



European Commission

## *Enterprise and industry*

# Screening ~ financial instruments

Meeting with Croatian and Turkish representatives  
Brussels, 27 March 2006

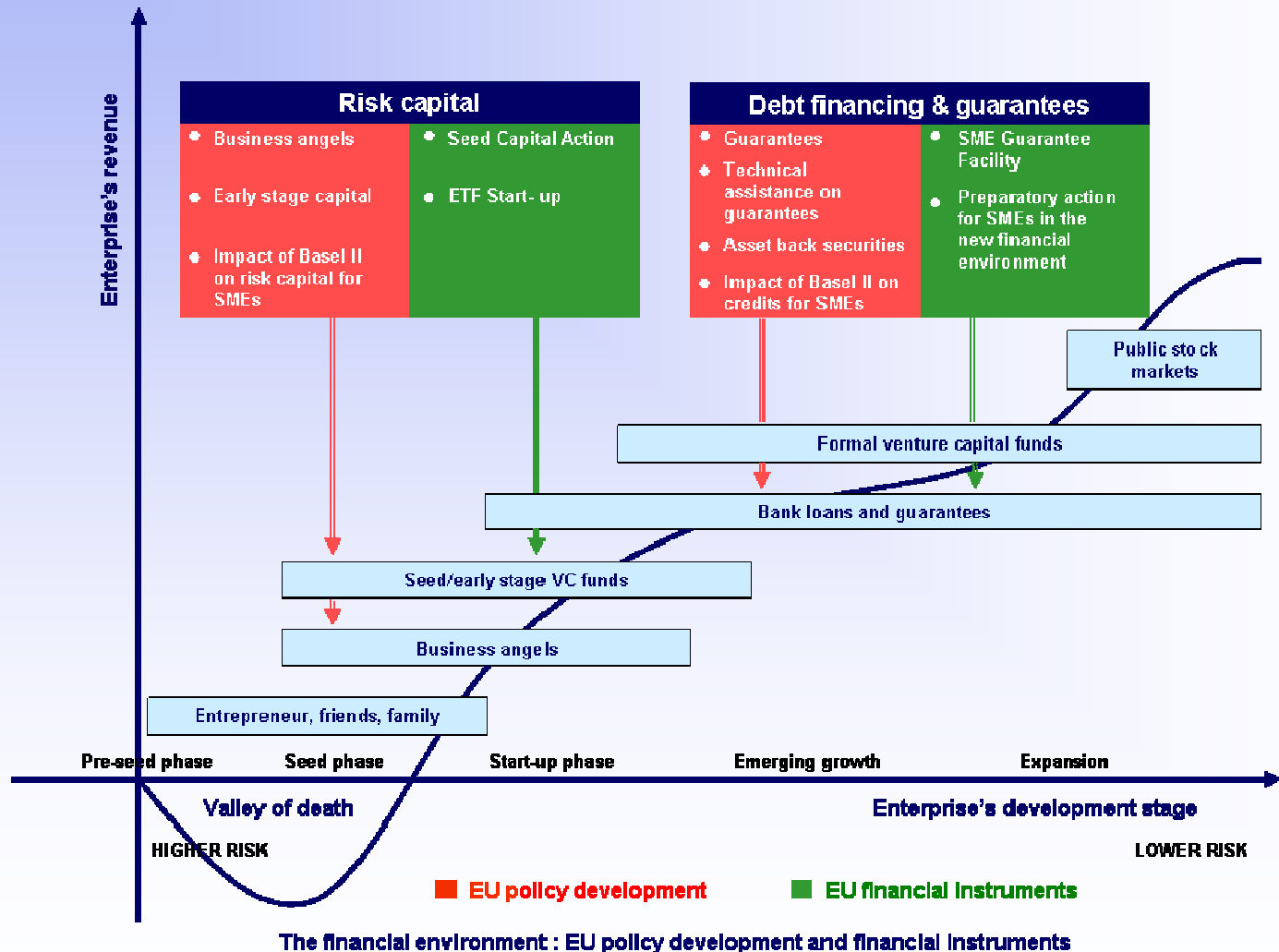
**Ulla Hudina and Vilmos Budavari**

Unit D3 - Financing SMEs, entrepreneurs and innovators  
Enterprise & Industry Directorate-General

# Agenda

1. Access to finance for SMEs  
*(Commission Communication, 2003)*
2. Microcredit  
*(Commission Staff Working paper, 2004)*
3. Financing growth – the European way (next  
*Commission Communication, May 2006)*
4. Financial instruments under CIP

