



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

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Financing of competitiveness, innovation and employment policies

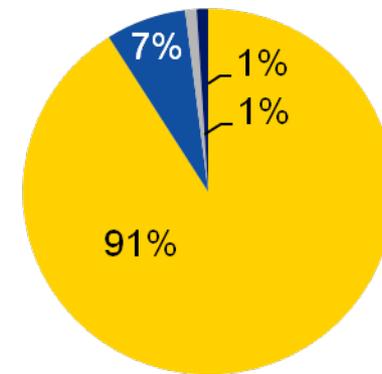
European Commission  
DG Economic and Financial Affairs

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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



- 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

# 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)



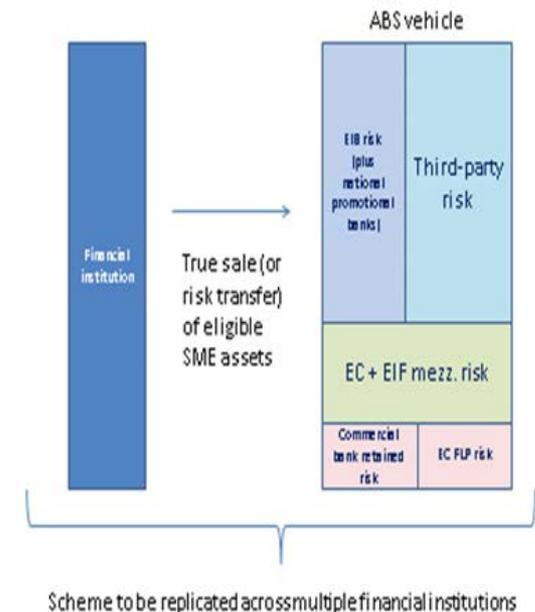
# The SME Initiative

- ❑ 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**.

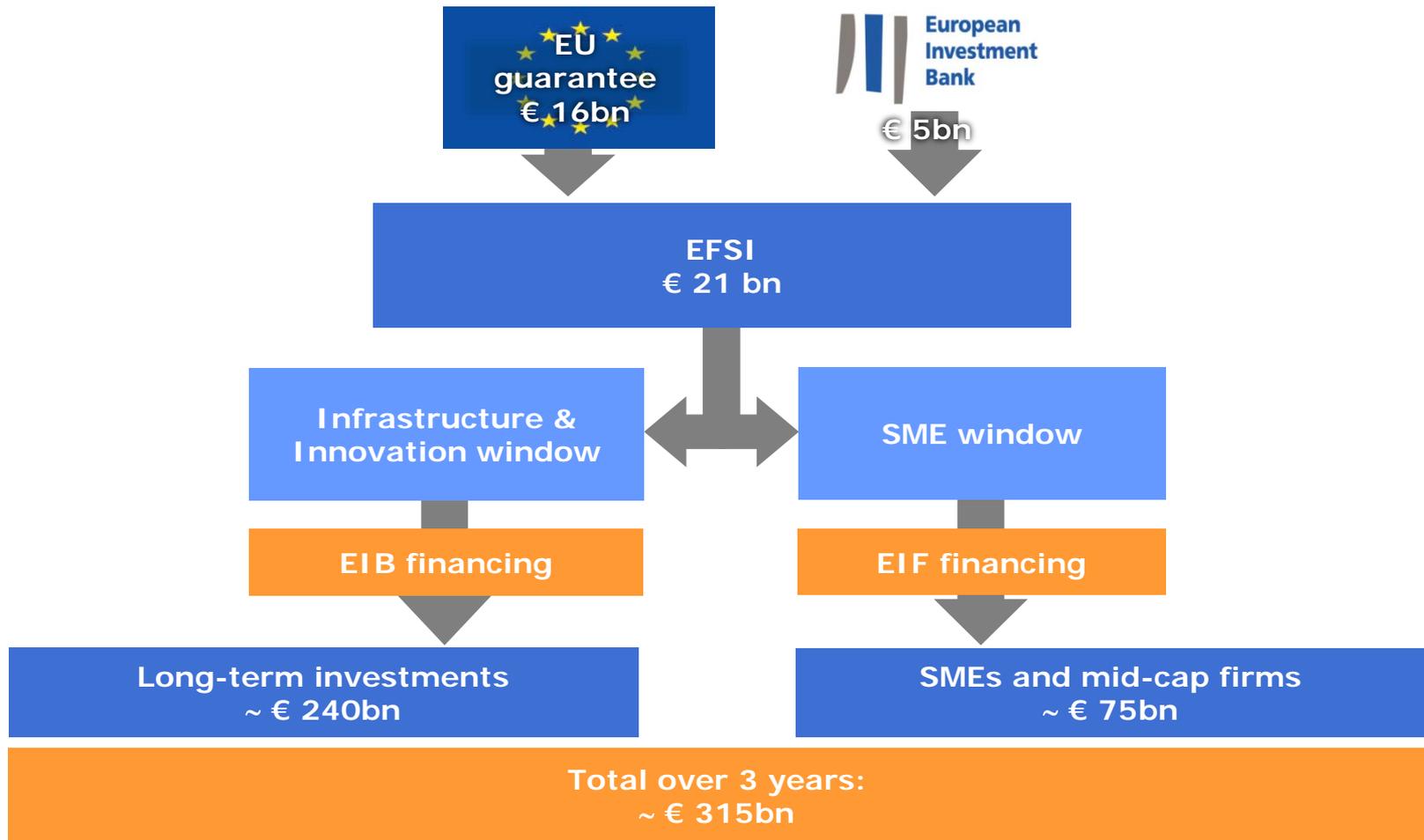
# SME Initiative Securitisation Instrument

