"The voice of crafts and SMEs in Europe"

Expiring measures on loan guarantees and risk capital must be kept, say SMEs

UEAPME demands one-year extension for two chapters of "temporary state aid framework" at the "SME Finance Forum"

Brussels, 28 September 2010 – The European Commission should keep in place the temporary support measures for loan guarantees and risk capital introduced in 2008 and due to expire at the end of the year, according to UEAPME, the European craft and SME employers' organisation. Speaking today (Tuesday) at the first meeting of the "SME Finance Forum" launched by Vice President Tajani, Secretary General Andrea Benassi stressed that small businesses still find it harder to obtain financing for their activities compared to the pre-crisis conditions. Companies depending on "classic" bank loans face higher risk premiums and strict demands for collaterals, while innovative small businesses and start-ups are confronted with a lack of financial products capable of carrying more risk. While the rest of the "temporary state aid framework" adopted in 2008 has clearly run its course, a one-year prolongation of the chapters on loan guarantees and risk capital would ease access to finance for SMEs and boost Europe's sluggish economic performance, stressed Mr Benassi. UEAPME also called for a better use of structural funds to back loan guarantees and for more attention to "mezzanine finance" to support SME equity.

"The economic crisis has taken its toll on SME finance. Although we have not witnessed a full-scale credit crunch, small businesses are now subject to tighter scrutiny in their demands for credit. Tougher loan conditions and requests for collaterals have now become commonplace. Against this background, it is too early to withdraw the temporary state aid rules for loan guarantees and risk capital due to expire soon. The rest of the temporary package has come to its natural end and should not be renewed, but the chapters on loan guarantees and risk capital should be kept in place for one more year. This would help traditional small businesses and innovative companies alike to weather the storm", said Mr Benassi.

Traditional small businesses and family businesses depend to a very large extent on bank loans to finance their activities, explained Mr Benassi. Due to the crisis, banks increasingly tend to demand collaterals to secure loan repayments. This limits the availability of credit for small companies, which usually have little or no properties that can be put up as collateral. Guarantees from public authorities can greatly help in this respect, continued Mr Benassi: banks will be more inclined to grant loans to small companies that have received the backing of a public authority, which would be ready to intervene in the very unlikely case of a default. The rules on loan guarantees adopted in 2008 made them easier to obtain, less expensive and more generous and should therefore be kept in place to ensure that the pace of the recovery picks up. In the future, structural funds could and should be used to create national and regional guarantee schemes, said Mr Benassi.

Small businesses dealing with riskier projects such as start-ups, business transfers and innovation activities have equally found it difficult to get access to finance in the last years, with banks' reluctance further compounded by the inability of the market to provide products capable of carrying more risks. *"Innovative small businesses find themselves stuck between a rock and a hard place at the moment. Traditional loans are not enough for their needs, while venture capital is too much and is only available in seven-digit figures"*, explained Mr Benassi. Prolonging the chapter on risk capital in the temporary state aid measures would be a first answer to tackle the shortage of credit for innovative small businesses. In the longer run, more must be done to encourage the market to develop new "mezzanine finance" products to fill the current gap.

Finally, the Secretary General congratulated Vice President Tajani for taking the initiative to organise regular meetings of the "SME Finance Forum". *"Our presence in this forum grants us the unprecedented opportunity to give direct feedback to lending institutions and to policymakers at the same time and at the highest level. This is all the more important at a time when credit conditions are difficult and Europe's economy is recovering only at a snail's pace"*, he concluded.

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EDITORS' NOTES: UEAPME is the employers' organisation representing exclusively crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 85 member organisations covering over 12 million enterprises with 55 million employees. UEAPME is a European Social Partner. For further information: http://www.ueapme.com/

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