# EU role in improving SMEs' access to finance

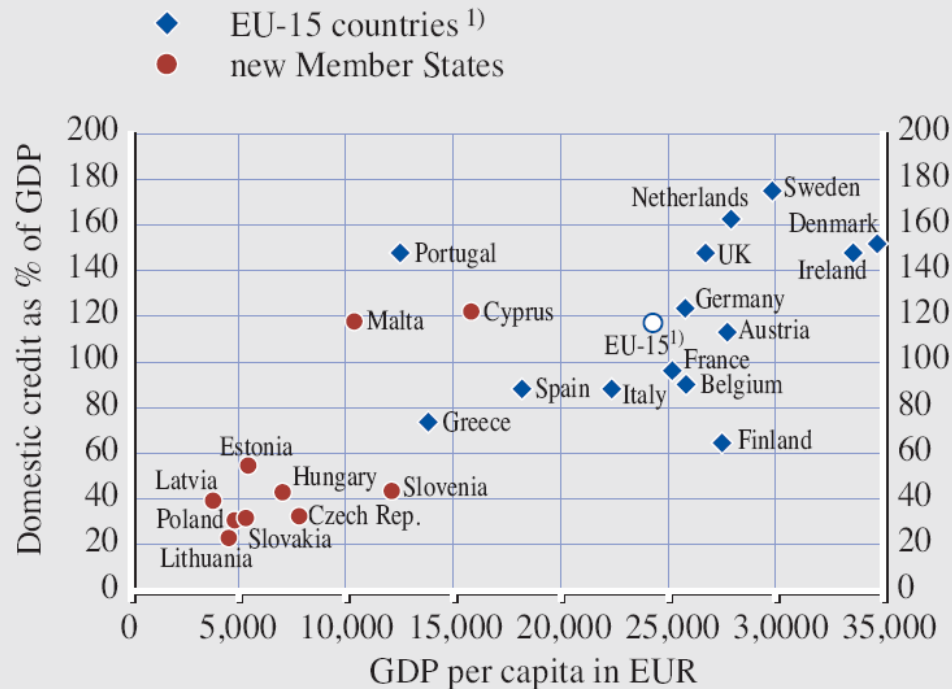


# The current situation *(for information only)*

- Low banking intermediation
- Lack of equity
- Embryonic venture capital market  
*(emerging equity markets; lack of expertise and knowledge)*

# Banking intermediation *(for information only)*

**Chart 14 Financial versus economic development in 2003: Bank credit versus GDP per capita**



Sources: European Commission and IMF.

1) Excluding Luxembourg.



# **1. Access to finance for SMEs**

*(Commission Communication, 2003)*

# 1. Access to finance for SMEs

- **Commission Communication, 2003**
- Improving access to finance ~ fostering entrepreneurship
- The role of public sector:
  - to improve the general framework conditions of finance;
  - limited direct action only when market failure
- *Best results in SME finance are achieved when the public sector works with markets.*
- Financial instruments:
  - financing start-ups ~long-term solutions involving public sector;
  - efficient public support mechanisms: tailored to local needs, simple and accessible => need to use local banks and VC funds as intermediaries
- Bank lending
  - loan guarantees ~efficient way to use limited public funds and directly address problems of lacking collateral and intangible assets;
  - EIB and EIF provide EU support to SMEs' access to finance.
- Equity finance
  - Many SMEs need stronger balance sheets;
  - Need to promote possibilities of VC and business angels' activities.

# 1. Access to finance for SMEs (cont.)

- Commission Communication, 2003
- Main conclusions ~ to efficiently promote entrepreneurship:
  1. Improving the framework conditions:
    - developing financial markets of particular importance in the new MS, accession and candidate countries ~ where rather low level of equity investments and also of bank lending;
    - underperforming financial markets hamper entrepreneurship, growth.
  2. Focus on early-stage finance (guarantees, microlending)
    - persistent gap in early-stage finance: necessary for public sector to work with private sector;
    - guarantee instruments sharing risk between public and private sector ~ effectively addressing SMEs difficulties in getting bank loans.
  3. Increasing equity in SME balance sheets
    - different SMEs' needs but all need balance sheets with enough equity;
    - retained earning ~ best form of financing growth and investment;
    - MS should enable environment for the above and for liquid VC markets.
- [http://europa.eu.int/comm/enterprise/entrepreneurship/financing/docs/com\(2003\)713\\_en.pdf](http://europa.eu.int/comm/enterprise/entrepreneurship/financing/docs/com(2003)713_en.pdf)





