



Ministry of Economic Affairs

*How to support SMEs in
accessing and
understanding alternative
finance? – The views of the
SME Envoy Network*

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Outline

1. Introduction SME Envoy Network
2. Access to Finance in SME Envoy Network
3. Capital Market Union
4. EU VC Fund-of-funds Programme



SME Envoy Network

- Set up in 2011 as part of the review of the Small Business Act
- Each EU country has nominated a national SME Envoy
- Role of SME Envoys:
 - Promote SMEs' interests throughout all government bodies and ensure that the "Think Small First" principle is integrated into their policy-making and regulatory proposals;
 - Act as the main interface between the Commission and national policy-makers;
 - Report on the uptake of the SBA in EU countries, step up efforts to distribute information on SME policy actions, and promote the exchange of good practices.



Access to Finance in SME Envoy Network

- 2015 (June): Quick scan on recent developments of alternative finance for SMEs in the EU (KplusV)
 - *"How the development of our finance market can lead to the growth of our companies"*
- 2015 (November): Working group on Venture Capital
- 2016: SME Action Plan – Chapter on Access to Finance (*in progress*)
 - *Traditional finance*
 - *Alternative finance*
 - *Microfinance*



KplusV organisatie-
advies
verschil zien, verschil maken

Alternative Finance for SMEs in the EU

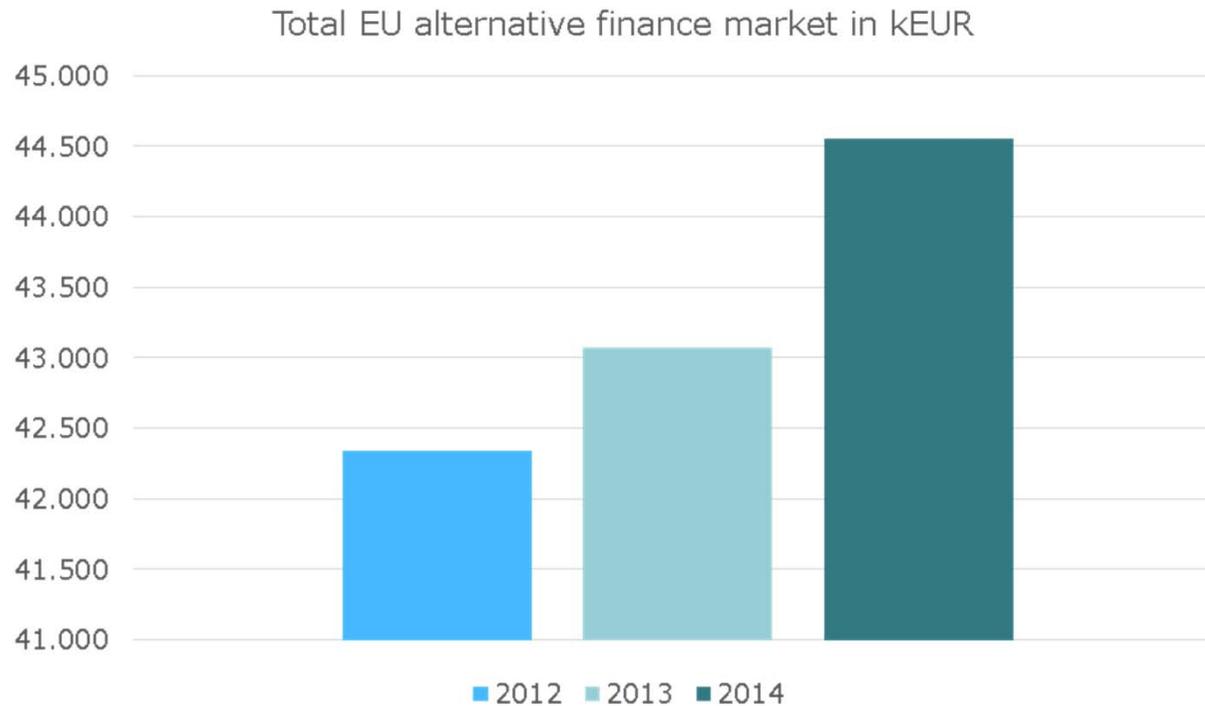
Quick scan on recent developments: *"How the development of our finance market can lead to the growth of our companies"*

