Internal Market, Industry, Entrepreneurship and SMEs DG

Ciprian Cristea
Head of Unit
SME Access to finance

Keynote speech at Conference
"A Capital Markets Union for Growths, Jobs and Citizens: How to better attract savings to capital markets and to the real economy"

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Name of main contact person:	Armando Melone
Telephone number:	57013
Directorate/Unit:	GROW.F.3

SPEECH

- Ladies and Gentlemen, it is a great pleasure for me to be here today.
- The theme of today's conference is how to attract savings to capital markets and to the real economy.
- As the head of unit responsible for SME access to finance in DG Internal Market, Industry, Entrepreneurship and SMEs, I am very much interested in this topic.
- When we speak about the real economy we mainly refer to SMEs, which are the lifeblood of the European economy: in average 99 out of every 100 businesses are SMEs, 2 in every 3 employees work in SMEs and 58 cents in every euro of added value come from SMEs.
- However, we all know that SMEs have had to navigate through difficult times in recent years: shrinking demand, difficulties in getting the necessary financing, time consuming and costly rules and regulations and an ever increasing competitive pressure in the global markets.
- SMEs in Europe are largely dependent on traditional bank financing. Latest data of the SME Access to Finance Survey published in November 2014 show that for 62% of European SMEs, bank loans remain the favourite form of external financing to realise their growth ambitions.
- However, access to bank financing is not easy. Looking at the success rates of bank loan applications, 13% were rejected by banks in 2014. A slight increase from 11% in 2013.
- In total more than a third of the SMEs surveyed did not manage to get the full bank loan financing they had planned for during 2014.

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- However, good news finally seems to be coming. Although we are a long way from a healthy level of growth, the latest signals of the credit cycle seem to be encouraging.
- The last moves by the European Central Bank have started to give a boost to the economy. One of the objectives of the latest **Quantitative Easing** initiative launched by the ECB was indeed to increase the willingness of banks to lend to the real economy, including SMEs.
- We still have to wait before the monetary stimulus reaches the real economy, but some first signs of recovery are already visible.
- But monetary policy alone will not be sufficient. We have to use all the means at our disposal to improve the situation.
- There is a need for **fiscal policies** targeted at the real economy. More flexibility has been recently allowed to Member States by the Commission under the Stability and Growth Pact, also in the context of the Juncker Investment Plan, one of the pillars of President Juncker's strategy.
- I am sure everybody is well aware of this plan. With this initiative, we will focus on long-term, large-scale European investment to create jobs.
- We need this **investment offensive** that optimises our economic policy! With this initiative, we will focus on long-term, large-scale European investment to create jobs.
- An essential part of the Investment Plan is to set up a new **European Fund for Strategic Investment (EFSI)** which will generate investments worth around 315 billion EUR.

- The Fund will **finance strategic projects across the EU in infrastructure** such as broadband, energy and transport; education, research and innovation; renewable energy and energy efficiency.
- But a big part of it will target **SMEs** to give a boost to the real economy: one quarter of the EFSI resources will be used to support risk finance for SMEs and small mid-cap companies, leading to investments of approximately €75 billion and relying on the EIF for the operational implementation.
- This should help SMEs overcome capital shortages by providing higher amounts of loan guarantees, equity, as well as additional guarantees for high-quality securitisation of SME loans. This is an effective way to kick-start job creation and growth!
- The new Fund, which will aim at strategic investment choices, should be attractive to private investors as it assumes the more complex and risk-bearing part of the transaction.

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- The Fund will complement the financial instruments recently launched by the Commission for the period 2014-2020, most notably under **COSME and Horizon 2020 programmes** which are already very good at providing mostly loan guarantees and venture capital for SMEs and small mid-caps.
- We are currently working to ensure a smooth interaction between the financial instruments for SMEs that will be set up under the EFSI and those under COSME and Horizon 2020.
- So once they become operational, they will enhance and complement the instruments which are already in place. Our overall focus is on delivering fast and effectively to support SMEs access to finance across Europe.

- We have to say that **COSME and Horizon 2020** are continuing the good experiences form the past. As of 2014, under the old CIP programme, which is still continuing to produce results, about 360,000 SMEs had received financing for a total value of almost € 19 billion of guaranteed loans.
- Under the old **CIP Loan Guarantee Facility**, the European Investment Fund, as the implementing entity of the CIP instruments, was able to achieve this by signing a total of 73 guarantee operations in 24 participating countries with 57 different financial intermediaries.
- Most of the supported SMEs were micro enterprises which find it hardest to get access to finance. They usually lack the resources to prepare the loan applications and have difficulties in providing financial track records.
- Therefore, we are especially happy that we have found a way to ensure that this target group is served by financial intermediaries under our debt financial instruments.
- **On the equity side**, the EIF has invested into 43 European venture capital funds coming from 15 different participating countries.
- These funds have raised a total of € 3 billion from investors, whereby € 550 million were invested from the EU budget under CIP. This provides for a leverage of roughly 1 to 6.
- These venture capital funds have **invested in 318 SMEs in 18 participating countries** of the CIP programme.
- Overall, we are very satisfied with the results of the CIP today. For one, the financial instruments make a significant positive contribution to the availability of finance, especially for very small companies.

