

Position Paper

UEAPME¹ position on the next generation of European SME Finance Programmes

1. General remarks

With this position paper the UEAPME secretariat would like to provide a general orientation for the next generation of SME finance programmes, which is based on the needs of the more than 20 million crafts and small and medium sized enterprises in Europe that play a fundamental role in contributing to economic growth, social cohesion and job creation, are a major source of innovation and are vital for sustaining and expanding employment.

The Craft and SME sector is very heterogeneous and includes a vast number of micro-enterprises, family businesses that are working successfully in traditional sectors as well as a growing number of new start-ups, fast-growing high-tech and highly innovative enterprises.

The European Institutions have recognised in many occasions the existence of market failures as regards access to finance and innovation in the SME sector and consequently provide European Programmes and State aid rules for national support to compensate for these market failures.

UEAPME underlines the important contribution and the added value of European Financial Instruments to improve access to finance for SMEs, both under the current CIP as well as its predecessor programme (MAP) and UEAPME accepts that due to their financial limitations, European programmes have to focus on areas with a clear European added value and they should be as coherent as possible with programmes supported at national or regional level by national means or by the European Structural Funds.

Finally, most of the European Programmes supporting SME finance are implemented via European, national and / or regional intermediaries and SMEs have only contact to their intermediaries. However, transparent and simple administrations and procedures at all levels and between all involved partners are crucial for take-up and the success of such programmes.

2. European Programmes to support access to finance for SMEs

Throughout the current crisis traditional SME lending has been quite stable and a credit crunch has been avoided by an increase of support measures at European and national level. However, European financial markets in many areas are currently not able to provide SMEs with sufficient forms of finance for varying reasons, and this will also be the case in the future. However, new and stricter capital

¹ UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

requirements for the banking sector in combination with other up-coming financial market regulations may further tighten lending conditions for SMEs in Europe.

Furthermore, one has to be aware that Crafts and SMEs vary as regards their size, the sectors in which they are active and their business models. Therefore, SMEs have different needs and problems as regards financing and these differences have to be respected by future programmes aiming to support access to finance for SMEs.

- **Small and traditional enterprises** will also in the future **depend mainly on credits and loans**, when it comes to external finance. An increasingly risk sensitive banking sector asks for more collateral and higher risk premium, both results in insufficient finance and missed business and employment opportunities in this very large group of enterprises. Therefore, the availability of **credit and loan guarantee schemes** is crucial to exploit their growth and job potential.

The current guarantee instruments in the framework of the Competitiveness and Innovation Programme (CIP) and the Structural Funds (JEREMIE) aim to support such national guarantee schemes, but are criticised as not sufficient in volume (CIP), too narrow as regards the coverage (CIP) and too burdensome from an administrative perspective (CIP and JEREMIE).

Even if the future SME finance programme (CIP successor) will face to limited resources; support to loan guarantees shall remain one of its main objective, precisely because they are the most fitted finance instruments for craft and small enterprises. Nevertheless, it will be also important to ensure an easier use of Structural Funds for SME finance instruments, as a complement to the CIP ones and if there conception and implementation are elaborated on territorial needs, especially by allowing the financing of funds for guarantee schemes.

- Banks are more and more reluctant to **finance riskier business projects** like start-ups, innovation and even business transfers by traditional loans. Furthermore, SMEs with a high leverage ratio (high degree of debt financing) are much more vulnerable in case of crises or if a riskier project runs into difficulties. Therefore, start-ups and innovative enterprises should have better **access to equity and quasi-equity financial instruments**, which are not provided by the market.

A future SME finance programme (CIP successor) should give more focus to the development of **mezzanine financial instruments** aiming to finance such riskier projects for SMEs and help them to buffer losses in critical times. Due to the different institutional setup in the Member States and the different structure or the financial markets, these mezzanine instruments will vary between Member States and should be supported by risk sharing funds and facilities. Therefore, flexibility is needed to avoid inappropriate one-size-fits-all solutions.

- Finally, highly innovative and fast growing companies are crucial for the future competitiveness of Europe's economy and need **access to venture capital and bond markets** for which a real European market is missing.

Therefore, a future SME finance programme (CIP successor) should include initiatives to remove the barriers for a European venture capital market, to enlarge **risk-sharing facilities for investments in equity** and to support the issuance of **pooled corporate bonds**.

In addition to any programme supporting access to finance for SMEs, the European Institutions and the Member States should be aware that the current structure of SME finance in many European countries on the demand and the supply side is **strongly affected by taxation systems and State aid provisions**, which **provide strong incentives for debt financing and disincentives for equity financing**. Therefore, initiatives are necessary to increase the awareness about the problems created by the wrong incentive from the regulatory framework and to motivate Member States to undertake the necessary reforms.

3. Improvements as regards coherency, administration and procedures

- **Loan guarantee schemes** are currently supported by European (CIP, Structural Funds) and national means, but the rules and procedures differ for CIP and Structural Funds and create problems for national intermediaries. Similar problems exist for the **support of venture capital**, where CIP is limited to “pari passu” investments while JEREMIE (Structural Funds) allows different forms of risk-sharing.
- Intermediaries at European and national level complain about the **complexity of the European financial regulations** and the administrative burdens created by these regulations. Especially if European Funds and programmes are used to support single enterprises with relative small amounts of money, the time and costs needed to fulfil these regulations are not in relation to the advantage of the final beneficiary. Furthermore, banks are complaining that too often the maximum margin for their administrative costs does not cover their real costs in case of small volume finance and makes it unattractive to provide such financial products.

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