Date: 22 June 2015

Reference: 1015085-013



Development of alternative finance market



Size of alternative finance market in the EU since 2012. 2014 data on BA is not yet available and is not included in this graph (BA market is approximately € 5-6 bn). Sources: EY Moving Mainstream: The European Alternative Finance Benchmarking Report, Feb. 2015, p. 13; EBAN, Statistics Compendium 2014, p. 7; and EVCA, EVCA Yearbook - 2015 European Private Equity Activity: European Private Equity Activity Data 2007-2015, forthcoming.



Developments on three topics

Alternative
Finance



Awareness

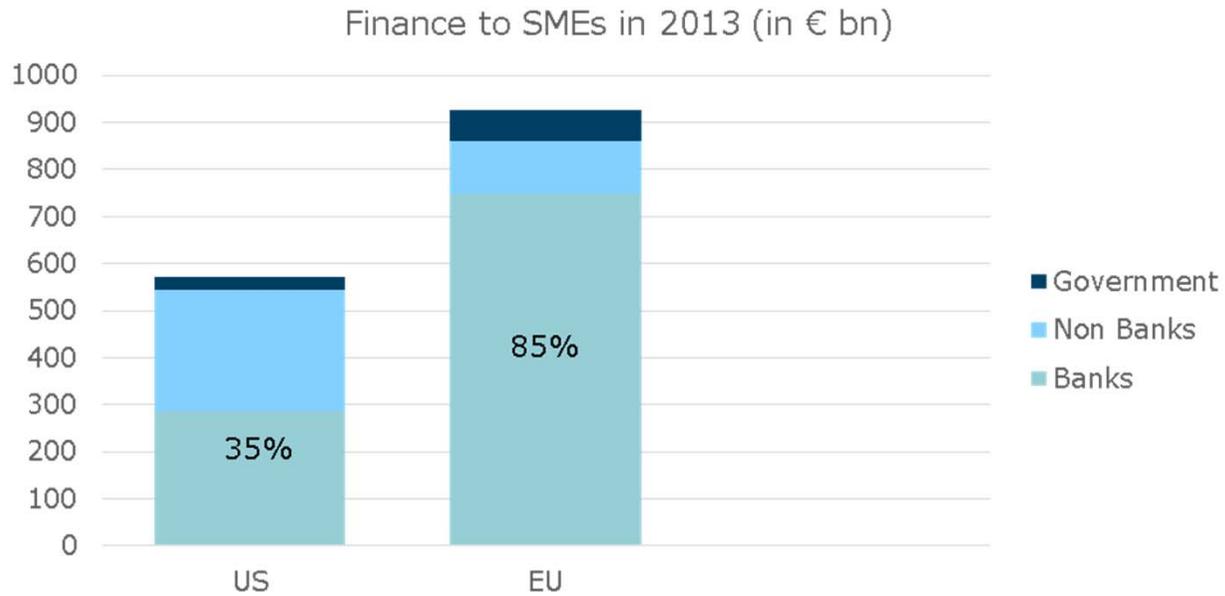


Governmental
Action





Developments in SME Finance



Association for Financial Markets in Europe (AFME), "Bridging the growth gap", February 2015, p. 9; 29, figure sources SAFE analytical report, 2013, FRBNY Survey 2013/2014