## **2. Microcredit**

*(Commission Staff Working paper, 2004)*

# 2. Microcredit

- Small enterprises (new or existing) often face problems when approaching finance.
- Stimulating entrepreneurship, growth AND **social inclusion** (where business creators unemployed, women, ethnic minorities...).
- Microfinance ~ recognised as an issue by the European Councils in 2000 and notably in March 2003 (when MS were urged to pay special importance to microcredit).
- Microfinance taken into account in the MAP (2001-2005/6) with the creation of a **microcredit guarantee window** (managed by the EIF).
- Microcredit = loan to small enterprises **below € 25,000**  
*(Definition of the Council in December 2000)*
- NO legislation for microfinance at EU level (*no acquis*).

## 2. Microcredit (cont.)

- Banks often perceive microcredit as a high risk and low return activity. Market gap based on information asymmetry.
- **Public support** is needed: *i.e. enabling environment and tax incentives for investors supplying funds for microcredit retailers, providing funds to specialised lenders by sharing part of the risk with guarantee societies...*
- **Public promotional banks**: effective vehicle to provide partial credit and/or guarantees.
- **Guarantee** (co- and counter-guarantee) schemes: easier for credit institutions to provide microcredit because its risk exposure is reduced and capital requirements mitigated.
- **Lessons learned** (Microcredit report, November 2003):
  - \* Also non-financial services (mentoring...) are essential to increase the chance of survival of start-ups and small companies.
  - \* The MS should develop a more microcredit-friendly environment.
  - \* The self-sustainability of the microcredit activity is a major aim: the public support should be adapted to this aim and be assessed regularly.
  - \* Microcredit institutions are encouraged to evaluate and disclose their performance.
- Microcredit report (**Commission staff working paper, 2004**):  
[http://europa.eu.int/comm/enterprise/events/microcredit/doc/report\\_en.pdf](http://europa.eu.int/comm/enterprise/events/microcredit/doc/report_en.pdf)



# **3. Financing growth**

## **– the European way**

*(next Commission Communication, May 2006)*

# 3. Financing growth – the European way

- Next Commission Communication  
*Now in the final phase of drafting ~ below only a skeleton info !*
- Reasons for the Communication :
  - \* Improving access to finance => *to promote entrepreneurship, innovation*
  - \* Meeting global challenges => *Europe needs globally attractive investment opportunities*
  - \* Adding European value => *to continue to build an integrated, open and more competitive European financial market*
- To be published in **May 2006**



## **4. Financial instruments under CIP**

# 4. Financial instruments under CIP

- MAP 2001-2006 financial instruments:
  - \* SME Guarantee Facility
  - \* ETF Start-up Scheme
  - \* Seed Capital Action
- The CIP ensures continuity of the successful instruments

# 4. Financial instruments under CIP

*(As proposed by the Commission)*

## Competitiveness and Innovation Programme

Period: 2007-2013

### High Growth and Innovative SME Facility (GIF)

- Venture Capital funds :
  - Early stages
  - Expansion stages for innovative companies
- Co-investments in side-funds with business angels

