



FEE Round Table

Access to finance - the SME experience

Gerhard Huemer

13 October 2010



UEAPME is the European Craft and SME association:

- Representing **12 million SMEs** from 36 Countries in Europe
- **85** European (branches) and national (horizontal) members
- UEAPME is one of the four **European Social Partners**
- UEAPME exists because **80% of legislation and regulations** affecting SMEs comes from Europe
- I am **Director for Economic and Fiscal Policy** as well as **Head of the UEAPME Study Unit**. My responsibilities include:
 - SME finance and relation to banks
 - R&D and Innovation
 - State Aid regulations

SME finance – the banks point of view

- Credit and loans to SMEs are costly and not profitable
 - SMEs out of the scope of risk capital funds
 - SMEs are less transparent and loans are risky
 - SME lacking on business plans and reporting standards
- but
- SME portfolios are relative stable
 - SMEs are important clients at regional and local level
- and
- SMEs are a very heterogynous sector

About Small and Medium Enterprises in Europe

Figures for 2008



	Micro	Small	Medium	SMEs	Large	Total
Enterprises						
Number in Millions	19.06	1.42	0.23	20.71	0.04	20.75
%	91.8	6.9	1.1	99.8	0.2	100.0
Employment						
Numbers in Millions	39.63	27.65	22.67	89.95	43.41	133.36
%	29.7	20.7	17.0	67.4	32.6	100.0
Occupied per company	2.1	19.4	100.3	4.3	1006.1	6.4

Different types of SMEs have different needs from Banks

- small private enterprises / **family businesses** will depend from **loan financing** for investments and overdrafts for working capital also in the future
- **traditional SMEs** need **new forms of risk financing** for “riskier” projects such as innovation, internationalisation and even business transfers
- high-tech **business start-ups** and **fast growing SMEs** need external investors and access to **venture capital markets**

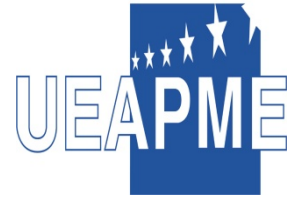
Problems:

- external finance will **depend on loans and credits**
- both sides complain about **missing transparency** (rating and scoring, information, business plans and reporting)
- who is **taking the risks** for small business loans (business owner, bank, (semi-)public institutions)

Possible solutions:

- **financial education** for SMEs, **information** requirements
- transparency about **rating and decision procedures**
- availability of mutual- or public **guarantee schemes**

SME finance for “riskier projects”



Problems:

- banks are more and more **reluctant to finance riskier projects** (start-ups, innovation, internationalisation, business transfer)
- companies with high debt ratio have **no buffer if risks materialise**
- equity or quasi-equity **instruments are not available** sufficiently

Possible solutions:

- **remove** existing **incentives for debt financing** and disincentives for equity financing
- better information about existing **alternative instruments**
- **public support** to develop quasi-equity (mezzanine) instruments

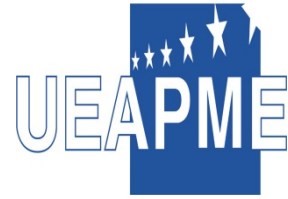
Problems:

- non existing or underdeveloped venture capital markets
- wrong regulatory incentives for private investors
- no access to bond and stock markets

Possible solutions:

- create the right (tax) incentives for private investment in venture capital and remove the cross border barriers for VC funds
- extend the risk-sharing facilities within European Programmes

The need of SMEs as regards new banking regulations



- UEAPME sees an increase of capital requirements as justified and necessary, but it has to tackle the right problems.
- Higher capital requirements should be introduced where the problems materialised throughout the crisis – it was not SME finance.
- Furthermore, the different forms of capital in savings and cooperative banks – the main financiers of SMEs in Europe – have to be recognised as long as they are able to carry losses.
- Pro-cyclical effects from Basel II and IFRS must be dampened.
- General leverage ratio may provide wrong incentives.
- Better impact assessment necessary – EQIS is not sufficient.



Thank you for your attention!



Rue Jacques de Lalaing 4
T: +32 2 230 7599
E: g.huemer@ueapme.com

B-1040 Brussels
F: +32 2 2307861
W: www.ueapme.com