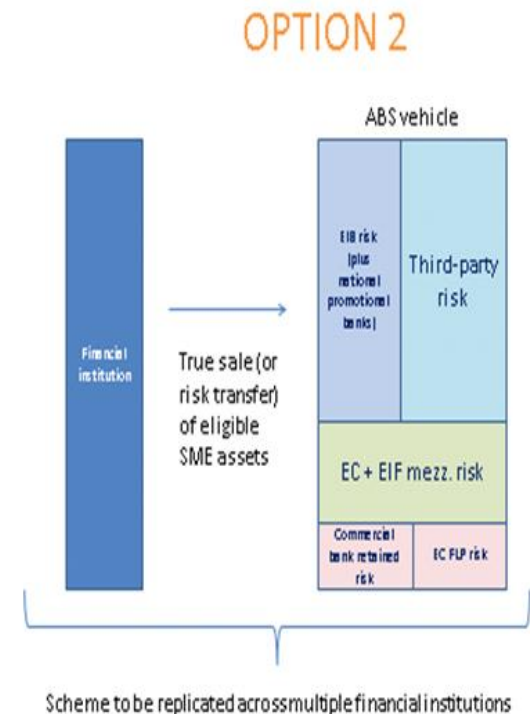


# The SME Initiative

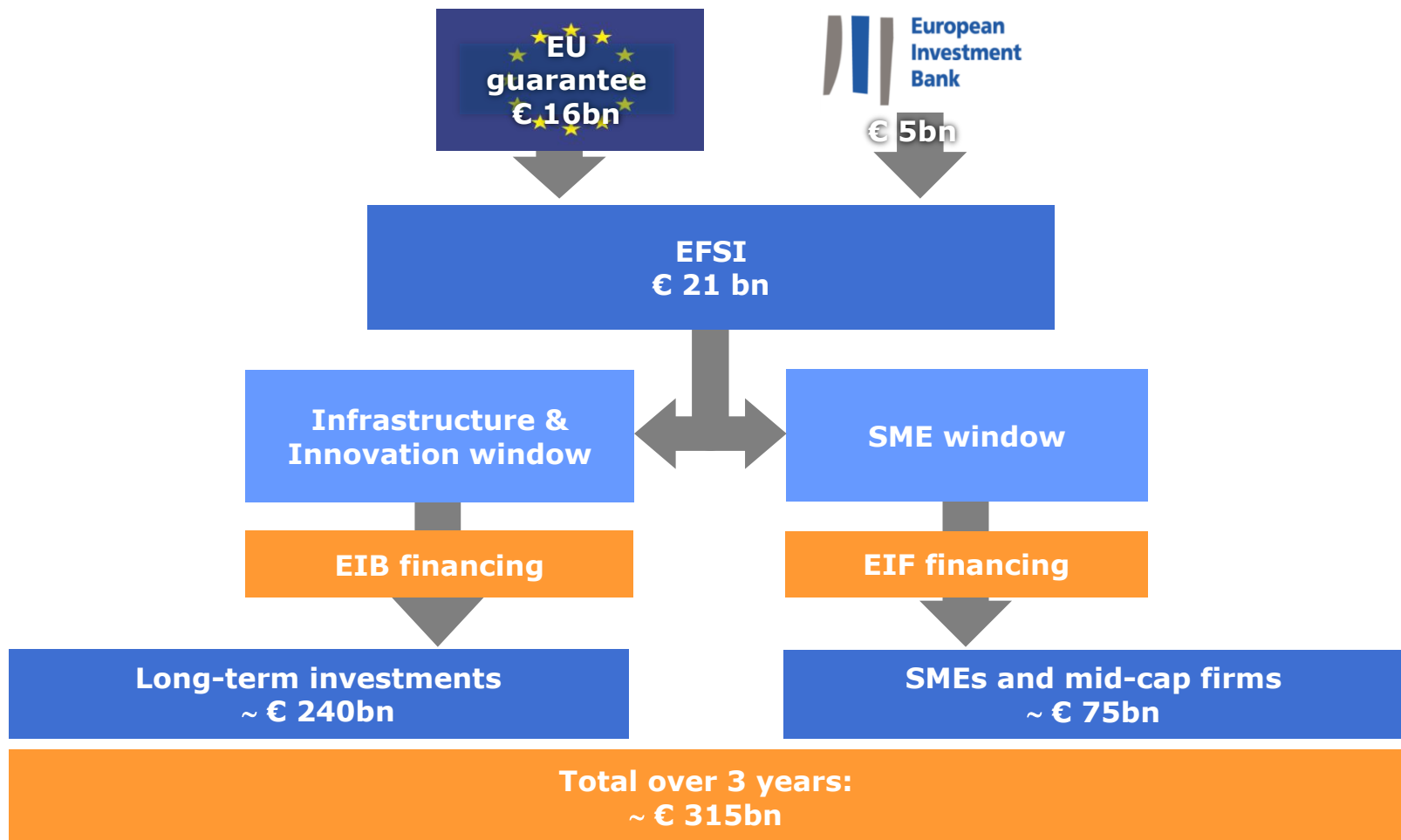
- ❑ Build on the proposals for COSME and Horizon 2020 and their ex-ante assessments, to pool resources with the European Structural Investment Funds.
- ❑ Use of EIB/EIF/National capacity
- ❑ Two products : **uncapped guarantees** and **securitisation**.