- Secondly, they support the creation of more diversified financing products across the participating countries.
- And now we are out with **COSME**, the successor of the CIP programme. In August last year, the EIF published the respective calls for expression for interest to announce to the market **'that COSME is open for business'**.
- So far, we have seen a demand for the COSME financial instruments which is far stronger than what we could have ever hoped for.
- Especially the debt facility, which provides risk sharing for financial intermediaries willing to lend to riskier SMEs, has received strong interest.
- From a policy perspective we are hoping to get financial intermediaries to offer financing products that they would normally consider too risky and not do if they were without any backing.
- To ensure that SMEs are aware of all the financing opportunities created under COSME and other European programmes, we are continuing to improve our **'European Portal on Access to EU Finance'**. Recent statistics have shown that this portal has more than 100,000 visits per month.

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- We are also working on the **SME Initiative** which was proposed by the European Council as a joint financial instrument which would bring together resources from programmes managed by the Commission, EU structural funds and EIB resources.
- The current take-up of the SME Initiative has not been particularly high, since only Malta and Spain have agreed to participate so far. However, there is a good chance that new countries will potentially join.

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- These initiatives will give an important support to investment in Europe. But if we want it to be more than a one-off, if we want to have a durable impact on economic conditions in Europe, then we need more **structural change**.
- We need to remove the obstacles currently standing between companies and the financing they need. And to increase the range of options available to investors so that Europe's savings, pension contributions and investment premiums can be put to more productive use.
- In an economy like ours so dependent on bank financing, there is a need to reduce SMEs high dependence on bank funding and increase the availability of alternative or complementary financing for SMEs. The ability for SMEs to tap into capital markets is essential and will be more and more important in the coming years.
- Among the most valid alternatives to traditional bank financing nowadays for SMEs, are **venture capital** and **crowdfunding**.
- As an emerging and alternative source of finance, **crowdfunding** could contribute to bridging the finance gap for many small SMEs that do not manage to access bank finance, venture capital or reach the stage of IPO.
- We have to support its development, without underestimating the different types of risks it could pose, such as the risk of fraud, misleading advertising, risks from project failure, intellectual property rights protection etc.
- Relevant changes are occurring in the world. In the **United States**, the Securities and Exchange Commission recently approved the final rules to activate implementation of the JOBS Act. This is a major breakthrough and might pave the way for a big boom of the equity crowdfunding industry in the US.

- In Europe, crowdfunding is developing quickly in some Member States, with **UK playing the leading role.**
- Many EU Member States are regulating the sector, although evidences show that there is also **a need to raise awareness,** especially among those younger, innovative and high growth SMEs, who need to **be better informed** on what crowdfunding is, how it works, what are its benefits and risks.
- At the Commission, we have developed an **information guide** aimed at providing guidelines to European SMEs on what is crowdfunding, how to access it, what practical steps it involves, but also highlighting the risks associated to this form of finance.

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- Finally, we know that a smooth functioning of **venture capital market** generates positive effects not only at micro level, but also in macroeconomic terms: it enables economic growth, fosters employment and boosts the real economy in general.
- However, various issues are hampering its development in Europe. One is the size of the funds: in the latest years, **only 20% of the VC funds in Europe have raised more than 100 million EUR**.
- And we know that the bigger the scale, the higher the incentive for institutional investors, like banks, insurance companies and pension funds, to invest in this asset class.
- In fact, institutional investors have reduced their exposure to European VC markets, which have become increasingly dependent on public sector investments: in 2014, **more than 35% of investments in VC came from public sources**.
- But **good investment opportunities** are out there! This trend is summarised by the share of non-EU funds investing in portfolio companies in Europe, which is growing year by year.

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- What could we do to tackle these issues? Within the **Capital Markets Union** the Commission will look into each issue, then will come up with initiatives to tackle them.
- I am glad to say that the Green Paper which was launched a few months ago by Commissioner Hill has received a generally warm welcome from across the EU.
- More insights on the Capital Markets Union will be provided later today, but I would only like to mention that this Green Paper marked the beginning of a **three months consultation**. We want to hear the views from parliamentarians, including national parliaments, Member States, citizens, NGOs, SMEs.
- On the back of this consultation, the Commission will launch **an Action Plan** which sets our priorities and the next steps we will take. There will not be a silver bullet, one simple lever we can pull. Rather there will need to be a sustained campaign over the whole life-time of this Commission.

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- So, to **sum up**, I would mention that the Capital Markets Union project offers an opportunity. An opportunity for banks as important intermediaries of market-based funding. An opportunity for investors to increase their options for investment. An opportunity for Europe to widen access to new channels of funding for SMEs and infrastructure projects. An opportunity, in other words, to finance growth.
- We want to work with the financial sector, and do things *with* it, not *to* it. I know that we need a strong financial services sector if we are to have a strong economy in Europe.

- In the end, this is a partnership, where ultimate success will rely on good cooperation between all of us: European institutions, Member States, enterprises and financial institutions.
- So we look forward to working with you, and to hearing from you, as we work together to put Europe back on the path to stronger and sustainable growth.
- I wish you a nice continuation of the day. Thank you very much.