fi-compass report – Gap analysis for SME financing

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Agenda

1. Context, objectives, scope and structure of the study
2. Main results
3. Main recommendations
4. Further use of the study *in times of (post-)COVID-19 crisis*

Context, objectives, scope and structure of the study

Context

- Small and Medium-Sized Enterprises (SMEs) represent about **99% of the European companies**
- SMEs experience **well-known difficulties in accessing finance** *(i.a.* collateral requirements, loan maturities, grace periods, sometimes interest rates, overall maturity of the equity markets).
- **23 Member States** (MS) have implemented Financial Instruments (FIs) supported by the European Regional Development Fund (ERDF) for SME financing **during the 2014-2020 programming period**.
- MS are **preparing their Operational Programmes** (OPs) for 2021-2027 and DG REGIO wishes to foster the uptake of Financial Instruments (FIs) in various sectors, including SME financing.
- DG REGIO needed **evidence to incentivise the MS to devote more funding to FIs in SME financing during the 2021-2027 programming period**.
- **Before the COVID-19 crisis** and its related schemes (*e.g.* the Resilience and Recovery Facility)

Context, objectives, scope and structure of the study

Objectives

- Provide insights to DG REGIO on the **financing gaps** and the **market failures related to SME financing** at MS level.
- Explore **potential for a greater use of ERDF FIs for SMEs** (notably to address the COVID-19 crisis).
- Provide **discussion elements** to DG REGIO.
- Develop selected **MS Country Fiches** summarising the potential for ERDF FIs for SME financing in the 2021-2027 programming period.

Scope

- **27 Members States**.
- **2 sub-sectors within SME financing**: (i) debt financing, and (ii) equity / quasi-equity financing.

Structure

- An **EU-wide study on financing gaps** in each MS (debt and equity), **available online**.
- **In-depth analysis in 8 MS** with the biggest potential for greater use of ERDF FIs for SMEs.

Main results

Debt and equity financing gaps – Methodology and analysis

- **Computation of financing gaps**
  - Number of unsuccessful (but viable) SMEs x average loan/equity size = Debt/equity gap (for 2018)
  - Compared to Gross Domestic Product (GDP)

- **High-level analysis of the financing gaps depending on**:
  - Size of the economy (*larger gaps in larger economies, despite well-working banking/equity markets*)
  - Number of SMEs (*especially micro-enterprises of less than 10 employees*)
  - Financial literacy and preferences of SMEs *(e.g. capacity to talk with banks, preference for control over grow, family businesses)*
  - Risk appetite of banks (*some MS still impacted by the 2008 crisis, recent changes in the banking sector*)
  - Health of the banking sector (*Non-Performing Loans*)
  - Alternatives to commercial banks (*from cooperative banks to shadow economy, also microfinance*)
  - Maturity and depth of equity markets (*on both Demand and Supply sides*)

Main results

Debt financing gaps – Key numbers

Top 5 debt gap / GDP ratio		
Member State	**Debt gap (mEUR)**	**Debt gap / GDP ratio (2018)**
Greece	14,254	***7.7%***
Cyprus	1,278	***6.0%***
Estonia	1,429	***5.5%***
Croatia	2,440	***4.7%***
Malta	524	***4.3%***

	Debt gap (mEUR)	Debt gap / GDP ratio (2018)
EU-28	**176,655**	***1.1%***

Last 5 debt gap / GDP ratio		
Member State	**Debt gap (mEUR)**	**Debt gap / GDP ratio (2018)**
Poland	4,232	***0.9%***
Finland	1,845	***0.8%***
Austria	2,559	***0.7%***
Germany	20,331	***0.6%***
Luxembourg	106	***0,2%***

Main results

Equity financing gaps – Key numbers

Top 5 equity gap / GDP ratio		
Member State	**Equity gap (mEUR)**	**Equity gap / GDP ratio (2018)**
Greece	99,689	***54.0%***
Sweden	97,308	***20.7%***
Cyprus and Malta	6,244	***18.7%***
Belgium	67,914	***15.1%***
Estonia, Latvia and Lithuania	10,771	***10.7%***

Last 5 equity gap / GDP ratio		
Member State	**Equity gap (mEUR)**	**Equity gap / GDP ratio (2018)**
Spain	22,191	***1.8%***
Bulgaria	966	***1.8%***
Portugal	2,551	***1.3%***
Hungary	342	***0.3%***
Italy	3,313	***0.2%***

The EU-wide study is available on *fi-compass* website.