### SME Guarantee (SMEG) Facility

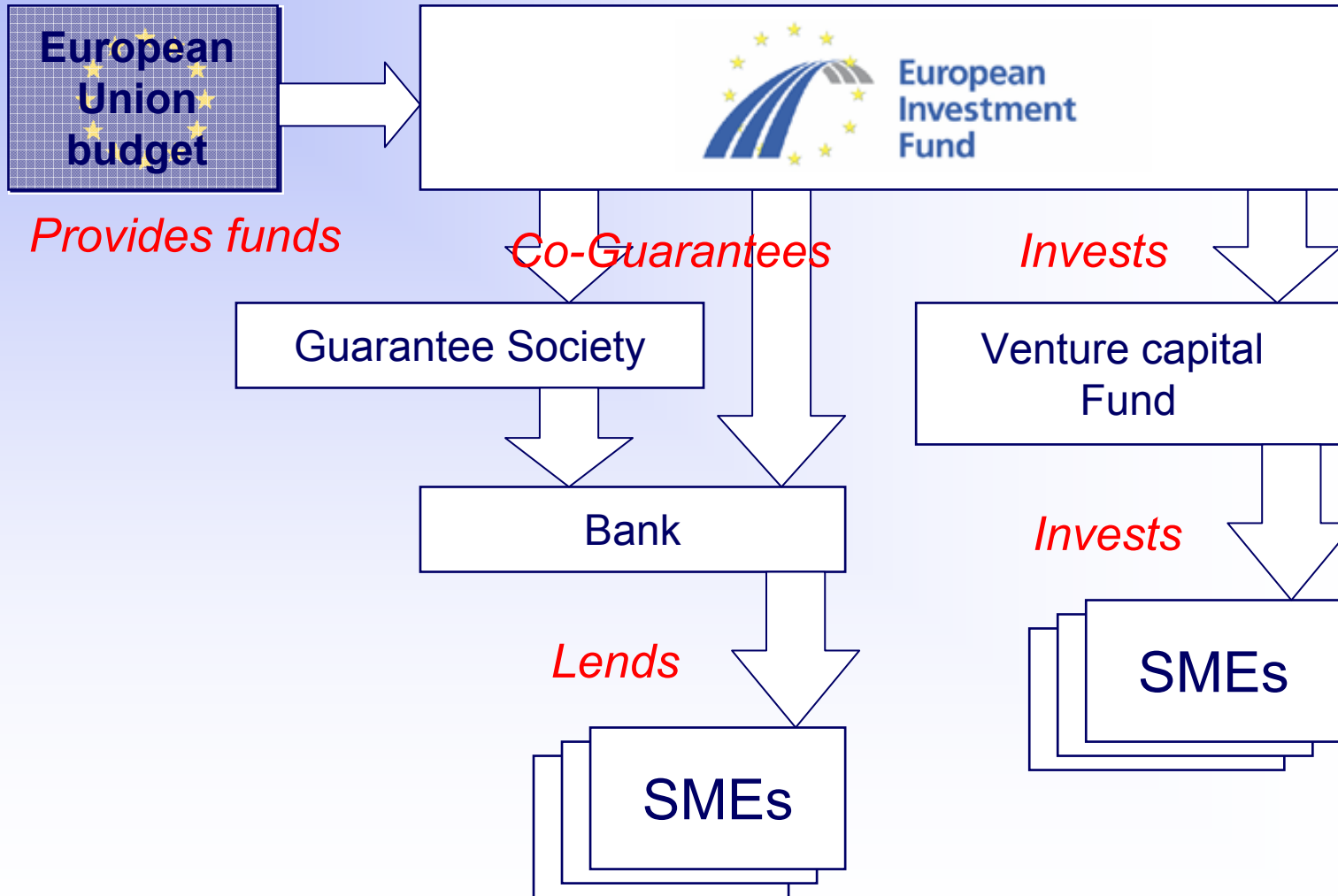
- SME loans guarantee
- Microcredit guarantee
- Equity and mezzanine guarantee
- SME loan securitisation risk-sharing scheme

### Capacity Building Scheme (CBS)

- Seed Capital Action
- Partnership with IFIs



# 4.1. From the EU budget to SMEs through financial intermediaries



## 4.2. High Growth and Innovative Facility (GIF)

- To reduce the equity and risk capital market gap faced by SMEs
- Focus on innovative SMEs with high growth potential
- Two windows: **GIF1** and **GIF2**

## 4.3. SME Guarantee (SMEG) Facility

- Debt financing remains SMEs' main source of external finance
- SMEG: four windows to help SMEs' access to loans and equity
  - \* SME loans guarantee
  - \* Microcredit guarantee
  - \* Equity and mezzanine guarantee
  - \* SME loan securatisation risk sharing scheme

## 4.4. Capacity Building Scheme (CBS)

- CBS has two different windows:
  - \* **The Seed Capital Action:** stimulate the supply of venture capital to innovative SMEs by improving the investment and technology expertise of funds.
  - \* **The Partnership Action:** stimulate the supply of debt finance to SMEs by enhancing the credit appraisal procedures for SME lending.

# Links

- **Policies on access to finance**
  - \* <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/index.htm>
- **Financial instruments' implementation**
  - \* <http://www.eif.eu.int>
- **Microcredit**
  - \* <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/microcredit.htm>
- **Access to finance and Basel II**
  - \* [http://europa.eu.int/comm/enterprise/entrepreneurship/financing/basel\\_2.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/financing/basel_2.htm)
- **Access to finance and equity capital**
  - \* [http://europa.eu.int/comm/enterprise/entrepreneurship/financing/equity\\_capital.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/financing/equity_capital.htm)
- **Survey on access to finance in EU-15** (for EU-10 in mid-2006 !)
  - \* <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/surveys.htm>
- **Euro Info Centres** ~ LOCAL SOURCES of information !
  - \* <http://europa.eu.int/comm/enterprise/networks/eic/eic.htm>