

BUSINESSEUROPE



Global problems of Access to Finance and Innovation

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SME Access to Finance a Global Problem

1. The European Perspective
2. The UK Position and example of best practice
3. The Entrepreneur's view



European Business Perspective

- SMEs comprise 99% of Europe's companies and two thirds of employment
- Policymakers recognise the availability of finance (debt and equity) is a crucial condition for creating jobs and growth
- SMEs more agile, higher growth and innovation potential



Changing Environment to Banks

- Increased risk sensitivity of lenders, who want to lend to asset rich profitable companies that often don't need the money!!
- Start up businesses face a particularly difficult time
- Track record of entrepreneurs, often requiring significant personal guarantees that are not always available



Increased Risk Adversity from Private Equity

1. High profitability expectation
2. Regulatory obstacles to cross border investment (financial, environmental)
3. Limited exit opportunities
4. Under-developed capital markets in many European countries
5. Most companies too small to be considered for institutional investment



Strict Interpretation of State Aid Rules

- Public Sector guarantees for banks lending operations subject to increased scrutiny from European Commission
- R and D tax credits a welcome instrument to stimulate innovation
- Very difficult for governments and public bodies to provide funds and guarantees for SME businesses because of the time taken to obtain state aid clearance, e.g. UK Enterprise Capital Funds



Challenges for SME Financing

1. Strong equity base important to offset potential losses and insufficient internally generated profits
2. Equity enables companies to lever in more debt
3. New European rules on equity/debt matching will effect how much money a lender will lend and at what price
4. Venture Capital increasingly important, both at the start up and second round stages of funding



Four Priority Areas for EU Policy

1. Elimination of obstacles to the creation of cross border markets for loans, private equity and venture capital
2. Encouragement of SMEs to diversify their financing structure; to increase their equity base, and reduce their dependence on short term bank borrowing
3. Development of private risk capital markets
4. Stimulation of innovation



The UK Position and Example of Best Practice

1. Well developed and sophisticated capital and loan markets
2. Innovative approach involving public/private sector partnership
3. Real progress towards closing the funding gap



The Investment Ladder (exists in NE England)

- Traditional bank funding and asset based finance
- Small firms Loan Guarantee
- Proof of Concept Fund and Micro Loan Fund
- Seed Capital Fund
- Co-Investment Funds
- Business Angels
- Mezzanine Loan Funds
- Enterprise Capital Funds
- Venture Capital Funds