# 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



# 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 and**;
  - ❑ lending to innovative companies that lack collateral;
  - ❑ products for social enterprises and other target groups.

# Use of Financial Instruments

	EU budget	Grants + Financial Instruments	Financial Instruments	EFSI
2007-2013	€976	€900**	€15	
2014-2020	€1,083	€1,000**	€31*	€16+5

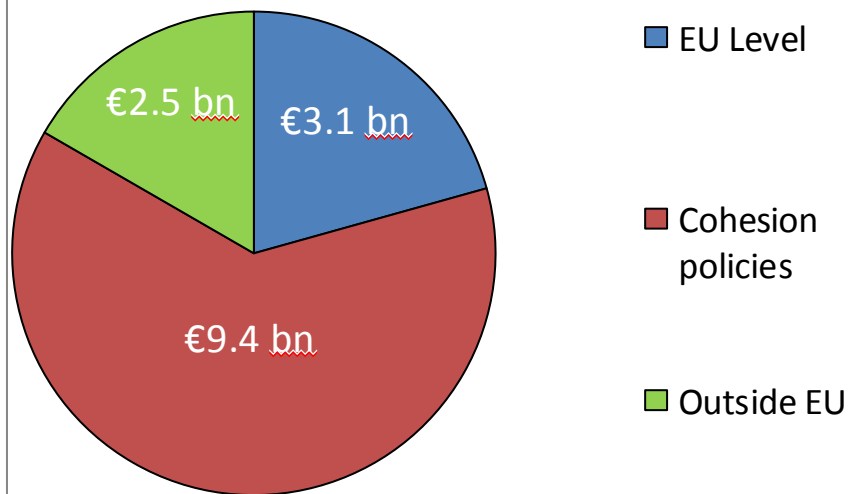
Data in bn, current prices

\* approximation

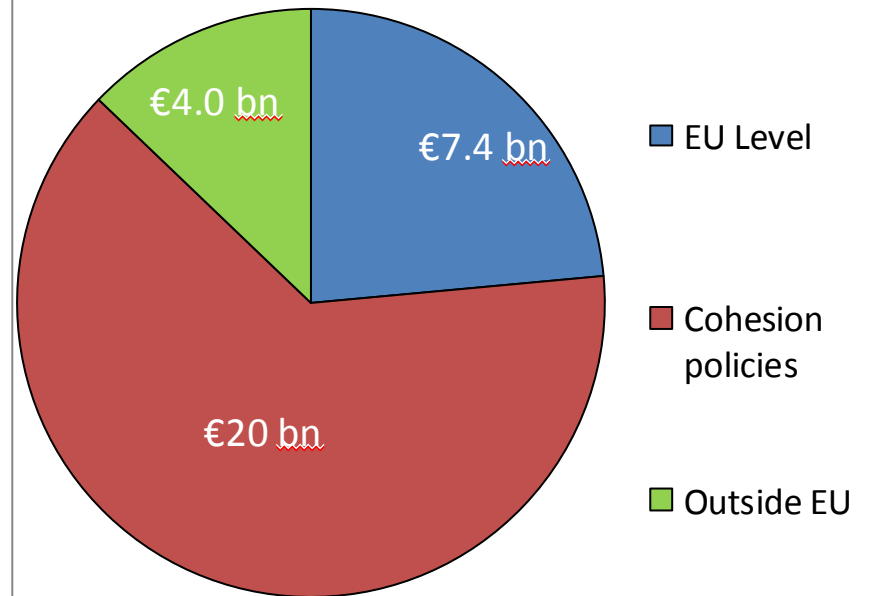
\*\* rough estimate, includes direct payments under the Common Agricultural Policy

# Financial Instruments breakdown

**2007-2013**



**2014-2020**



# EU Level Instruments by Sector and Type 2007-2013

	SMEs and small midcaps	Infrastructure and strategic sectors	
Debt	€944	€983	€1,926
Equity	€705	€456	€1,161
	€1,649	€1,439	<b>€3,088</b>

Data in mn

# EU Level Instruments by Sector and Type 2014-2020

	SMEs and small midcaps	Infrastructure and strategic sectors	
Debt	€2,201	€4,117	€6,318
Equity	€1,006	€100.00	€1,106
	€3,207	€4,217	<b>€7,424</b>

Data in mn



# Guarantees vs Securitisation

EU Level	Guarantees	Securitisation
2007-2013	€941	€3
2014-2020	€2,798	€4 - ?
Regional/Cohe sion Funds	Guarantees	Securitisation
2014-2020	€4,000*	0
SME Initiative	Guarantees	Securitisation
2014-2020	€1,079	€207
EFSI SMEW	Guarantees	Securitisation
2014-2020	€1,200*	€100*

Data in mn  
\* estimate

*Thank you for your attention!*

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