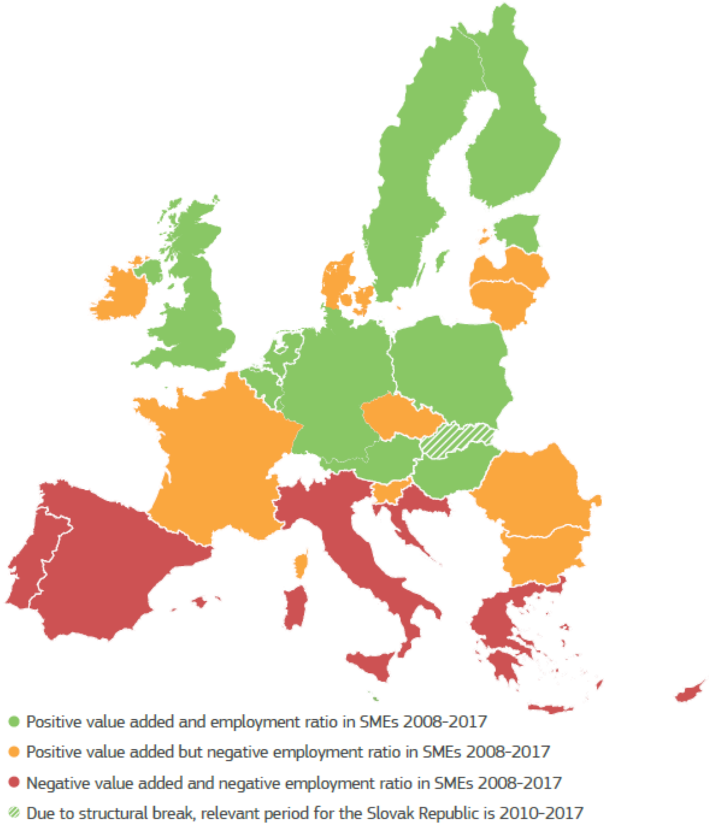
Main results

Country Fiches – Selection

- **Several factors used for the initial selection**:
  - Use of ERDF in FIs below the EU average of 25%
  - Financing situation as per the SME Performance Review
- **Additional selection following the COVID-19 crisis**:
  - Italy
  - Spain

Member States with SME FIs below 25%
• Cyprus
• Denmark
• Ireland
• Luxembourg
• Austria
• Finland
• **Portugal**
• **Netherlands**
• **France**
• Malta
• **Czechia**
• **Romania**
• Germany
• **Slovakia**
• Lithuania

Grade of SME recovery after the crisis by MS



Source: SME Performance Review, Annual report on European SMEs, 2018, Small Business Act Scoreboard, 2019.

8 MS selected: Czechia, France, Italy, Netherlands, Portugal, Romania, Slovakia and Spain.

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Main results

Country Fiches – Content

- **A synthetic view**:
  - Policy context
  - Overview of SME financing schemes (EU/national, grants/FIs)
  - Roles of the main stakeholders (like National Promotional Banks)
  - Financing gaps and market failures
  - **Recommendations** (products, sub-sectors, combination with grants, need for technical support, InvestEU)
- **Evolution over time**:
  - Integration of **COVID-19**-related elements: impact on SMEs' access to finance and facilities/schemes developed in response

Focus: recommendations for 2021-2027, notably in times of COVID-19.