- ❑ 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.

## OPTION 2



# 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 +<br>Financial<br>Instruments | Financial<br>Instruments | EFSI  |
|-----------|-----------|--------------------------------------|--------------------------|-------|
| 2007-2013 | €976      | €900**                               | €15                      |       |
| 2014-2020 | €1,083    | €1,000**                             | €31*                     | €16+5 |

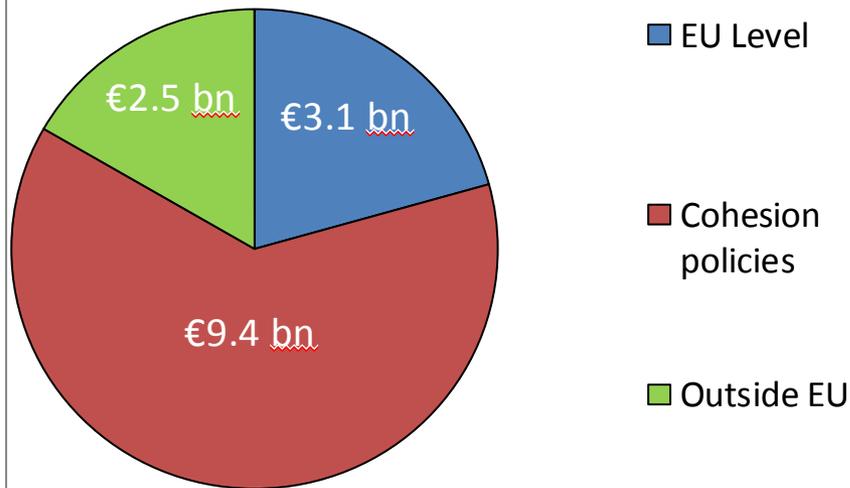
Data in bn, current prices

\* approximation

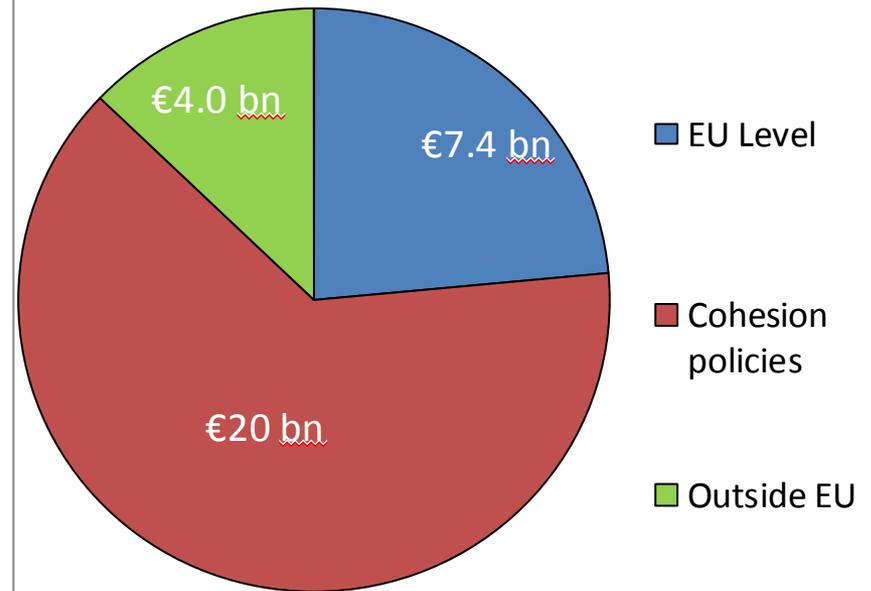
\*\* rough estimate, includes direct payments under the Common Agricultural Policy

# 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                               | €3,088 |

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                               | €7,424 |

Data in mn

# Guarantees vs Securitisation

| EU Level                    | Guarantees | Securitisation |
|-----------------------------|------------|----------------|
| 2007-2013                   | €941       | €3             |
| 2014-2020                   | €2,798     | €4 - ?         |
| Regional/Cohe<br>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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