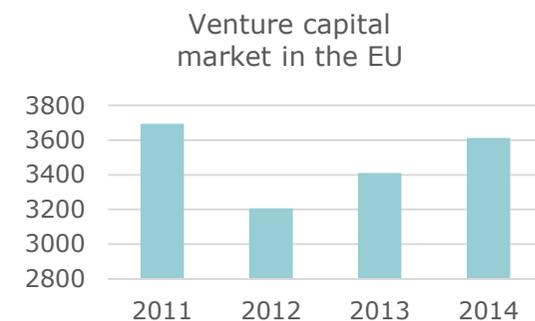
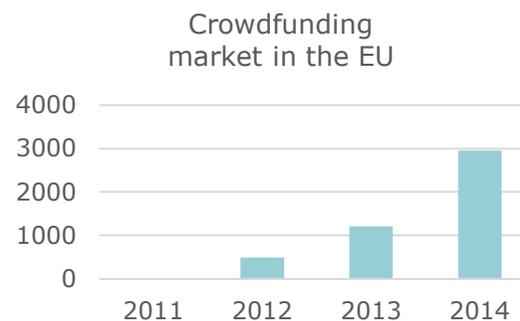
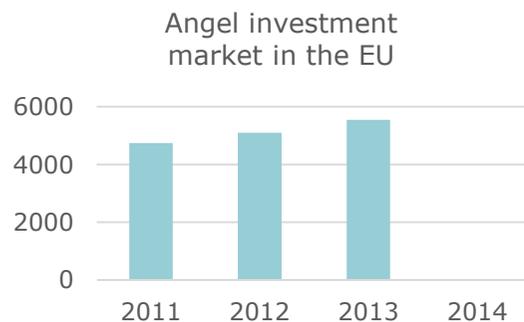


Developments in Alternative Finance (1)



- The amount of alternative finance has been increasing in recent years.
- Angel investing, later stage venture capital and crowdfunding are increasing rapidly.

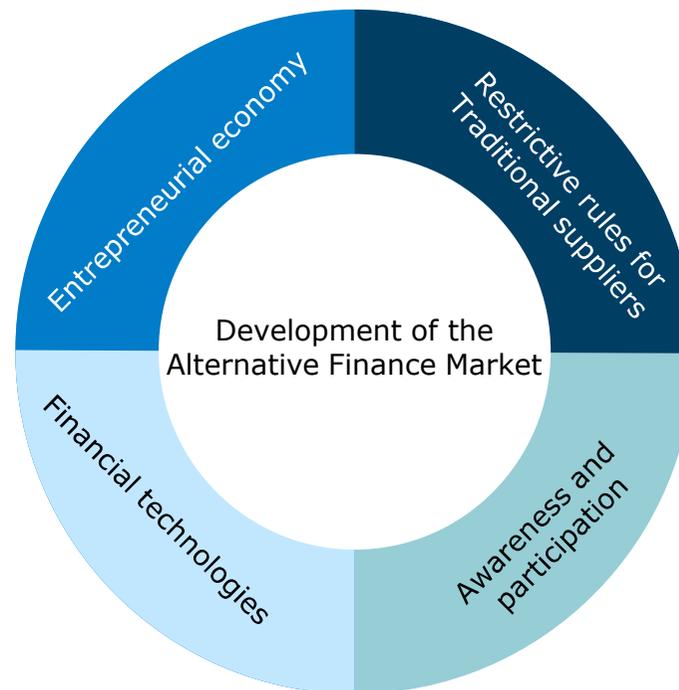
For the purpose of this discussion, we define alternative finance as *all non-banking finance*



Amount invested in € mn. 2011 CF data and 2014 BA data is not available. EY Moving Mainstream: The European Alternative Finance Benchmarking Report, Feb. 2015, p. 13; EBAN, Statistics Compendium 2014, p. 7; and EVCA, EVCA Yearbook - 2015 European Private Equity Activity: European Private Equity Activity Data 2007-2015, forthcoming.



Drivers of the Alternative Finance market



Offers alternatives for traditional bank lending and growth opportunities when using combinations of (alternative) finance.



Developments in Awareness



Lack of awareness of possibilities

Lack of knowledge of the use and the requirements of these sources

Lack of skill to use alternative finance



Developments in the role of the government



- All Member States have initiatives to **support and stimulate** alternative finance.
- A lot of Member States are also working on **legislation and regulation** of alternative finance.
- The one-stop-shop for businesses initiative.
- The **Green Paper** on building a Capital Markets Union is developed by the European Commission.
- Initiatives to raise **awareness**

