BUSINESSEUROPE

High-level round table meeting between banks and SMEs

21 January 2009

BUSINESSEUROPE's policy messages:

1. **Without a return to normal conditions on the interbank money market, a return to normal lending practices is difficult**

   a) The effectiveness of bank rescue plans should be improved in order to encourage banks to resume normal lending practices.

   Loan guarantee schemes as included in some national recovery plans (e.g. in Germany, the United Kingdom or France) are one possible option. Banks enjoying the benefits of such schemes should indeed resume lending to companies.

   However, governments should pay attention that they limit their interventions to providing the right incentives and do not enact compulsory measures.

   b) Adopt measures that could help to restore trust among banks. For example the ECB could adopt the role of a clearinghouse to guarantee interbank loans and thereby help unfreeze the interbank money market.

   c) As soon as banks' annual reports for 2008 are published, providing clear information on their exposure to the crisis and incurred losses, the business community hopes that mistrust will fade.

   d) Data showing that loans to companies are still growing at an annual rate in the euro area – albeit at a decreasing pace – might not tell the entire story about companies' lack of access to finance.

   - Loans are not the only means of financing for companies. The environment for issuing bonds or raising capital on stock markets has become extremely difficult.

   - The situation differs significantly across member states. Countries in which banks operate at a local level (e.g. German or Austrian "Sparkassen") and therefore enjoy closer personal contacts with entrepreneurs and have a better knowledge of their business activities, the level of mutual confidence is higher and the financing situation for SMEs is less worrying.

   - The ECB's reduction in interest rates to 2% must be reflected in companies' financing conditions because risk assessment criteria have tightened substantially, e.g. requested information and securities, reduction of amounts that can be lent.

2. Not only the access-to-finance concerns of mid-size but also of larger companies must be taken into account

a) In some cases, the financial situation of SMEs is even stronger than for larger companies, as SMEs depend to a lesser degree on external financing via bond and stock markets to finance their investments.

b) Nevertheless, in several sectors of the economy and because of the integrated supply chains, SMEs depend on larger companies as their main customers. Their problems are eventually passed down the supply chain and hurt SMEs.

3. Prevent SMEs' liquidity constraints translating into solvency crises and bankruptcies

In the current economic situation, the amount of late payments is increasing rapidly across the board as all companies follow closely their cash positions. This hurts particularly SMEs as late payments are passed down the supply chain.

a) It is therefore critical to speed up the adoption of the "late payments directive" (still pending but announced by the Commission for adoption during the first trimester of 2009) and to insist that especially public authorities respect the maximum payment delay of 30 days.

b) It has been highly appreciated that in the context of temporary state aid measures, loan guarantees have been extended for working capital needs and are not limited to investment loans only.

4. React to the investors' high risk averseness which hurts in particular young and innovative SMEs in need for external financing

Promote new products and improve information campaigns at the member state level. Bank loans alone are insufficient as banks have been extremely reluctant to finance risky SMEs – even before the crisis.

a) The EIB for example has already improved its schemes for

- Mezzanine financing (e.g. subordinate loans)
- Risk-sharing

b) Promote private equity and venture capital funds. Reduce barriers on the internal market and allow them to operate freely within the EU.

5. **Create incentives for companies to improve their financial communication**

   Surveys have shown that SMEs that provide sufficient relevant information on their financial situation and communicate these clearly to their banks face fewer problems obtaining new credits.

6. **Improve the general business environment for SMEs in order to lay the foundations for a sustained economic recovery and to prevent negative repercussions for the EU's medium-term growth potential**

   a) rapidly implement the Small Business Act

   b) implement Lisbon-type structural reforms

      - flexicurity

      - incentives for R&D and innovation

   c) improve the attractiveness of EU financing programmes, e.g. the Competitiveness and Innovation Programme

Annex: Background information

Measures taken so far to address companies' access to finance

In order to overcome the shortage of financing, important initiatives have already been adopted at the European and the national level. BUSINESSEUROPE has fully supported these initiatives.

- **Bank rescue plans**

  European governments have implemented bank rescue plans, taking the form of capital injections, guarantee schemes or asset purchases. The total volume of direct interventions (capital injections and asset purchases/swaps) for the euro area amounts to 300bn EUR (3.3% of euro area GDP). Guarantees were accorded for a total amount of almost 1,700bn EUR (19% of euro area GDP).

  Bank recapitalisation by (government) cash injections in return for preferential shares was most frequent in order to reduce solvency risks and to restore lending activity. By the end of 2008, 82bn EUR had been injected in the euro area and 37bn GBP in the UK.

  Furthermore, some member states offer temporary government guarantees on newly issued debt, against a fee.

- **Increase in EIB credit lines reserved for SMEs**

  At the request of the EU Finance Ministers the EIB Group has modernised and strengthened its support for Europe's SMEs to help mitigate the effects of the credit crisis.

  - The EIB has earmarked EUR 15bn over the period 2008-2009 for loans to SMEs in Europe granted via commercial banks, as part of an overall package of EUR 30bn for 2008-2011, constituting a substantial increase over its usual lending in this sector.

  - Lending to SMEs will still be deployed via commercial banks. Yet, in order to increase the attractiveness of its programmes, the EIB has significantly improved the administrative aspects.

  - The EIB will offer intermediary banks more sophisticated risk-sharing products designed to reach market segments that commercial banks have difficulty penetrating, i.e. SMEs for which the risk is considered too great or the security provided is judged insufficient.

- **State aid measures**

  To coordinate and facilitate targeted measures to tackle the financial crisis, the Commission has adopted a communication dressing a temporary framework for horizontal state aid measures to support access to finance.

  Measures are valid until 2010 and include in particular:

  - a temporary derogation to the *de minimis* rule, increasing the compatible limited amount of aid to 500,000 euros per undertaking

  - a temporary arrangement to calculate reduced interest rates

  - a loosening of the rules on risk capital: the tranches of finance will not exceed EUR 2.5 million per target SME over each period of twelve months and the percentage of minimum private investor participation is lowered to 30% for all SMEs.

  - aid in the form of guarantees by reducing the annual guarantee premium to be paid of up to 25% for SMEs and 15% for large companies

  - aid for the production of green products by reducing interest rates for investment loans, financing new products which significantly improve environmental protection. The reduction can attain 50% for SMEs and 25% for large companies.

- **Regional Policy**

  In order to contribute to the economic recovery, the Commission intends to speed up payments and to facilitate the implementation of regional policy programmes. Policy measures include:

  a) Promoting and developing financial engineering instruments

     The Commission will increase, with the European Investment Fund, the availability of financial and technical assistance to help develop access to finance instruments.

  b) Directing action towards smart investments

     Member States and the Commission should increase investments in areas of immediate growth potential: energy efficiency, clean technologies, environmental services, infrastructures and interconnections, broadband network, forecasting and matching of skills with future labour market needs or opening up new financing for SMEs.

c) Exploiting existing opportunities to address immediate needs

Member States can vary the Community and national contributions when it comes to individual projects inside a programme: for example some operations could be financed at 100% by Cohesion Policy funds in 2009. Such frontloading would need to be balanced by operations funded only nationally or at higher rates of national funding by the end of the programming period.

d) Extending closure deadline for the 2000-2006 programmes

The Commission will quickly examine requests for short extensions of the closure deadline for the 2000-2006 programmes in order to allow the maximum use of commitments already made and to relieve difficulties arising from raising capital in late 2008.