Member State Name

Relevant policy context (using information from Annex D)

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Overview of financing schemes supporting SME financing

ERDF / CF 2014-2020 financial instruments

Other financial instruments

- National / regional / local FIs

ERDF / CF grants

Other grants

- Main national / regional / local grants

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Overview of SME financing main stakeholders

Role of the National Promotional Bank / Institution in SME financing

Role of other institutions in SME financing

- Regional / local governments
- Chambers of Commerce
- Other institutions
- Financial intermediaries

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Financing gaps

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Recommendations

Recommendations for financial instruments supporting SME financing

- Relevant sub sector considerations
- Assessment of where FIs could provide the most value added
- Assessment of scope for greater use of FIs

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Main recommendations

Highlight of the Country Fiches (1/2)

- In terms of **financial products**
  - **Debt** products: for specific sectors where interest rates are high or where intermediaries perceive a higher risk (*e.g.* innovation, microfinance, new sectors like circular economy)
  - **Guarantee** products: to be large and preferably nation-wide to support ‘general SME financing’ (where the lack of collateral is the main barrier to SME lending)
  - **Equity/quasi-equity** products: for technology transfer, start-ups but also growth strategy (scaling from SMEs to mid-caps)

- In terms of **sub-sectors**
  - ‘**General SME financing**’: still needed in some MS, needed in many/all MS since the COVID-19 crisis
  - **New sectors**: Energy Efficiency in SMEs, circular economy, digitalisation, social economy, bio/blue economy

FIs involve **trade-offs**, *e.g.*: geographical scope, sectoral focus, financial product, volume, coordination with existing schemes.

Main recommendations

Highlight of the Country Fiches (2/2)

- In terms of **set-up and combination of resources**
  - **Combination of FIs and investment grants**:
    - To cover the non-revenue-generating part of the SME projects (*e.g.* innovation, Energy Efficiency, social)
    - To extend the use of FIs in areas traditionally supported by grants (*e.g.* innovation, Energy Efficiency, social)
  - Development of **technical support for financial intermediaries and SMEs**:
    - For intermediaries: to build capacity, facilitate pipeline development, support eligibility checks and smoothen monitoring/reporting processes
    - For SMEs: to improve the projects, develop business/financing plans and help/inform entrepreneurs/SMEs
  - Use of the **InvestEU MS-Compartment**: many MS still need some clarity before engaging in this route to assess if/where InvestEU has ‘added value’ in comparison with SMF instruments and avoid overlaps between schemes

In 2021-2027, **a coordinated use of REACT-EU, SMF, InvestEU and RRF is needed** (on top of national/local resources).
This use will be **to finance projects and provide technical support to SME financing stakeholders**.

Further use of the study…

…in times of (post-)COVID-19 crisis

- COVID-19 is a great disrupter but most of the **conclusions and recommendations of the study remain valid**. In addition, some features of ERDF FIs will be particularly useful to fight the post-COVID-19 crisis:
  - National authorities are now well **familiar** with ERDF FIs
  - The EU offers **hard cash** and **time** to implement these FIs
  - ERDF FIs can be implemented at regional level – **close to citizens**
  - ERDF FIs can **be complemented by investment grants and technical support for various stakeholders**

The conclusions and recommendations of the gap analysis **remain valid despite the COVID-19 crisis**.
The **benefits of ERDF FIs** will be strategic for SME financing in the **post-COVID-19 crisis period**.


financial instruments
revolving
capacity building
added value
ERDF
funding agreement
ESF
EU guidance
governance
ex-ante assessment
technical support
seminars
leverage
financial intermediaries
microfinance
co-financing
case studies
investments
ESIF
fi-compass
final recipients
business plan
Thank you
thematic objectives
advisory services
guarantees
loans
CF
equity
banks
life cycle
combination of support
EAFRD
private investors
factsheets
conferences
EMFF
investment strategy
fund of funds
managing authorities
manuals

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