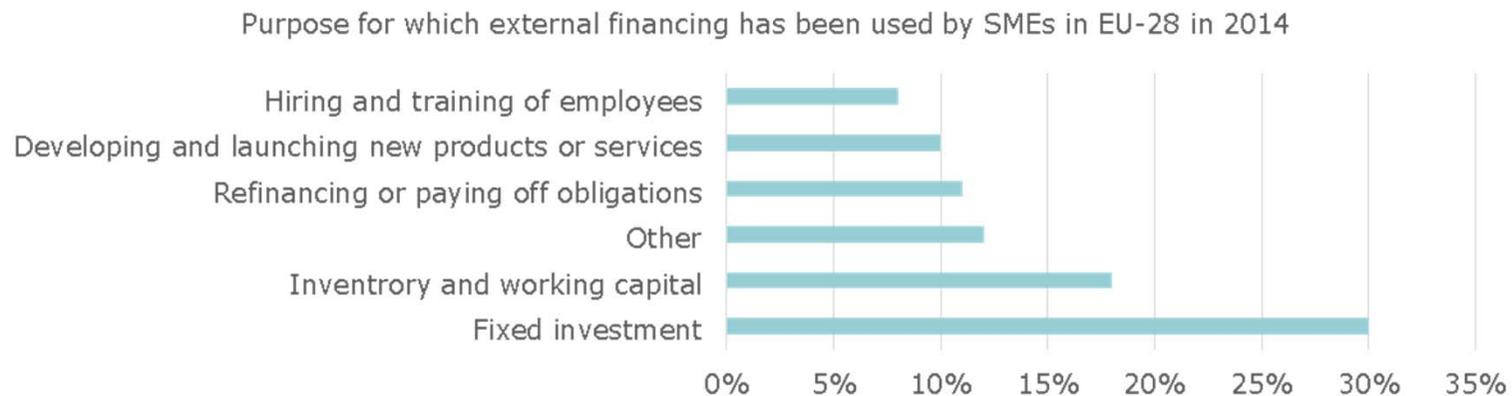


Challenges regarding our finance market





Challenges on the demand side of alternative finance

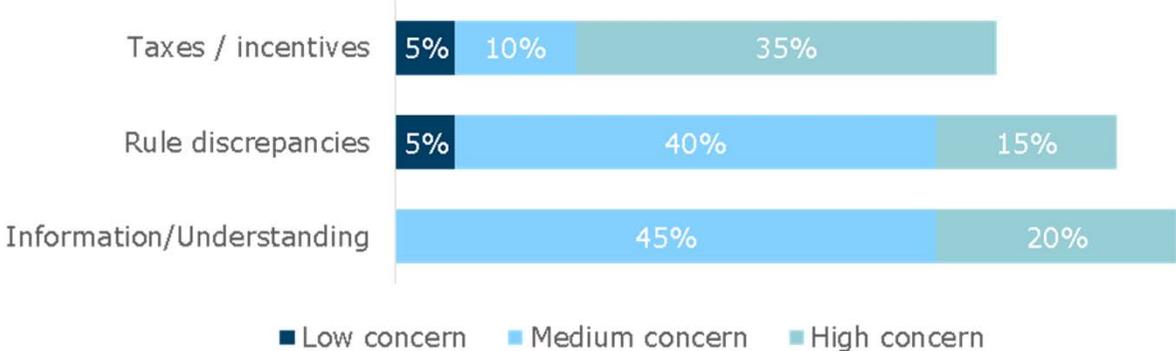


Panteia, 'Survey on the access to finance of enterprises (SAFE)', November 2014, p. 12

- **Decrease** the reliance of banks for finance.
- Cover **all investment stages**.



Challenges on the supply side of alternative finance



Association for Financial Markets in Europe (AFME), "Bridging the growth gap", February 2015, p. 8

- Increase the quality and quantity of **deal flow** for parties on the supply side of capital.
- Increase the **financial literacy** and decrease the lack of **awareness** among entrepreneur.



Opportunities for action





Opportunities



Challenges

A (too) high reliance on banks

Not all investment stages are covered

Shortage on work capital

Financial illiteracy

Regulatory and legal barriers
Be a frontrunner on alternative finance

Directions

Creating **diversification**; greater variety of suppliers of finance for all SME's and opportunities for multiple source finance.

Harmonization; stimulating **capital at all stages**
Stimulating **cross border finance**

Need for prompt **payments** and asset based, supply chain finance

Creating **ambitious business environment hubs/ecosystems** is an example which can be used to improve **literacy**, transparency, knowledge on alternative forms and options, financial management skills and investment readiness.

Regulatory reforms



Working group on Venture Capital



Working group on Venture Capital

- VC funds in EU relatively small (50% of US funds)
 - 90% of EU funds concentrated in 8 member states
 - Only 10% of 'Unicorns' are European
- 2014: SME Envoys call for a temporary technical group of national experts on VC financing
- Representatives of Member States
 - Nominated by SME Envoys



Goals of VC Working Group

- Learn from each other
- Address the role of VC in Commission initiatives (CMU and EFSI)
- Sharing good practices on Member States:
 - Tax incentives policies
 - Interventions to develop larger VC markets
 - Financial literacy programmes developed
- Report to SME Envoy Network



Good practices

- **Tax incentives policies**
 - Boosting Business Angel investment in start-ups and removing double taxation (Finland)
 - Supporting equity investments into private SME's (UK)
 - Focus on grant schemes (Germany)
- **Interventions to develop larger VC markets**
 - FoF late 90s to provide start-up funding and the creation of VC investment teams (France)
 - Crowdfunding regulatory framework (Austria)
 - ICT hubs to create start-up ecosystem and receive VC capital (Bulgaria)
 - New regulatory regime for VC and PE firms to promote investment in early stage (Spain)
- **Financial literacy programmes developed**
 - EuroQuity Platform matching investors and entrepreneurs with cross-border character; initiative of BPI France, Sowalfin (Belgium) and KfW (Germany)
 - Fostering transition from managerial towards and entrepreneurial economy (NL)



Conclusions VC Working Group

- Creating larger VC tickets without losing the SEED-end of the market
- Stressing the importance of ecosystems and sharing good practices
- Fostering cross-border investments
- Mechanisms for matchmaking, information sharing, education, work learning and building trust are key



Capital Market Union



Capital Market Union Action Plan

- Goal: strengthen the European investment and business climate by reducing fragmentation in the capital markets, removing regulatory barriers to cross border financing of the economy and increasing the supply of different kinds of capital to businesses
- The overarching Investment Plan for Europe provides a comprehensive strategy to promote jobs, growth and investment, with both a new financial instrument and a broad agenda for removing regulatory barriers to investment in the Single Market
- The financial pillar of the Investment Plan for Europe aims at further mobilising additional private investment using public funds through the European Fund for Strategic Investment (EFSI)
- EU VC Fund-of-Funds Programme



EU VC Fund-of-funds Programme



EU VC Fund-of-Funds Programme

- Challenge
 - EU VC funds relatively small (€60 mn vs. double that in US)
 - ca. 90% VC investment concentrated in just eight MS
 - Private and especially large institutional investors are shy of VC
- Objectives
 - Increase availability of VC funding for start-ups and SMEs in EU.
 - Attract greater volumes of funding from independent private investors, including large institutional investors
 - Enable VC funds supported to reach a greater size than the average size of VC funds in EU



EU VC Fund-of-Funds Programme

- Approach
 - EU (via EC) + EFSI (via EIB Group) together invest in at least one new or existing market-driven pan-European fund-of-funds (FoF).
 - FoF investments focused on VC funds established in EU.
 - FoF may make direct co-investments in VC transactions done by VC funds in which FoF invests.
 - Ideally, FoF has broad, multisectoral, multistage investment strategy (but emphasis on particular sector/stage not ruled out).
 - Aggregate capital volume €500 mn to €1 billion (outside this range not ruled out if duly justified).
 - EC+EIB capital commitment up to [25]% of total FoF volume (up to max. 50% if market failure and duly justified).



EU VC Fund-of-Funds Programme

- Timing
 - Issue call — summer 2016
 - Appoint FoF(s) manager(s) — end-2016
 - Raise funds — 12-18 months, estimated



EU VC Fund-of-Funds Programme

- Points of special interest:
 - Design of FoF: crossborder, large ticket size, large enough volume of the fund, co-investment structure
 - “Crowding in” of private and public investors/capital
 - Implementation by a professional party (not necessarily EIF)
 - Good experiences with pan European VC fund, with a public-private partnership (DVI and EIF)
 - Important to also involve member states in the FoF